

MANAGEMENT LETTER
AUD-FM-IB-19-17

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

Kearney & Company, P.C. (referred to as “we” hereafter), has audited the consolidated financial statements of the United States Agency for Global Media (USAGM) as of and for the year ended September 30, 2018, and has issued our report thereon dated November 13, 2018.¹ In planning and performing our audit of USAGM’s consolidated financial statements, we considered USAGM’s internal control over financial reporting and USAGM’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. Our auditing procedures were designed for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurances on internal control or compliance. Accordingly, we do not express an opinion on the effectiveness of USAGM’s internal control over financial reporting or on USAGM’s compliance with certain provisions of laws, regulations, contracts, and grant agreements.

During our audit, we noted certain matters related to internal control over financial reporting that we considered to be significant deficiencies and one matter relating to compliance that we considered to be reportable under 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 Bulletin No. 19-01, “Audit Requirements for Federal Financial Statements.” These items are not repeated in this letter, as they are explained in detail in our report on USAGM’s FY 2018 financial statements.

Our procedures were designed primarily to enable us to form an opinion on USAGM’s consolidated financial statements and therefore may not have identified all internal control weaknesses and instances of noncompliance that may exist. We noted one matter not considered to be a material weakness, significant deficiency, or reportable instance of noncompliance, which involved internal control and operations. This finding is summarized in Appendix A and is intended to assist USAGM in strengthening internal control and improving operating efficiencies.

We appreciate the courteous and professional assistance provided by USAGM personnel during our audit. This finding has been discussed with appropriate USAGM officials. Comments from USAGM management on this report are presented in Appendix B.

¹ OIG, *Independent Auditor’s Report on the United States Agency for Global Media 2018 and 2017 Financial Statements* (AUD-FM-IB-19-06, November 2018).



This letter is intended solely for the information and use of USAGM management, those charged with governance, and others within USAGM and the Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

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

Alexandria, Virginia
March 12, 2019

MANAGEMENT LETTER COMMENTS

During the audit of the United States Agency for Global Media’s (USAGM) FY 2018 financial statements, Kearney & Company, P.C. (referred to as “we” hereafter), identified a matter that was reported as a significant deficiency in the FY 2017 internal control report.¹ The severity of this issue decreased and is now included in the management letter rather than the FY 2018 Report on Internal Control.

I. Budgetary Resources

Obligation Validity and Accuracy

USAGM records obligations in Momentum, its financial management system, when it enters into an agreement, such as a contract or a purchase order, to obtain goods or services. In certain instances, the Department of State records obligations to purchase goods or services overseas on USAGM’s behalf in its financial system that interfaces with Momentum. Obligations remain open until they are fully reduced by a disbursement, they are de-obligated, or the appropriation is canceled. Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services ordered have not been received or the goods and services have been received but payment has not yet been made. USAGM reported approximately \$155 million in ULOs as of June 30, 2018.

As of June 30, 2018, USAGM had 4,326 ULOs from prior years, totaling \$38 million. We tested a statistical sample of 190 ULOs, totaling \$18.1 million, and found 37 invalid ULOs (19 percent), totaling \$405,866. We determined that these ULOs were invalid based on expired periods of performance, inactivity, or USAGM’s inability to support a bona fide need. As a comparison between the prior year and the current year, Table 1 summarizes the results of ULO testing.

Table 1: Exceptions Identified During ULO Testing

Location	Total Sample		Exceptions		Exception Percent	
	Number	Amount	Number	Amount	Number	Amount
FY 2017 Results						
Domestic	106	\$10,161,406	37	\$826,292	35%	8%
Overseas	12	\$625,698	1	\$43,056	8%	7%
Total	118	\$10,787,104	38	\$869,348	32%	8%
FY 2018 Results						
Domestic	137	\$15,277,358	27	\$388,512	20%	3%
Overseas	53	\$2,783,130	10	\$17,354	19%	1%
Total	190	\$18,060,488	37	\$405,866	19%	2%

¹ OIG, *Independent Auditor’s Report on the Broadcasting Board of Governors 2017 and 2016 Financial Statements* (AUD-FM-IB-18-10, November 2017).

Invalid obligations continued to exist because not all allotment holders and program officials were aware of their responsibility to research and review obligations for validity and to submit deobligation requests to the Office of Contracts for those identified as no longer necessary. We also found that deobligation requests submitted to the Office of Contracts by allotment holders and program officials were not always deobligated by the Office of Contracts in a timely manner. In addition, we found that USAGM did not review overseas ULOs for validity.

When extrapolated over the universe, the 37 invalid ULOs resulted in an estimated overstatement of obligations of \$4.4 million as of June 30, 2018. This amount was partially offset by the Office of the Chief Financial Officer's newly implemented quarterly ULO analysis. Specifically, the quarterly analysis identified \$3.2 million in invalid ULOs for which an adjusting entry was made, reducing the estimated overstatement to \$1.2 million for financial reporting purposes.

Regardless of the reduced financial reporting impact, invalid ULOs affect USAGM's management of funds. Specifically, funds that could have been used in support of the USAGM mission remained in unneeded obligations. Further, the large number of invalid obligations makes monitoring ULOs more difficult and increases the risk of duplicate or fraudulent payments.



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

March 11, 2019

Mr. Norman P. Brown
Assistant Inspector General for Audits
Office of the Inspector General

Dear Mr. Brown:

Thank you for the opportunity to comment on the draft report Management Letter Related to the Audit of the United States Agency for Global Media (USAGM) FY 2018 Financial Statements. In general, the Agency concurs with the auditor's findings during the Financial Statement Audit for FY 2018, and as issued in the draft Management Letter.

We appreciate the auditor's favorable comments on USAGM's quarterly analysis of unliquidated obligations (ULOs). The Agency's Office of the Chief Financial Officer (OCFO) continues to work at reducing any financial reporting impact through the quarterly ULO analysis and has added a review of overseas ULOs to the process.

The OCFO continues to monitor the status of contracts in coordination with the Office of Contracts (CON) to ensure closeout has occurred. During FY 2018, the OCFO, working in conjunction with CON, created a Standard Operating Procedure (SOP) for ULOs that specifies procedures for reviewing and eliminating these obligations when no longer needed. This SOP has been posted on the USAGM Sharepoint site for all personnel to use as a reference.

Additionally, CON issued a directive in FY 2018 that established contract closeout procedures and contained a "closeout package" to assist program offices and is continuing to emphasize with all Contracting Officers Representatives (CORs) their responsibilities to review invoicing, funding, and contract status. CON also set up a closeout team to focus on executing the directive and worked with the USAGM's Office of Workforce Support and Development (OWSD) to provide on-site COR training at various COR levels that provided instructions on the closeout and ULO process, Closeout Directive, and the ULO SOP, referenced above.

Pursuant to a recommendation from the Office of the Inspector General, OCFO is working with CON and OWSD to implement a targeted online training class for USAGM allotment holders and CORs that covers areas of responsibilities related to contract closeout and funding.

We also note the auditor's statement that invalid ULOs affect USAGM's management of funds. In this instance, only a very small portion of the invalid obligations represent no-year or multi-year funding. The majority are obligations from expired years that can only be used for valid upward adjustments and do not affect current USAGM funding allocations and operations.

In response to the draft Management Letter's statement that de-obligation requests submitted to CON by allotment holders and program officials were not always de-obligated by CON in a timely manner, CON is revising internal guidance to CORs and Contracting Officers (COs). The heart of the issue is that program offices submitted requests to de-obligate funds on active contracts at the end of the fiscal year when a contracting officer's priority is to obligate current year funds. To assist CORs in submitting timely requests to de-obligate invalid obligations, CON will include cut-off dates for de-obligations on active contracts and closeouts for current year funds in CON's end of the fiscal year Acquisition Deadlines communications. The Acquisition Deadlines are posted throughout the Agency and emailed directly to CORs and COs.

Again, we appreciate the opportunity to provide comments on the draft Management Letter and look forward to a continued partnership with the Office of the Inspector General toward improving management operations.

Sincerely,



John W. Barkhamer
Deputy Chief Financial Officer