

INDEPENDENT AUDITOR'S REPORT
AUD-FM-IB-19-06

To the United States Agency for Global Media Chief Executive Officer and Director, Governing Board, and the Inspector General

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Agency for Global Media (USAGM),¹ which comprise the consolidated balance sheets as of September 30, 2018 and 2017, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the “consolidated financial statements”).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, “Audit Requirements for Federal Financial Statements.” Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

¹ The Broadcasting Board of Governors changed its name to the United States Agency for Global Media in August 2018.



of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USAGM as of September 30, 2018 and 2017, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Deferred Maintenance sections (hereinafter referred to as "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, "Financial Reporting Requirements," and the Federal Accounting Standards Advisory Board, which consider the information to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the Message from the United States Agency for Global Media [Chief Executive Officer] and Governing Board Chairman, the Introduction, the Performance Information, the Message from the Chief Financial Officer, and the Other Information sections of USAGM's Performance and Accountability Report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we have also issued reports, dated November 13, 2018, on our consideration of USAGM's internal control over financial reporting and on our tests of USAGM's compliance with provisions of applicable laws, regulations, contracts, and grant agreements for the year ended September 30, 2018. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 and should be considered in assessing the results of our audit.



Alexandria, Virginia
November 13, 2018

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the United States Agency for Global Media Chief Executive Officer and Director, Governing Board, and the Inspector General

We have audited the consolidated financial statements of the United States Agency for Global Media (USAGM)¹ as of and for the year ended September 30, 2018, and have issued our report thereon dated November 13, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, "Audit Requirements for Federal Financial Statements."

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered USAGM's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of USAGM's internal control. Accordingly, we do not express an opinion on the effectiveness of USAGM's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

¹ The Broadcasting Board of Governors changed its name to the United States Agency for Global Media in August 2018.

Our audit was also not designed to identify deficiencies in internal control that might be significant. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiencies in USAGM's internal control to be significant deficiencies.

Significant Deficiencies

I. Grantee Monitoring

USAGM has three significant grantees that it funds through annual grant agreements: Radio Free Europe/Radio Liberty, Radio Free Asia, and the Middle East Broadcasting Networks. The grantees are responsible for developing broadcast content (radio and television news programs), which is distributed by USAGM. In FY 2018, the three grantees collectively received over \$289 million from USAGM in Federal grant awards, which represents approximately one-third of USAGM's total funding.

USAGM is responsible for monitoring the use of those funds to ensure grantees adhere to applicable laws and regulations as well as to terms and conditions specified in the grant agreements. To aid in the grants monitoring process, USAGM approved and issued standard operating procedures (SOP) for grantee monitoring in August 2018, which present information and procedures that USAGM will use during the duration of a grant. We selected 15 control activities identified in the SOP² to test whether USAGM had effectively implemented grantee monitoring. We found that 9 of the 15 controls tested were operating effectively. The remaining six control activities were not implemented by USAGM in FY 2018. For example, USAGM had not performed risk assessments,³ performed grant close-outs,⁴ or conducted formal documented site visits⁵ as warranted by program needs. Additionally, we noted that USAGM's SOP did not include control activities related to monitoring the allowability of grantee costs, which are defined in the Federal grant regulation.⁶ USAGM officials noted that the SOP was approved late in the fiscal year and that new staff had not completed training courses to become certified in grants management. However, USAGM also did not perform an effective quality control review of its SOP.

Because USAGM lacked effective grantee oversight, the risk of waste, fraud, and abuse of Federal funds is increased. An organized and documented approach to oversight is needed to demonstrate accountability and mitigate the risk of waste, fraud, and abuse. We have identified

² The control activities were selected from a draft version of the grantee monitoring SOP, which USAGM operated under prior to approval of the final version in August 2018. The control activities selected for testing existed in both the draft and final versions of the SOP.

³ 2 C.F.R. § 200.205.

⁴ 2 C.F.R. § 200.303.

⁵ 2 C.F.R. § 200.328.

⁶ 2 C.F.R. § 200.403.

weaknesses in controls over grantee monitoring each year since our audit of USAGM's FY 2013 financial statements.

II. Information Technology

USAGM's information systems and electronic data depend on the confidentiality, integrity, and availability of USAGM's comprehensive and interconnected infrastructure. Managing information security risks effectively throughout the organization is critical to achieving USAGM's mission. USAGM uses several financial management systems to compile information for financial reporting purposes. USAGM's main domestic financial management and accounting system is Momentum, which is managed by an external service provider that is also responsible for maintaining a number of IT controls. However, Momentum is accessed through USAGM's general IT support system, which is a component of USAGM's information security program. Therefore, security weaknesses noted in USAGM's information security program could potentially impact Momentum as well. For overseas accounting and budget execution, USAGM uses the Regional Financial Management System (RFMS) provided by the Department of State (Department). The Department is also responsible for maintaining an adequate information security program.

The Office of Inspector General (OIG) is responsible for the annual audits of USAGM and Department information security programs' compliance with IT provisions as required by the Federal Information Security Modernization Act of 2014 (FISMA).⁷ In the FY 2018 FISMA report for USAGM,⁸ OIG reported security weaknesses that had a significant impact on USAGM's information security program. Specifically, OIG reported control weaknesses in all eight key FY 2018 Inspector General FISMA metric domains, which consist of risk management, configuration management, identity and access management, data protection and privacy, security training, information security continuous monitoring, incident response, and contingency planning.

OIG's FY 2018 FISMA report for the Department⁹ identified information security program weaknesses that are similar to the weaknesses identified at USAGM. OIG reported that the Department lacked a fully implemented organization-wide information security program as evidenced by security weaknesses in all eight metric domains. As noted, RFMS is hosted on the Department's general support system and is a component of the Department's information security program. Because of the security weaknesses noted with the information security program at the Department, USAGM should implement additional controls to ensure that financial information is being processed accurately and completely by the Department.

Without an effective information security program, USAGM is vulnerable to IT-centered attacks and threats. Information security program weaknesses can affect the integrity of financial

⁷ Federal Information Security Modernization Act of 2014, Public L. No. 113-283, 128 STAT. 3079-3080 (December 18, 2014).

⁸ OIG, *Audit of the United States Agency for Global Media Information Security Program* (AUD-IT-IB-19-09, October 2018).

⁹ OIG, *Audit of the Department of State Information Security Program* (AUD-IT-19-08, October 2018).

applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered either accidentally or intentionally. Information security program weaknesses increase the risk that USAGM will be unable to report financial data accurately. We have reported weaknesses in IT security controls each year since our audit of USAGM’s FY 2013 financial statements.

During the audit, we noted an additional matter involving internal control over financial reporting that we will report to USAGM management in a separate letter.

Status of Prior Year Findings

In the Independent Auditor’s Report on Internal Control Over Financial Reporting, included in the audit report on USAGM’s FY 2017 financial statements,¹⁰ we noted several issues that were related to internal control over financial reporting. The status of these issues is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2017 Status	FY 2018 Status
Validity and Accuracy of Unliquidated Obligations	Significant Deficiency	Management Letter
Grantee Monitoring	Significant Deficiency	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

USAGM’s Response to Findings

USAGM management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management’s response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of USAGM’s internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 in considering

¹⁰ OIG, *Independent Auditor’s Report on the Broadcasting Board of Governors 2017 and 2016 Financial Statements* (AUD-FM-IB-18-10, November 2017).



USAGM's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 13, 2018

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS**

To the United States Agency for Global Media Chief Executive Officer and Director, Governing Board, and the Inspector General

We have audited the consolidated financial statements of the United States Agency for Global Media (USAGM)¹ as of and for the year ended September 30, 2018, and have issued our report thereon dated November 13, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, “Audit Requirements for Federal Financial Statements.”

Compliance

As part of obtaining reasonable assurance about whether USAGM’s consolidated financial statements are free from material misstatement, we performed tests of USAGM’s compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material impact on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to USAGM. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-01. Each year since our FY 2013 financial statement audit, we have identified substantial noncompliance with Federal grant regulations. USAGM is responsible for monitoring the use of funds provided to its grantees to ensure that they adhere to relevant laws and regulations. As noted in our Independent Auditor’s Report on Internal Control Over Financial Reporting, USAGM has not fully implemented many of its designed grantee monitoring controls. In addition, its standard operating procedures include control activities related to monitoring the allowability of grantee costs, as required by Federal grant regulations. As a result, USAGM continued to be in substantial noncompliance with the Code of Federal Regulations, Title 2, Subtitle A, Chapter II, Part 200 – “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” which provides guidance to agencies for grant oversight.

¹ The Broadcasting Board of Governors changed its name to the United States Agency for Global Media in August 2018.

USAGM's Response to Findings

USAGM management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management's response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of USAGM's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 in considering USAGM's compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 13, 2018



U.S. AGENCY FOR
GLOBAL MEDIA

UNITED STATES
BROADCASTING
BOARD OF
GOVERNORS

330 Independence Avenue SW | Washington, DC 20237 | usagm.gov

November 15, 2018

The Honorable Steve A. Linick
Inspector General
U.S. Department of State

Dear Mr. Linick:

The United States Agency for Global Media (USAGM) is committed to transparency and accountability of the taxpayer funds entrusted by Congress to pursue its vital mission of informing, engaging, and connecting people around the world in support of freedom and democracy. The Performance and Accountability Report is an integral part of providing a comprehensive account of the USAGM's financial activities and accomplishments across the agency.

I am pleased to report that the USAGM has once again received an unmodified opinion for this fiscal year's financial audit. Our continued hard work and efforts have resulted in the removal of a significant deficiency in the area of Validity and Accuracy of Unliquidated Obligations.

In the year ahead, we are committed to continuing the hard work necessary to resolve the two significant deficiencies that the audit identified. We will build on last year's progress in strengthening the staffing, policies, and procedures for grantee monitoring, and we will sharpen our focus on ensuring the security of our financial management and other information technology systems.

We thank Kearney & Company for their continued efforts and dedication in working through the complex issues associated with the global nature of USAGM's financial processes.

Sincerely,

A handwritten signature in black ink, appearing to read "Grant K. Turner".

Grant K. Turner
Chief Financial Officer