



OIG

Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

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Office of Inspections

June 2018

Inspection of the Bureau of the Comptroller and Global Financial Services' Office of Management Control

DOMESTIC OPERATIONS AND SPECIAL REPORTS

June 2018
OFFICE OF INSPECTIONS
Domestic Operations and Special Reports

Inspection of Comptroller and Global Financial Services' Office of Management Control

What **OIG** Found

- The Office of Management Control is responsible for designing and overseeing a wide range of non-financial management controls within the Department of State. These responsibilities range from managing the Department's statements of assurance process, which is used to identify and report deficiencies that might significantly impair the fulfillment of the Department's mission, to overseeing or conducting vulnerability and risk assessments of Department bureaus and offices. The office did not carry out many of its key responsibilities in this area.
- The office's method for identifying management control deficiencies was ineffective.
- The Office of Management Control did not request the personnel resources needed to properly oversee the Department's non-financial management controls program.
- The split of responsibility—between the Office of Management Control and the Office of Management Policy, Rightsizing, and Innovation—for the Department's non-financial management controls and its enterprise risk management program required close coordination between the two offices to be successful. Such coordination did not happen, which increased the risk that the Department will not fully achieve its overall mission.

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OIG HIGHLIGHTS

ISP-I-18-07

What **OIG Inspected**

OIG inspected the Comptroller and Global Financial Services' Office of Management Control's oversight of the management control program for non-financial operations.

What **OIG Recommended**

OIG made one recommendation to address the Department's non-financial management control program.

In its comments on the draft report, the Department concurred with **OIG's** recommendation. The Department's response and **OIG's** reply, can be found in the Recommendation section of this report. The Department's formal written response is reprinted in its entirety in Appendix D.

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CONTEXT

The Foreign Affairs Manual (FAM)¹ assigns the Department of State's (Department) Comptroller and Global Financial Services' Office of Management Control (CGFS/MC) overall responsibility for designing and overseeing the Department's management control program.² As set forth in the FAM, CGFS/MC's obligations require it to actively assess the work of Department bureaus and offices in these areas.

Particularly in recent years, these responsibilities have gone well beyond the financial management obligations traditionally associated with the role of Comptroller and associated entities. For example, CGFS/MC must manage the Department's statements of assurance process, which is used to identify both "material weaknesses" that must be reported to the President, Congress, and the public and "significant deficiencies" that warrant oversight by the Department's Management Control Steering Committee (MCSC).³ The FAM also requires the office to provide staff support for the MCSC;⁴ develop, analyze, and test innovative ideas in management controls;⁵ and oversee or conduct annual vulnerability and risk assessments of "assessable units."⁶ Finally, CGFS/MC is responsible for monitoring and evaluating the Department's compliance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA),⁷ in accordance with the *Standards for Internal Control in the Federal Government* (Green Book), developed by the Government Accountability Office, and the Office of Management and Budget's (OMB) Circular A-123.⁸ FMFIA and OMB requirements were incorporated into the FAM in 1986.

OMB A-123, most recently revised and expanded in July 2016 to implement enterprise risk management (ERM) in Federal agencies, is particularly important in this analysis. As noted above, the FAM incorporates OMB A-123's requirements, and the most recent iteration of this document outlines the implementation of a robust management control program that "will engage all agency management beyond the traditional ownership of OMB A-123 by the Chief Financial Officer community. In particular, it will require leadership from the agency Chief Operating Officer ... and close collaboration across all agency mission and mission support

¹ 1 FAM 614.14; 2 FAM 020.

² Appendix B identifies CGFS/MC's responsibilities under 1 FAM 614.14.

³ 1 FAM 614.14(1) Appendix C contains definitions of material weaknesses and significant deficiencies.

⁴ 1 FAM 614.14(3). MCSC is the Department's senior-level committee for setting internal control policy for the Department.

⁵ 1 FAM 614.14(11).

⁶ 1 FAM 614.14(7). Pursuant to 2 FAM 021.3, an assessable unit is any Department component (organization, program, operation, or function) that has a specific, responsible manager and one or more management control systems upon which periodic risk assessments must be performed.

⁷ 1 FAM 614.14(1). FMFIA is codified in 31 U.S.C. § 3512.

⁸ OMB Circular A-123 "Management's Responsibility for Enterprise Risk Management and Internal Control," revised July 15, 2016, M-16-17.

functions.⁹ Currently, the Department's Comptroller oversees CGFS/MC and serves as the management control officer. The Under Secretary for Management oversees the Comptroller and appoints members to the MCSC, which meets at least twice a year and includes leaders from across the Department.¹⁰ The MCSC is charged with assessing the severity of management control deficiencies, determining whether MCSC-level oversight of those designated as "significant deficiencies" is warranted, and recommending to the Secretary which "material weaknesses" to report to the President, Congress, and the public.¹¹

At the time of the inspection, CGFS/MC had five full-time staff and five to eight contract accountants, depending on workload.

OIG conducted this inspection of CGFS/MC's oversight of non-financial management controls¹² consistent with Section 209 of the Foreign Service Act.¹³ This inspection did not examine CGFS/MC's adherence to financial-related management controls, as OIG's Office of Audits separately reviewed those functions.¹⁴

FINDINGS

OIG reviewed CGFS/MC's policies, plans, and procedures to determine the office's compliance with its non-financial responsibilities pursuant to 1 FAM 614.14. As noted previously, CGFS/MC has extensive obligations in these areas, and, as summarized previously, many of these responsibilities require CGFS/MC actively to review and assess the internal controls of entities throughout the Department. OIG found, however, that CGFS/MC's oversight of the Department's management control program for non-financial operations was insufficient. Specifically, as discussed below, the office was not carrying out its key non-financial management control responsibilities, its method for identifying and addressing management control deficiencies was ineffective, and the office did not request the personnel resources it needed to properly fulfill its

⁹ Circular A-123 states that, in cabinet-level agencies, the Chief Operating Officer is typically the Deputy Secretary, at least in the context of enterprise risk management activities. *Id.* at page 12; *see also* Circular A-11, "Preparation, Submission and Execution of the Budget," which notes the same. Currently, however, the Deputy Secretary plays no direct role in the Department's overall management control program. Moreover, as discussed subsequently, CGFS/MC told OIG that the Office of Management Policy, Rightsizing, and Innovation was given most of the new OMB A-123 responsibilities associated with ERM, although that assignment has not been set forth anywhere in the FAM.

¹⁰ The Inspector General is a non-voting member of the MCSC (2 FAM 022.4a) and may provide advice and guidance to the MCSC (2 FAM 022.11c).

¹¹ 2 FAM 24(c); *see also* 2 FAM 22.4 (describing overall obligations with respect to significant deficiencies and material weaknesses).

¹² Non-financial management controls include, but are not limited to, property controls, physical security, information security, program evaluations, up-to-date regulations, risk-management policies, and mission objective assessments. In contrast, financial management controls tend to focus on the integrity of accounting systems to provide reasonable assurance that agency financial statements are accurate and complete.

¹³ See Appendix A.

¹⁴ OIG, *Independent Auditor's Report on the U.S. Department of State 2016 and 2015 Financial Statements* (AUD-FM-17-09, November 2016).

key non-financial management control responsibilities. OIG concluded that the Department's fragmented approach to implementing its non-financial management control program, including ERM responsibilities, creates risk that the Department will not be able to fully meet its obligations under OMB A-123 and more generally.

CGFS/MC Did Not Carry Out Key Non-Financial Management Control Responsibilities

OIG found that CGFS/MC did not carry out its key FAM responsibilities related to designing and overseeing the Department's non-financial management control program, including monitoring Department operating units' adherence to management control policies. Specifically, CGFS/MC did not document management controls throughout the Department or review those controls as required in 1 FAM 614.14(2) and (7). Although Department operating units are responsible for monitoring controls and assessing risks within their own organizations, primarily through the statement of assurance process, CGFS/MC has the ultimate responsibility to assess the effectiveness and completeness of those activities.¹⁵ OIG found, though, that CGFS/MC limited its oversight efforts to *administering* the statement of assurance process—that is, directing the relevant entities to submit information. It did not assess whether the process effectively identified reportable material weaknesses and significant deficiencies. For example, it did not conduct self-initiated risk assessments of operating units, and it did not evaluate the results of the risk assessments that were conducted by the operating units, though such actions are required by 1 FAM 614.14(6) and (7). Finally, CGFS/MC did not work with the Foreign Service Institute to keep management controls training for Department personnel up to date,¹⁶ as required by 1 FAM 614.14(12), or identify and correct significant non-financial management control deficiencies, as required by 1 FAM 614.14(8). The failure to document or review management controls increases the risk that significant deficiencies will not be reported.

In addition, as noted previously, CGFS/MC is responsible for developing internal control policies that comply with related guidance, including OMB Circular A-123.¹⁷ CGFS/MC, however, did not reassess and clarify its role following the July 2016 revisions to OMB A-123, which added requirements aimed at reinvigorating agencies' integration of risk management and management controls. The new requirements include documenting the Department's enterprise-level risks¹⁸ and designing controls across the organization to address those risks. Although CGFS/MC's responsibilities pursuant to 1 FAM 614.14(1), (2), (6), and (7) include implementing OMB A-123,

¹⁵ 1 FAM 614.14(2) (requiring CGFS/MC to "develop[] internal control policies and monitor[] and evaluate[] Department compliance"), 1 FAM 614.14(7) (requiring CGFS/MC to "establish[] and coordinate[] an annual plan detailing the reviews planned, the resources needed to conduct the reviews . . . and oversee[] and/or conduct[] vulnerability/risk assessments of assessable units"); *see also* 1 FAM 614.14(6) (stating that CGFS/MC "[c]oordinates, advises, and evaluates annual risk assessments").

¹⁶ For example, CGFS/MC had not made needed improvements to management controls training recommended in OIG's 2015 *Review of Statements of Assurance Process* (ISP-I-15-37, September 2015).

¹⁷ 1 FAM 614.12(2).

¹⁸ The July 2016 revision of A-123 describes ERM as: "an effective Agency-wide approach to addressing the full spectrum of the organization's external and internal risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos." *Id.* at 9. OMB's objective in its revision of A-123 was to modernize the Federal government's efforts to implement FMFIA by integrating risk management and traditional management control activities into an ERM framework to improve mission delivery.

CGFS/MC officials told OIG during the inspection that the Office of Management Policy, Rightsizing, and Innovation (M/PRI) took the lead on the new requirements. M/PRI's role in this respect, however, is not documented. To the contrary, M/PRI's official responsibilities, as set forth in 1 FAM 044.4-3, include no reference to OMB A-123 or any form of risk management. The practical implications of this split of A-123 responsibilities between CGFS/MC and M/PRI are discussed later in this report.

CGFS/MC's Method for Identifying Non-Financial Management Control Deficiencies Was Ineffective

CGFS/MC's method for identifying management control deficiencies was ineffective. CGFS/MC did not consistently assess whether assistant secretaries complied with its annual guidance for submissions as part of the Department's management controls statement of assurance process. Guidance in 1 FAM 614.14(1), (3), and (8) and 2 FAM 022.6 outlines CGFS/MC's responsibilities to identify management control issues.¹⁹ Further guidance in 2 FAM 024d and 2 FAM 022.7(5) requires bureau and office heads (assistant secretaries or equivalent) and chiefs of mission²⁰ to assess risk, examine management controls within their purview, and report deficiencies as part of the annual statement of assurance process. However, CGFS/MC did not, in practice, require that all bureaus and offices review their management controls and identify deficiencies as required by these provisions. For example, from 2012 through 2016, CGFS/MC did not require input from M/PRI, which is responsible for overseeing embassy staffing levels and implementing recommendations aimed at preventing security incidents.²¹ OIG advised CGFS/MC that it should obtain input from M/PRI and several other offices it had overlooked, such as the Office of Foreign Missions and the Department's special representatives and special envoys. CGFS/MC agreed and required M/PRI and two other offices to submit the results of a management control reviews beginning with the 2017 reporting period. CGFS/MC also told OIG that it would require reviews from the other omitted bureaus and offices beginning with the 2018 reporting period.

OIG also identified weaknesses in the process with respect to the assistant secretaries from whom CGFS/MC did require input. CGFS/MC directed them to provide a list of management control reviews to "demonstrate that sufficient reviews" were conducted to support their submissions. According to the guidance, the list of reviews submitted in response must "cover a sampling of the full range of activities of the entire bureau or post, including programs, projects

¹⁹ These provisions require, respectively, CGFS to compile information from bureaus relating to statements of assurance; to support the process by which material weaknesses and reportable conditions are determined and to monitor new problems or concerns that require attention by higher-level management; and to assist in resolving material weaknesses and reportable conditions.

²⁰ Chiefs of mission report management control deficiencies through their appropriate assistant secretaries, but they are required to sign a separate statement attesting to the overall adequacy and effectiveness of management controls in place in their operating unit pursuant to 2 FAM 024d. Other office heads who report through an assistant secretary do not have such a requirement unless specifically requested by the assistant secretary.

²¹ M/PRI examines staffing levels through rightsizing reviews and the National Security Decision Directive-38 process. M/PRI also oversees compliance with Accountability Review Board recommendations.

and activities.”²² However, OIG found that in 2016, three assistant secretaries did not list any management control reviews in support of their input.²³ Also, the management control reviews listed by three assistant secretaries and three office heads focused exclusively on administrative functions rather than the full range of the entities’ activities. For example, the Bureau of International Information Programs’ submission listed four management controls reviews—purchase cards, inventory of personal property, delegated examining authority in human resources, and semi-annual financial assessments—but included no reviews related to the bureau’s core public diplomacy mission of advancing U.S. foreign policy goals through engagement with foreign audiences. Additionally, although CGFS/MC created a form that allowed bureaus and offices to track deficiencies, it did not aggregate similar deficiencies identified through the above process to determine their Department-wide magnitude, despite a 2015 OIG recommendation that CGFS/MC do so. CGFS/MC also did not ensure that bureaus or offices themselves aggregated such deficiencies.²⁴

Finally, from 2012 to 2016, CGFS/MC did not bring any new deficiencies reported in bureau or office submissions to the MCSC.²⁵ As noted previously, the MCSC is responsible for reviewing the severity of deficiencies, determining whether MCSC-level oversight is warranted, and recommending to the Secretary whether to report the deficiencies to the President, Congress, and the public as material weaknesses. Without an effective process to identify management control deficiencies, the Department cannot identify or address vulnerabilities, which increases the risk of loss or misuse of Department resources.

CGFS/MC Did Not Request Personnel Resources Needed to Design and Oversee the Department’s Non-Financial Management Control Program

CGFS/MC did not request the personnel resources it needed to design and oversee the Department’s non-financial management control program. Staff members told OIG they had neither the experience nor the resources to develop, monitor, and evaluate the Department’s non-financial management control program. They consistently stated that the office’s small staff—five full-time employees, all classified as accountants, and five to eight contract accountants, depending on workload—spent the majority of its time on financial-related management control responsibilities. OIG, however, determined that neither CGFS/MC nor the Comptroller, who oversaw CGFS/MC, viewed the office’s focus on financial-related 1 FAM 614.14 responsibilities as a concern. In fact, the Comptroller told OIG that CGFS/MC adequately

²² CGFS/MC’s Guidance for the FY 2016 Statement of Assurance Process. CGFS/MC issued this guidance in part because OIG’s 2015 report (ISP-I-15-37, September 2015) concluded that the management control reviews from chiefs of mission were overly focused on administrative operations rather than the full range of a mission’s activities.

²³ Those three assistant secretaries did not list any internal control reviews related to their domestic operations.

²⁴ The form was also created in response to OIG’s September 2015 report (ISP-I-15-37).

²⁵ For example, in 2016, operating units sent 51 new deficiencies to CGFS/MC. These included physical security deficiencies at embassies; legacy information technology infrastructure that was prone to higher failure rates and cyber-attacks; fuel fraud occurring at several embassies; an embassy’s pension plan for locally employed staff that was underfunded by \$50 million; and housing at risk for catastrophic seismic events. Although OIG acknowledges that the FAM effectively gives CGFS/MC discretion in determining what issues qualify as significant enough to bring to the MCSC, it is notable that none of these issues was so designated.

performed its responsibilities, notwithstanding the weaknesses described previously with respect to its obligations to design and oversee the Department's non-financial management control program. The Comptroller suggested that the FAM did not accurately reflect the entities responsible for particular tasks and that some of the items identified were not, in fact, CGFS/MC's obligations. As a result, CGFS/MC did not see a need to, and thus did not, request additional resources to ensure it could fully meet its non-financial management control program responsibilities.

Department's Split of Circular A-123 Responsibilities Between Two Offices Creates Risk

The Department's decision to split OMB A-123 obligations between two separate offices—CGFS/MC for management controls and M/PRI for ERM²⁶—creates risk for the Department because the two offices were not closely coordinating with each other, despite the fact that the circular makes clear that management controls are an integral part of ERM. According to a December 2016 Government Accountability Office report, when implementing ERM, agencies must be familiar with their existing management controls to be able to determine whether the likelihood of a risk event is higher or lower based on the level of uncertainty within the existing control environment.²⁷ However, at the time of the inspection, interviews revealed that CGFS/MC and M/PRI had not worked in lockstep or maintained close communication on management controls and ERM. Interviews also revealed that the offices did not have the same understanding of their respective responsibilities. For example, CGFS/MC told OIG that because M/PRI had primary responsibility for issues relating to ERM, it also had the primary responsibility for non-financial management controls. However, M/PRI, in meetings with OIG assumed no such responsibility. Moreover, both offices' descriptions of their obligations conflicted with the roles and responsibilities assigned in the FAM.

Pursuant to 2 FAM 021.1a and b, the Department must maintain effective systems of management controls to ensure that U.S. Government activities are managed effectively, efficiently, economically, and with integrity. In addition, OMB A-123 sets forth expectations regarding a strong management control program that will "engage all agency management." However, the Department's fragmented approach to implementing management controls and ERM creates risk that the Department will not be able to fully meet FAM and OMB A-123 requirements. Accordingly, OIG concluded that the Department's overall approach to these obligations should be reconsidered. The Deputy Secretary is responsible for providing general supervision and direction to all Department elements and thus is in a position to determine who is responsible for meeting the full breadth of OMB A-123 requirements. Without clarity and commitment to the implementation of a robust non-financial management controls and enterprise risk management program, the Department will face ongoing challenges as it seeks to manage its risks in a way that supports good decision-making and furthers agency goals and objectives.

²⁶ OIG did not review M/PRI's ERM efforts because doing so was outside the scope of this inspection of CGFS/MC.

²⁷ Government Accountability Office, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risk* (GAO-17-63, December 2016).

Recommendation 1: The Deputy Secretary should determine which entity or entities should have responsibility for the Department's non-financial management controls and enterprise risk management program and ensure that sufficient resources are available to fully meet all relevant requirements. (Action: D)

RECOMMENDATION

OIG provided a draft of this report to Department stakeholders for their review and comment on the findings and recommendations. OIG issued the following recommendations to the Deputy Secretary. The Deputy Secretary's response can be found in Appendix B. In addition, CGFS and M/PRI provided technical and editorial comments that OIG incorporated, as appropriate, into the report.

Recommendation 1: The Deputy Secretary should determine which entity or entities should have responsibility for the Department's non-financial management controls and enterprise risk management program and ensure that sufficient resources are available to fully meet all relevant requirements. (Action: D)

Management Response: In its June 12, 2018, response, the Deputy Secretary concurred with this recommendation.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed with OIG receives and accepts documentation that the entity or entities responsible for the Department's non-financial controls and enterprise risk-management program is (are) identified and that they have sufficient resources to meet these responsibilities.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

This inspection was conducted in accordance with the Quality Standards for Inspection and Evaluation, as issued in 2012 by the Council of the Inspectors General on Integrity and Efficiency, and the Inspector's Handbook, as issued by OIG for the Department of State and the Broadcasting Board of Governors.

Objectives and Scope

The Office of Inspections provides the Secretary of State, the Chairman of the Broadcasting Board of Governors, and Congress with systematic and independent evaluations of the operations of the Department and the Broadcasting Board of Governors. Consistent with Section 209 of the Foreign Service Act of 1980, this inspection focused on the Department's resource management—whether resources are being used and managed with maximum efficiency, effectiveness, and economy and whether financial transactions and accounts are properly conducted, maintained, and reported.

OIG's specific inspection objective was to determine whether the Office of Management Control fulfills the non-financial aspects of its 1 FAM 614.14 responsibilities to develop the Department's management control policies, plans, and procedures, and to monitor and evaluate the Department's compliance with these guidelines.

Methodology

OIG reviews pertinent records, circulates, and compiles the results of survey instruments, as appropriate; conducts interviews with Department and on-site personnel; observes daily operations; and reviews the substance of the report and its findings and recommendations with offices, individuals, organizations, and activities affected by the review. OIG uses professional judgment, along with physical, documentary, testimonial, and analytical evidence collected or generated, to develop findings, conclusions, and actionable recommendations. For this inspection, OIG conducted 40 interviews with Department personnel.

APPENDIX B: 1 FOREIGN AFFAIRS MANUAL 614.14, "THE OFFICE OF MANAGEMENT CONTROLS"

(CT: ORG-293; 01-18-2013)

The Director for the Office of Management Control (CGFS/MC) reports to the Comptroller or Deputy Comptroller, as designated, and:

- (1) Implements relevant aspects of the Federal Managers Financial Integrity Act (FMFIA) and the Federal Managers Financial Integrity Act (FFMIA) for the Department, including compiling the results of the statements of assurance from the bureaus, making a recommendation to the Management Control Steering Committee (MCSC) concerning and preparing the Secretary's annual statement of assurance to be included in the Performance and Accountability Report, and preparing annual status reports;
- (2) Develops the Department's internal control policies, plans, and guidelines in accordance with the FMFIA and consistent with related guidance, such as the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government and Office of Management and Budget (OMB) Circular A-123 and OMB Circular A-127 and monitors and evaluates Department compliance with these guidelines;
- (3) Provides staff support for the MCSC and Senior Assessment Team, the preparation of the annual Performance and Accountability Report, the determination of material weaknesses and reportable conditions in the Department's operations, and the monitoring of any new problems or concerns that demand the attention of higher-level management;
- (4) Serves as the Department's liaison for internal control issues with senior management officials in the central agencies (OMB, GAO, Treasury, Internal Revenue Service, Office of Personnel Management, General Services Administration) and other U.S. Government agencies;
- (5) Represents the Department in connection with statutory or regulatory proposals by the Congress or the central agencies, as appropriate;
- (6) Coordinates, advises, and evaluates annual risk assessments conducted by posts and domestic offices for the overall FMFIA program controls;
- (7) Documents the Department's controls portfolio, identifies and documents assessable units within the Department, establishes and coordinates an annual plan detailing the reviews planned, the resources needed to conduct the reviews and the scheduled dates, and oversees and/or conducts vulnerability/risk assessments of assessable units on an annual basis;
- (8) Assists in resolving material weaknesses and reportable conditions;
- (9) Supports the establishment and administration of an effective internal control program for CGFS operations including identifying assessable units, conducting vulnerability/risk assessments, overseeing and/or conducting internal control reviews, issuing reports, and tracking and reporting corrective actions covering CGFS fiscal activities;
- (10) Performs on-going and ad-hoc reviews for the Assistant Secretary for Resource Management and Chief Financial Officer for programmatic or operational areas of concern or interest;

- (11) Develops, analyzes, and tests innovative ideas, techniques and “best practices” in management controls;
- (12) Develops and participates in internal control training for Department personnel;
- (13) Establishes standards and provides advice for improved internal control and reporting systems;
- (14) Monitors the implementation of audit recommendations (i.e., audit follow-up) to ensure that corrective action(s) are actually taken (OMB Circular A-50);
- (15) Serves as a liaison and coordinates with OIG on inspections and other OIG reviews;
- (16) Coordinates information resulting from GAO and other external reviews and surveys; and
- (17) Integrates internal control compliance initiatives into overall FMFIA efforts and reporting (e.g., Improper Payments, Federal Information Security Management Act [FISMA], etc.).

APPENDIX C: DEFINITIONS OF MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

Non-financial deficiencies that need to be reported to the President, Congress and the Public (identified as "material weaknesses in the Agency Financial Report") include those that would:

1. "Significantly impair the fulfillment of the Department's mission;
2. Deprive the public of needed services;
3. Significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property and other assets or conflict of interest;
4. Merit the attention of the agency head/senior management, the President, or the relevant congressional oversight committee; or,
5. Be of a nature that omission from the report could reflect adversely on the actual or perceived management integrity of the agency."

Non-financial deficiencies warranting Management Controls Steering Committee-level oversight (identified as "significant deficiencies" by the Department) are defined as:

"A deficiency, or combination of deficiencies that in management's judgment should be communicated because they represent significant weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. A significant deficiency does not yet rise to the level of seriousness of a material weakness; however, if effective corrections are not made, the matter has the potential over time to develop into a material weakness. Such weakness could:

1. Significantly impair the fulfillment of the Department's mission;
2. Deprive the public of needed services;
3. Significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property and other assets or conflict of interest;
4. Merit the attention of the agency head/senior management, the President, or the relevant congressional oversight committee; or,
5. Be of a nature that omission from the report could reflect adversely on the actual or perceived management integrity of the agency."

Source: 2 FAM 021.3

APPENDIX D: MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

June 12, 2018

**MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR INSPECTIONS,
OFFICE OF INSPECTOR GENERAL**

FROM: Deputy Secretary Sullivan 

SUBJECT: Response to Draft OIG Report – *Inspection of Charleston Global Financial Services (CGFS) Office of Management Controls* (Report ISP-I-18-07, April 2018)

The Department has reviewed the draft OIG inspection report. I provide the following comments in response to the recommendation addressed to the Office of the Deputy Secretary:

OIG Recommendation 1: The Deputy Secretary should determine which entity or entities should have responsibility for the Department's non-financial management controls and enterprise risk-management program and ensure that sufficient resources are available to fully meet all relevant requirements. (Action: D)

Management Response: I accept this recommendation. The Department should formalize its enterprise risk-management program, clarify responsibilities for non-financial management controls, and update the FAM. CGFS will update the outdated 1 FAM 614.14 section to accurately reflect current regulatory requirements and their responsibilities. The 1 FAM sections for other bureaus describing responsibilities for non-financial management controls will also be updated as necessary. As FAM updates are drafted in the coming weeks, I will re-evaluate the management controls environment and make any changes, including potentially to entities' roles and responsibilities, that I deem appropriate. M/PRI and CGFS sent additional technical input and commentary on the content of the draft report. I request you please take this input into consideration while drafting your final report.

ABBREVIATIONS

CGFS/MC	Comptroller and Global Financial Services' Office of Management Control
ERM	Enterprise Risk Management
FAM	Foreign Affairs Manual
FMFIA	Federal Managers' Financial Integrity Act
M/PRI	Office of Management Policy, Rightsizing, and Innovation
MCSC	Management Control Steering Committee
OMB	Office of Management and Budget

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