



**Independent Auditor's Report
AUD-FM-IB-20-06**

Chief Executive Officer and Director
U.S. Agency for Global Media

Chair of Board of Governors
U.S. Agency for Global Media

Inspector General
U.S. Department of State

In our audit of the FY 2019 financial statements of the U.S. Agency for Global Media (USAGM), we found:

- USAGM's financial statements as of and for the fiscal year ended September 30, 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;¹ and
- a reportable noncompliance for FY 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)² and other information included with the financial statements;³ (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments.

¹ A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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. 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.

² The RSI consists of Management Discussion and Analysis and Deferred Maintenance.

³ Other information consists of the Message from the U.S. 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 section of USAGM's Performance and Accountability Report.

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Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we have audited USAGM's financial statements. USAGM's financial statements comprise the consolidated balance sheet as of September 30, 2019, and the related consolidated statements of net cost and changes in net position, the combined statement of budgetary resources for the fiscal year then ended; and the related notes to the financial statements.

We conducted our audit in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility

USAGM's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements 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 auditor's 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 in 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 of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, USAGM's financial statements present fairly, in all material respects, USAGM's financial position as of September 30, 2019, and its net cost of operations, changes in net position,

and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Prior Year Financial Statements

USAGM's financial statements as of and for the year ended September 30, 2018, were audited by other auditors whose Independent Auditor's Report dated November 13, 2018, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the basic financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

USAGM's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on USAGM's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audit of USAGM's financial statements, we considered USAGM's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to USAGM's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

USAGM management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In planning and performing our audit of USAGM's financial statements as of and for the year ended September 30, 2019, in accordance with U.S. generally accepted government auditing standards, we considered USAGM's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USAGM's internal control over financial reporting. Accordingly, we do not express an opinion on USAGM's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies⁴ or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of USAGM's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As discussed in Appendix I, our audit identified one deficiency in USAGM's controls over grants monitoring that represents a significant deficiency in USAGM's internal control over financial reporting. We considered this significant deficiency, which was also reported in the other auditors' FY 2018 audit report, in determining the nature, timing, and extent of our audit procedures on USAGM's FY 2019 financial statements.

Although the significant deficiency in internal control did not affect our opinion on USAGM's FY 2019 financial statements, misstatements may occur in unaudited financial information reported internally and externally by USAGM because of this significant deficiency.

Our assessment of the current status of prior year significant deficiencies, and the noncompliance instance described later in this report, is presented in Appendix II.

⁴A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In addition to the significant deficiency, we identified other control deficiencies in USAGM's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant USAGM's management's attention. We have communicated these matters to USAGM management and, where appropriate, will report on them separately.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of USAGM's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of USAGM's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audit of USAGM's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

USAGM management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to USAGM.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to USAGM that have a direct effect on the determination of material amounts and disclosures in USAGM's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to USAGM.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed one instance of noncompliance for FY 2019 related to the Code of Federal Regulations (CFR), Title 2, Subtitle A, Chapter II, Part 200 - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, that is reportable under U.S. generally accepted government auditing standards. The noncompliance is explained further in Appendix I. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to USAGM. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit

performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, USAGM provided a written response, which is presented in Appendix III. We did not audit USAGM's response and, accordingly, we express no opinion on the response.

Williams, Arley & Company-DC, LLP

Washington, District of Columbia
November 19, 2019

Appendix I

Significant Deficiency in Internal Control and Related Noncompliance Matter

Grantee Monitoring

The U.S. Agency for Global Media (USAGM) has four USAGM-sponsored non-Federal entities (that is, grantees, which USAGM also refers to as “surrogate broadcasters”): Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), the Middle East Broadcasting Networks (MBN), and the Open Technology Fund (OTF). OTF is a new grantee that received its first grant from USAGM on September 26, 2019, while RFE/RL, RFA, and MBN were funded through annual grant agreements consistent with prior year practices. As of September 30, 2019, USAGM’s four grantees collectively received over \$289 million from USAGM in Federal grant awards during FY 2019, which represents approximately one-third of USAGM’s annual funding. USAGM is responsible for monitoring the use of those funds to ensure that grantees adhere to applicable laws and regulations, as well as terms and conditions specified in the grant agreements. USAGM’s Office of Chief Financial Officer, Budget Division (OCFO/B) is the primary office responsible for grantee monitoring.

The June 2019 Code of Federal Regulations (CFR), Title 2, Subtitle A, Chapter II, Part 200 - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart D, §200.300, states, “The Federal awarding agency must manage and administer the Federal award in a manner so as to ensure that Federal funding is expended and associated programs are implemented in full accordance with U.S. statutory and public policy requirements: including, but not limited to, those protecting public welfare, the environment, and prohibiting discrimination. The Federal awarding agency must communicate to the non-Federal entity all relevant public policy requirements, including those in general appropriations provisions, and incorporate them either directly or by reference in the terms and conditions of the Federal award.” Additionally, Subpart D §200.400(d) states, “the accounting practices of the non-Federal entity must be consistent with [Subpart E-Cost Principles] and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award.”

USAGM, Office of the Chief Financial Officer, *Standard Operating Procedures for Monitoring Grants*, February 2019, Section V. Procedures, which presents information and procedures that USAGM will use during the life of a grant, states, “USAGM will monitor grantees using various techniques, including reporting requirements, meetings, standard and ad hoc site visits, telephone calls, written correspondence, and audits.” Specifically,

- “The frequency of USAGM’s monitoring activities may depend on the amount of funding, scope of grantee’s projects, prior assessments of grantee compliance, and risk assessments performed by USAGM.”
- “OCFO/B will conduct site visits to each grantee headquarters site (domestic/overseas) and one bureau once per fiscal year and unless there are findings that merit additional follow-up (i.e. Audit findings)... OCFO/B will prepare a checklist of items to review and discuss with the grantee... OCFO/B will issue a report to the USAGM CFO after conducting a site visit, which will identify any findings or areas for improvement noted.”

We selected 15 control activities to test whether USAGM had effectively implemented controls for grantee monitoring. We found that 8 of 15 controls tested were operating effectively. However, we found that the remaining 7 control activities were not implemented by USAGM in FY 2019. Specifically, USGAM did not implement control activities requiring:

Appendix I

Significant Deficiency and Related Noncompliance Matter

1. Reviewing the grantee's stated amount of cash currently on hand to determine if excess cash is being held by the grantee.
2. Monitoring and overseeing the grantee's drawdowns and execution of grant funds during the grant's period of performance to ensure the grantee is using grant funds at appropriate times.
3. Performing risk assessments and monitoring (OCFO/B) that includes assessing the grantee's compliance with the terms and conditions of the grant agreement.
4. Monitoring grantee's use of required reports such as Annual Financial Plans, Performance Reports, Funding Requests, and Unfunded Liabilities reports.
5. Conducting site visits to each grantee headquarters site (domestic/overseas) and one bureau once per fiscal year, unless there are findings that merit additional follow-up.
6. Performing salary comparability studies annually, or more frequently as directed by the USAGM Chief Executive Officer or Chief Financial Officer.
7. Monitoring equipment purchased by grantees to ensure federally funded equipment is not used by unauthorized parties and does not contribute to misappropriated revenue.

To aid in the grants monitoring process, USAGM revised its standard operating procedures (SOP)¹ for grantee monitoring in February 2019. For example, the updated SOP established a quality control review program requiring reviews of grantee cost allowability and extensive procedures for site visits to evaluate grantee compliance with the terms of the grant agreement. Despite these efforts, according to USAGM management, implementation of critical monitoring activities, detailed in the updated SOP, continued to be delayed due to changes in USAGM's leadership team and a lack of staff resources.

Because USAGM continued to lack effective grantee oversight, there is an increased risk of fraud, waste, and abuse of Federal funds. As USAGM is the primary funding source for the grantees, an organized and documented approach to oversight is needed to demonstrate accountability and mitigate the risk of waste, fraud, and abuse. For example, without effective control activities to monitor cost allowability, USAGM may not detect inappropriate grantee spending and may not have money returned to be repurposed to other mission-critical activities.

Moreover, the lack of grantee monitoring and oversight controls continues to result in USAGM's noncompliance with Federal grant regulations, which is reportable under U.S. generally accepted government auditing standards.

¹ USAGM Office of the Chief Financial Officer, *Standard Operating Procedures for Monitoring Grants*, originally issued in August 2018.

Appendix II
Status of Prior Year Significant Deficiencies and Noncompliance Matters

Our assessment of the current status of prior year findings reported by other auditors is presented below.

Prior Year Finding	Current Year Status
Control Significant Deficiencies	
Grantee Monitoring	Open and repeated in FY 2019 Audit Report
Information Technology	Closed*
Noncompliance Matter	
Federal Grant Regulations	Open and repeated in FY 2019 Audit Report

* We determined that the U.S. Agency for Global Media’s (USAGM) financial system (Momentum) is not part of its general IT support system; therefore, on the basis of our analysis of the FY 2019 Federal Information System Modernization Act audit report (Office of Inspector General, *Audit of the U.S. Agency for Global Media Information Security Program* [AUD-IT-IB-20-02, October 2019]), USAGM’s overall information security weaknesses do not have a direct impact on the financial data processed and stored within Momentum.

Appendix III Management Response to Auditor's Report



U.S. AGENCY FOR
GLOBAL MEDIA

UNITED STATES
BROADCASTING
BOARD OF
GOVERNORS

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

November 19, 2019

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

Dear Mr. Linick:

The U.S. Agency for Global Media (USAGM) is a dynamic multimedia organization with the vital mission to inform, engage, and connect people around the world in support of freedom and democracy. The annual Performance and Accountability Report is an integral part of providing a comprehensive account of the financial activities and accomplishments across the Agency.

I am proud to report that the USAGM continues to receive an unmodified opinion for this fiscal year's financial audit. Through the diligent efforts of Agency staff, the significant deficiency in the area of Information Technology was removed.

With new investments in grantee oversight, I am confident we will make substantial strides toward improved compliance in this area during Fiscal Year 2020.

We acknowledge the efforts of Williams, Adley & Company, who performed the financial statement audit for USAGM.

Sincerely,

A handwritten signature in blue ink that reads "John W. Barkhamer".

John W. Barkhamer
Acting Chief Financial Officer