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Office of Inspector General
United States Department of State

AUD-FM-26-14

Office of Audits

June 2026

Audit of Department of State's FY 2025 Compliance With Payment Integrity Requirements

FINANCIAL MANAGEMENT DIVISION

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HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-FM-26-14

What Was Audited

In FY 2025, improper and unknown federal payments government-wide totaled approximately \$186 billion. The Payment Integrity Information Act of 2019 (PIIA) requires Inspectors General to annually determine whether agencies complied with the Act and established requirements for agencies that were deemed noncompliant.

Kearney & Company, P.C., (Kearney) acting on behalf of the Office of Inspector General's (OIG), conducted this audit to determine whether the Department of State (Department) complied with PIIA for FY 2025. As part of this objective, Kearney also evaluated the Department's efforts to prevent and reduce improper and unknown payments.

What OIG Recommends

Because the Department was found to be in compliance with PIIA requirements for FY 2025, OIG is not offering any recommendations as a result of this audit. The Bureau of the Comptroller and Global Financial Services' response to a draft of this report is reprinted, in its entirety, in Appendix C.

June 2026

OFFICE OF AUDITS

FINANCIAL MANAGEMENT DIVISION

Audit of Department of State FY 2025 Compliance With Payment Integrity Requirements

What Was Found

For the FY 2025 reporting period, Kearney found that the Department had complied with payment integrity requirements, as presented in Table 1.

Table 1: Compliance With PIIA Criteria

Payment Integrity Criteria	Compliance
Published payment integrity information with the annual financial statement and in accompanying materials	Yes
Posted the annual financial statement and accompanying materials on the agency website	Yes
Conducted risk assessments	Yes
Concluded whether each program was likely to make improper and unknown payments above or below the statutory threshold	Yes
Published improper and unknown payment estimates*	N/A
Published corrective action plans*	N/A
Published reduction targets*	N/A
Demonstrated improvements to payment integrity or reached a tolerable rate*	N/A
Developed a plan to meet reduction target*	N/A
Reported estimate less than 10 percent for each program with a published estimate*	N/A

*Criteria did not apply because no program was identified as high risk.

Source: Kearney prepared using criteria from Office of Management and Budget Circular A-123, Appendix C.

Kearney found that the Department published the FY 2025 financial statements and accompanying material, which included all applicable payment integrity information, on its website. In addition, the Department conducted program-specific risk assessments and made appropriate conclusions related to the risk assessments. Specifically, the Department performed risk assessments for all 33 programs as part of its 3-year risk assessment approach. The programs subject to risk assessments during FY 2025 are listed in Table B.1.

During the evaluation of the Department's efforts to prevent and reduce improper payments, Kearney did not identify any needed improvements involving improper and unknown payments determination, the associated estimation methodology, or actions to improve prevention and reduction.



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Audit of Department of State FY 2025 Compliance With Payment Integrity Requirements

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (Kearney), has performed an audit of the Department of State FY 2025 Compliance with payment integrity requirements. This performance audit, performed under Contract No. 19AQMM25Q0255, was designed to meet the objective identified in the report section titled "Objectives" and further defined in Appendix A, "Purpose, Scope and Methodology," of the report.

Kearney conducted this performance audit from December 2025 through April 2026 in accordance with the Government Auditing Standards, 2024 Revision, issued by the Comptroller General of the United States. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. The purpose of this report is to communicate the results of Kearney's performance audit and its related findings.

Kearney appreciates the cooperation provided by personnel in the Department of State offices during the audit.

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

Alexandria, Virginia
June 5, 2026

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OBJECTIVE

Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), conducted this audit to determine whether the Department of State (Department) complied with the Payment Integrity Information Act of 2019¹ (PIIA) for FY 2025. As part of this objective, Kearney evaluated the Department's efforts to prevent and reduce improper and unknown payments.

BACKGROUND

According to the Department of the Treasury, improper and unknown federal payments government-wide totaled approximately \$186 billion in FY 2025.² Improper payments are payments that were made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term "improper payments" includes the following types of payments:

- Payments to an ineligible recipient.
- Payments for an ineligible good or service.
- Duplicate payments.
- Payments for goods or services not received (except for such payments authorized by law).
- Payments that do not account for credit for applicable discounts.³

If a program cannot discern whether a payment is proper or improper, the payment is considered an unknown payment. If a program is still researching or reviewing a payment when the program must finish its sampling and report its results, the payment will be considered an unknown payment for reporting purposes for that year. This prevents the program from unintentionally overreporting or underreporting the payment type results.⁴

The federal government has taken steps to identify and reduce improper payments. For example, on March 2, 2020, Congress enacted PIIA, which sets forth improper payment reporting requirements, including an annual compliance report from OIGs.⁵ PIIA requires

¹ Payment Integrity Information Act of 2019 (PIIA), Public Law 116-117, March 2, 2020, codified at 31 United States Code (U.S.C.), Chapter 33, Subchapter IV, "Improper Payments."

² PaymentAccuracy, "Resources, Annual improper payment datasets," 2025 dataset, <https://paymentaccuracy.gov/resources>.

³ Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Appendix C, "Requirements for Payment Integrity Improvement," § VIII, "Appendix 1A: Definitions for Purposes of this Guidance," page 59, March 5, 2021.

⁴ Ibid., page 12.

⁵ PIIA, § 3353.

agencies to publish payment integrity information with the agency's financial statement as well as any required accompanying materials on the agency's website.⁶

On March 5, 2021, the Office of Management and Budget (OMB) updated guidance for agencies on implementing improper payment legislation in Appendix C, "Requirements for Payment Integrity Improvement," of OMB Circular A-123, "Management's Responsibility for Internal Control," in an effort

to transform the payment integrity compliance framework and create a more comprehensive and meaningful set of requirements to allow agencies to spend less time complying with low-value activities and more time researching the underlying causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments.⁷

Department of State Payments

The Department is the primary agency through which the U.S. government conducts diplomacy. The Department operates more than 270 embassies, consulates, and other posts worldwide. The Department provides policy guidance, program management, administrative support, and in-depth expertise in areas such as law enforcement, economics, intelligence, arms control, human rights, counternarcotics, counterterrorism, public diplomacy, security, nonproliferation, and consular services.

During FY 2025, the Department made payments of approximately \$38 billion, of which \$31.4 billion was subject to improper and unknown payment requirements,⁸ including payments to vendors and contractors; payments to employees; and federal financial assistance payments, including grants, assessed contributions,⁹ and voluntary contributions.¹⁰ The Bureau of the Comptroller and Global Financial Services (CGFS) has oversight responsibilities for the Department's financial management program. Financial management program responsibilities include establishing financial policies and procedures, analyzing and reporting financial information, managing financial information systems, and establishing management controls. Management controls, also known as "internal controls," are the processes that an organization

⁶ OMB Circular A-123, Appendix C, § VI.A, "Achieving and Evaluating Compliance (Agency and OIG Responsibilities)," page 43.

⁷ OMB Memorandum M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement" (March 5, 2021).

⁸ OMB Circular A-123, Appendix C, page 68, defines "payment" as any transfer of federal funds (including a commitment for future transfer, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-federal person or entity or a federal employee, that is made by a federal agency, a federal contractor, a federal grantee, or a governmental or other organization administering a federal program or activity.

⁹ Assessed contributions represent assistance provided to foreign countries, international societies, commissions, or proceedings, or to projects that are lump sum, quota of expenses, or fixed by treaty.

¹⁰ Voluntary contributions refer to discretionary financial assistance provided to foreign countries, international societies, commissions, proceedings, or projects.

designs and implements to help it accomplish its goals or objectives. Important internal control activities include those aimed at ensuring that the Department only makes proper payments. Within CGFS, the Office of Governance and Oversight (GOV) is responsible for overseeing the Department's management control program and other financial management functions, such as administering compliance with improper payment requirements. The Office of Management Analysis within CGFS conducts secondary reviews of most of the Department's eligible transactions and performs payment recapture activities.

AUDIT RESULTS

Finding A: The Department Complied With PIIA Requirements

Kearney found that the Department complied with all applicable PIIA requirements for FY 2025. Specifically, the Department did the following:

- Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial statement.
- Posted the annual financial statement, including a link to accompanying materials, on the agency website.
- Conducted improper payment risk assessments for required programs.
- Adequately concluded whether each program was likely to make improper and unknown payments above or below statutory thresholds.

The Department was not required to perform additional procedures or make other disclosures because it did not identify any programs at significant risk for improper and unknown payments. Table 1 details whether selected programs were compliant with required criteria.

Table 1: PIIA Compliance Reporting Table for Selected Programs

Program Name	Criterion 1a^a	Criterion 1b^b	Criterion 2a^c	Criterion 2b^d	Criterion 3^e	Criterion 4^f	Criterion 5a^g	Criterion 5b^h	Criterion 5cⁱ	Criterion 6^j
American Compensation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Foreign Service National/Locally Employed Staff Compensation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Annuity Compensation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Voluntary Contributions	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Assessed Contributions	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Post-Assignment Travel	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Temporary Duty Travel	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
National Endowment for Democracy	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Economic Support Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Diplomatic and Support Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Overseas Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Diplomatic Policy and Support	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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Program Name	Criterion 1a^a	Criterion 1b^b	Criterion 2a^c	Criterion 2b^d	Criterion 3^e	Criterion 4^f	Criterion 5a^g	Criterion 5b^h	Criterion 5cⁱ	Criterion 6^j
Diplomatic Programs, Worldwide Security Protection	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Security – Afghanistan, Pakistan	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Diplomatic and Consular Programs, Terrorism Related	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Diplomatic and Consular Programs, Other Operations	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Capital and Real Property Acquisitions Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Leaseholds and Functional Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of Overseas Building Operations, International Security Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

Program Name	Criterion 1a^a	Criterion 1b^b	Criterion 2a^c	Criterion 2b^d	Criterion 3^e	Criterion 4^f	Criterion 5a^g	Criterion 5b^h	Criterion 5cⁱ	Criterion 6^j
Population, Refugees, and Migration Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Working Capital Fund, International Cooperative Administrative Support Services	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Working Capital Fund Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Consular and Border Security Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Consular and Border Security Programs, Consular Information and IT Security	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fulbright Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Citizen Exchange Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Educational Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Aviation, Anticrime, Interdiction, and Related Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

Program Name	Criterion 1a^a	Criterion 1b^b	Criterion 2a^c	Criterion 2b^d	Criterion 3^e	Criterion 4^f	Criterion 5a^g	Criterion 5b^h	Criterion 5cⁱ	Criterion 6^j
Embassy Operations Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Peacekeeping Operations	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
International Security and Nonproliferation-Related Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Construction	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Project Construction – Major Rehabilitation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

^a Published payment integrity information with the annual financial statement.

^b Posted the annual financial statement and accompanying materials on the agency website.

^c Conducted improper payment risk assessments for each program with annual outlays greater than \$10,000,000 at least once in the last 3 years.

^d Adequately concluded whether the program was likely to make improper and unknown payments above or below the statutory threshold.

^e Published improper and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the annual financial statement.

^f Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.

^g Published an improper and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.

^h Demonstrated improvements to payment integrity or reached a tolerable improper and unknown payment rate.

ⁱ Developed a plan to meet the improper and unknown payment reduction target.

^j Reported an improper and unknown payment estimate of less than 10 percent for each program for which an estimate was published in accompanying materials to the annual financial statement.

Source: Generated by Kearney based on criteria obtained from OMB Circular A-123, Appendix C, pages 43–49.

Kearney did not identify any needed improvements during its evaluation of the Department's efforts to prevent and reduce improper and unknown payments (including the Department's improper and unknown payments determination and estimation methodologies, as well as actions to improve prevention and reduction).

The Department published its FY 2025 financial statement and accompanying materials containing the required improper payments information and posted the financial statement, which included a link to the accompanying materials, on its agency website.¹⁶ Specifically, in the financial statement, the Department included detailed information on its risk assessment process and a statement that it had not identified any programs deemed susceptible to significant improper payments. In addition, in the financial statement, the Department included a link to www.paymentaccuracy.gov, which contains additional information related to improper payments, including the amounts of recaptured overpayments and "Do Not Pay" initiative activities.¹⁷ Because the Department did not identify any programs that were deemed susceptible to significant improper payments, additional reporting requirements were not applicable.

The Department Performed Program Risk Assessments

PIIA requires agencies to periodically review all programs and identify those with outlays exceeding a certain amount that may be susceptible to significant improper payments.¹⁸ OMB Circular A-123, Appendix C defines significant improper payments as annual improper and unknown payments in a program that exceed either (1) both 1.5 percent of program outlays and \$10 million of all program payments made during the fiscal year or (2) \$100 million.¹⁹ Agencies should perform either a qualitative or quantitative risk assessment for all programs.²⁰ Quantitative risk assessments focus on measurable and often predefined data.²¹ When conducting a qualitative risk assessment, the agency should ensure that proper consideration is given to relevant factors that would help prove that the program is likely to be above or below the statutory threshold.²² Risks are scored based on their likelihood of occurring and their potential impact.²³

For programs with annual outlays above \$10 million, an agency must conduct an improper payment risk assessment at least once every 3 years unless the program moves to Phase 2 and

¹⁶ Department, "Agency Financial Reports," <https://www.state.gov/plans-performance-budget/agency-financial-reports/>.

¹⁷ "Do Not Pay" is a government initiative that allows agencies to use a secure online interface to check various data sources to verify the eligibility of a vendor, grantee, loan recipient, or beneficiary to receive federal payments.

¹⁸ 31 U.S.C. § 3352(a)(1).

¹⁹ OMB Circular A-123, Appendix C, pages 73–74.

²⁰ *Ibid.*, page 14.

²¹ *Ibid.*, page 71.

²² *Ibid.*, page 14.

²³ *Ibid.*, page 71.

is reporting improper and unknown payments above the statutory threshold. If a program that is on a 3-year risk assessment cycle experiences a significant change in legislation or significant increases in funding, agencies may need to reassess the program's risk susceptibility during the annual cycle, even if it is fewer than 3 years from the previous risk assessment.²⁴

The Department applies a five-phase risk assessment approach to determine a program's susceptibility to improper payments. The approach includes the following qualitative and quantitative phases:

- **Phase I:** GOV identifies Department programs that require risk assessments.
- **Phase II:** GOV evaluates 8 out of 11 examples²⁵ of risk factors provided by OMB²⁶ and 2 risk factors developed by the Department²⁷ for each program. GOV assigns a numerical rating of 1 (low risk), 3 (moderate risk), or 5 (high risk) for each risk factor. GOV averages the ratings to determine the program's overall risk level.²⁸
 - The assessment is complete for programs that are identified as low risk.
 - The assessment continues for programs that are identified as moderate or high risk.
- **Phase III:** GOV evaluates three additional risk factors developed by the Department, which are combined with Phase II risk scores, for each program.
 - The assessment is complete for programs that are identified as low risk.
 - The assessment continues for programs that are identified as moderate or high risk.
- **Phase IV:** Responsible program officials complete a questionnaire developed by GOV, which uses the same scoring techniques as Phases II and III, for nine risk factors. Phase IV scores are combined with Phase III scores.
 - The assessment is complete for programs that are identified as low risk.

²⁴ Ibid., page 15.

²⁵ The Department elected not to use three of the OMB risk factors that were not applicable to the Department. Specifically, two of the risk factors related to improper and unknown payment estimates, which are not applicable because the Department does not have a history of programs deemed to be susceptible to significant improper payments. The third risk factor related to the risk of fraud as assessed. However, agencies are not required to evaluate the risk of fraud at the program level, so this risk factor was not applicable.

²⁶ OMB Circular A-123, Appendix C, page 15.

²⁷ One of the additional risk factors that the Department used was required by OMB A-123, Appendix C before it was revised on June 26, 2018. Specifically, GOV has elected to continue considering "results from prior improper payment work," which GOV splits into two factors: (1) number of improper payments and (2) amount of improper payments. Furthermore, GOV considers one additional risk factor: percentage of increase in funding. Although OMB includes a risk factor related to major changes in program funding, GOV includes this additional factor so that it can consider changes in amounts and changes in a percentage of the program's funding.

²⁸ GOV defines a program's average overall risk level between 1.0 to 2.2 as low, 2.3 to 3.4 as moderate, and 3.5 or more as high.

- The assessment continues for programs that are identified as moderate or high risk.
- **Phase V:** GOV evaluates a statistical sample of program payments and determines whether the error rate of improper payments exceeds the OMB threshold for programs identified as susceptible to significant improper payments.²⁹

The Department performed a qualitative risk assessment for all programs in FY 2025.³⁰ Specifically, in Phase I, GOV identified 33 programs for assessment.³¹ During Phase II, GOV assessed the risk of significant improper payments for each of the 33 programs. GOV obtained information for its risk assessments by reviewing the Department's FY 2025 Congressional Budget Justification, information on internal and external websites, and information contained in internal and external reports. Kearney reviewed risk assessment documentation for 17 selected programs³² and found that GOV's risk assessment processes and conclusions were reasonable.

During Phase II, GOV determined that 32 of 33 programs were at low risk for incurring significant improper payments and 1 program was at moderate risk. Kearney reviewed documentation related to the additional analysis performed for the program, which GOV identified as being at moderate risk and found that GOV performed its analysis in accordance with its procedures. The Phase III assessment considered whether significant deficiencies in the program's internal control had been previously identified in the annual Federal Managers' Financial Integrity Act assurance statement;³³ OMB Circular A-123, Appendix A³⁴ findings; or the independent auditor's report on the Department's financial statements.³⁵ Based on its Phase III analysis, GOV determined that the program's overall risk decreased from moderate to low and that additional assessment was unnecessary. GOV concluded that none of the Department's programs were susceptible to significant improper payments as defined by OMB Circular A-123, Appendix C.³⁶

²⁹ The Department's conclusion on a program's susceptibility to significant improper payments would be based on the thresholds for significant improper payments defined in OMB Circular A-123, Appendix C, pages 73–74.

³⁰ The Department also performed qualitative risk assessments of all of its programs in FY 2013, FY 2016, FY 2019, and FY 2022. Because of the timing of the FY 2025 PIIA risk assessments, the programs are grouped according to FY 2024 financial data.

³¹ See Appendix B for a list of programs subject to GOV risk assessments.

³² See Appendix A for details of the sample selected.

³³ Federal Managers' Financial Integrity Act of 1982, Public Law 97-255, § 2, September 8, 1982, codified at 31 U.S.C. § 3512.

³⁴ OMB Circular A-123, Appendix A, "Management of Reporting and Data Integrity Risk" (June 6, 2018).

³⁵ OIG, *Independent Auditor's Report on the U.S. Department of State FY 2025 Financial Statements* (AUD-FM-26-05, December 2025).

³⁶ OMB Circular A-123, Appendix C, page 9.

The Department's Efforts To Prevent and Reduce Improper and Unknown Payments

Kearney assessed the Department's efforts to prevent and reduce improper and unknown payments. Through inquiries with GOV staff, reviews of Department policies and procedures, and responses to OMB data calls, Kearney found that the Department performed procedures to detect and recover improper payments. Specifically, GOV's policies and procedures included an established process for CGFS' Office of Management Analysis to identify and recapture (collect) erroneous vendor payments and to track erroneous payments that were identified and returned by vendors. Furthermore, the Department will use the Department of the Treasury Offset Program to collect overpayments if the Office of Claims is unsuccessful in its efforts to recapture an improper payment.

In addition, the Department uses resources such as the Department of the Treasury's Do Not Pay Initiative and the General Services Administration's System for Award Management³⁷ to reduce improper payments prior to making a payment or award. CGFS employees are required to review pre-payment and pre-award procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs before the release of any federal funds to the extent permitted by law.

Furthermore, the Department annually conducts its assessment of risk and internal control in accordance with OMB Circular A-123. The Department uses a risk-based approach to evaluate internal controls over reporting on a multi-year, rotating basis. The Department has controls in place to address identified risks related to payroll, grants, large procurements, information technology and security, assets, and purchase and travel cards. In addition, the Department continues to advance its enterprise risk management program by developing risk profiles.

³⁷ The General Services Administration operates the System for Award Management. Entities must have an active registration in the system to do business with the federal government. However, anyone—including those entities without active registrations—can view the system.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Payment Integrity Information Act of 2019¹ (PIIA) requires the Office of Inspector General (OIG) to provide an annual report of Department of State (Department) compliance with improper payment requirements.² In accordance with the PIIA requirement, an external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of OIG, performed the audit to determine whether the Department complied with PIIA for FY 2025. As part of this objective, Kearney also evaluated the Department's efforts to prevent and reduce improper and unknown payments.

Kearney conducted this audit from December 2025 to May 2026 in the Washington, DC, metropolitan area. The scope of this audit was the Department's FY 2025 improper payment reporting process. Kearney conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

To obtain background information, Kearney researched and reviewed legislative requirements related to improper payments, Office of Management and Budget (OMB) guidance, and prior OIG and Government Accountability Office audit reports. Kearney designed the audit to gain insight into the Department's processes, procedures, and organizational structure regarding compliance with improper payment requirements. To expedite the audit process, Kearney leveraged the results of its FY 2025 audit of the Department's financial statements and audits of the Department's FY 2011–2024 compliance with improper payment requirements to confirm its understanding of the nature and profile of Department operation, regulatory requirements, and supporting information systems and controls.

Kearney conducted process walkthroughs and interviews with Department officials to obtain a sufficient understanding of the steps taken by the Department to assess the risk of improper payments, the Department's process for identifying significant improper payments, and the process for reporting improper payment information. Consistent with the fieldwork standards for performance audits, Kearney established performance criteria and identified sources of audit evidence to complete the testing phase.

During the testing phase, Kearney obtained and reviewed documentation supporting the Department's FY 2025 risk assessments and annual financial statement and accompanying materials. The criteria determined in the planning phase served as a basis for assessing the Department's compliance with improper payment requirements. The testing phase included

¹ The Payment Integrity Information Act of 2019 (PIIA), Public Law 116-117, March 2, 2020, codified at 31 United States Code (U.S.C.), Chapter 33, Subchapter IV, "Improper Payments."

² 31 U.S.C. § 3353.

assessing the Department's reporting process and the financial statement disclosure. Specifically, Kearney performed procedures to ensure the completeness of the Department's list of programs and activities subject to improper and unknown payment requirements. In addition, Kearney evaluated the Department's risk assessment process for compliance with improper payment requirements as well as reasonableness and objectivity. Finally, Kearney evaluated the Department's FY 2025 annual financial statement and accompanying materials disclosures against improper payment requirements³ to determine whether all required disclosures were made.

Data Reliability

Kearney obtained computer-processed data from the Bureau of the Comptroller and Global Financial Services' Office of Management Controls to aid in determining whether the Department had complied with PIIA. The data provided evidence that the Department took steps to comply with PIIA. Kearney did not perform tests to validate the data because such testing was not necessary to accomplish the audit objective. However, Kearney assessed the data provided as sufficiently reliable based on its understanding of the financial information gained during the audit of the Department's FY 2024 financial statements. Kearney's assessment was also based on a comparison of the programs and activities that the Department used as its baseline for performing risk assessments with a universe of FY 2024 expenditure transactions that Kearney obtained from the Global Financial Management System, which is the Department's core financial system.

Work Related to Internal Control

During the audit, Kearney considered a number of factors, including the subject matter of the project, to determine whether internal control was significant to the audit objective. Kearney determined that internal control was not significant for this audit. However, Kearney performed procedures to gain an understanding of internal controls related to the Department's improper payment reporting processes. Specifically, Kearney obtained and reviewed the Department's policies and procedures for making payments, performing risk assessments, and reporting improper payments information.

Sampling Methodology

The Department tracks payments and other transactions related to its programs using various accounting codes in its financial management systems. As listed in Appendix B of this report, the Department identified 33 programs that required improper payment risk assessments in FY 2025.⁴ Of those 33 programs, Kearney selected a non-statistical sample of 17 programs to test the Department's risk assessment process. First, Kearney selected all programs that had more than \$750 million in expenditures (16 programs). Kearney then leveraged its

³ OMB Circular A-136, "Financial Reporting Requirements," § II.4.5, "Payment Integrity Information Act Reporting" (July 14, 2025).

⁴ Because of the timing of the FY 2025 PIIA risk assessments, the programs are grouped based on FY 2024 financial data.

understanding of Department programs obtained during past audits of the Department's financial statements to select the remaining program. Specifically, Kearney considered inherent risk for improper payments because of the nature of the programs. The 17 programs selected for review represented approximately \$32.6 billion (87 percent) of the approximately \$37.3 billion in FY 2024 expenditures subject to the Department's risk assessments. Table A.1 shows the programs that Kearney selected for testing.

Table A.1: Programs Selected for Testing

Program Name	FY 2024 Dollar Values
American Compensation	\$6,037,348,847
Voluntary Contributions	\$4,544,948,744
Assessed Contributions	\$3,617,113,770
Population, Refugees, and Migration Programs	\$2,389,692,643
Foreign Service National/Locally Employed Staff Compensation	\$2,309,783,487
Diplomatic and Support Programs	\$1,936,685,579
Working Capital Fund, International Cooperative Administrative Support Services	\$1,681,991,505
Diplomatic Programs, Worldwide Security Protection	\$1,680,280,152
Embassy Operations Programs	\$1,307,417,839
Construction	\$1,090,943,073
Working Capital Fund Programs	\$1,016,491,413
Annuity Compensation	\$950,938,696
Bureau of Overseas Building Operations, International Security Programs	\$840,422,261
Consular and Border Security Programs	\$838,395,064
International Security and Nonproliferation-Related Programs	\$813,449,894
Consular and Border Security Programs, Consular Information and IT Security	\$811,122,365
Economic Support Fund	\$731,069,948
Total	\$32,598,095,281

Source: Generated by Kearney from data provided by the Department.

Prior Office of Inspector General Reports

In May 2025, OIG reported⁵ that the Department had complied with improper payment requirements. Specifically, the Department published on its website the FY 2024 Agency Financial Report, which included all applicable payment integrity disclosures, as required by OMB Circular A-136, "Financial Reporting Requirements." In addition, the Department complied with the requirements to perform program-specific risk assessments. During the evaluation of the Department's efforts to prevent and reduce improper payments, OIG did not find any needed improvements.

⁵ OIG, *Audit of Department of State FY 2024 Compliance With Payment Integrity Requirements* (AUD-FM-25-21, May 2025).

APPENDIX B: PROGRAMS SUBJECT TO RISK ASSESSMENT

Table B.1 shows the list of the 33 programs for which the Department of State (Department) assessed risk during FY 2025.

Table B.1: Listing of FY 2025 Programs and Activities

Department Program or Activity
American Compensation
Foreign Service National/Locally Employed Staff Compensation
Annuity Compensation
Voluntary Contributions
Assessed Contributions
Post-Assignment Travel
Temporary Duty Travel
National Endowment for Democracy
Economic Support Fund
Diplomatic and Support Programs
Overseas Programs
Diplomatic Policy and Support
Diplomatic Programs, Worldwide Security Protection
Security – Afghanistan, Pakistan
Diplomatic and Consular Programs, Terrorism Related
Diplomatic and Consular Programs, Other Operations
Capital and Real Property Acquisitions Program
Leaseholds and Functional Programs
Bureau of Overseas Building Operations, International Security Programs
Population, Refugees, and Migration Programs
Working Capital Fund, International Cooperative Administrative Support Services
Working Capital Fund Programs
Consular and Border Security Programs
Consular and Border Security Programs, Consular Information and IT Security
Fulbright Program
Citizen Exchange Program
Educational Programs
Aviation, Anticrime, Interdiction, and Related Programs
Embassy Operations Programs
Peacekeeping Operations
International Security and Nonproliferation-Related Programs
Construction
Project Construction – Major Rehabilitation

Source: Generated by Kearney & Company, P.C., from data provided by the Department.

APPENDIX C: BUREAU OF THE COMPTROLLER AND GLOBAL FINANCIAL SERVICES RESPONSE



United States Department of State
Comptroller
Washington, DC 20520

Ms. Gayle L. Voshell
1701 Fort Myer Drive,
Arlington, VA 22209

Dear Ms. Voshell:

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Report titled Audit of Department of State's FY 2025 Compliance with Payment Integrity Requirements (AUD-FM-26-XX, May 2026).

The Department, and the Bureau of the Comptroller of Global Financial Services' Office of Governance and Oversight (CGFS/STR/FGRS/GOV) in particular, has made significant efforts to comply with all requirements and guidance for the Payment Integrity Information Act (PIIA). As reflected in the report, we are pleased that our program is "compliant" with PIIA.

We recognize that the PIIA has played an important role in helping agencies identify, report, and reduce improper payments, including the Department. We look forward to working with both the OIG and the Independent Auditor on our existing programs in the coming year.

CGFS recommends that any instances of the Office of Management Controls (MC) be replaced with the Office of Governance and Oversight (GOV) to reflect the official office name following the Department's reorganization.

If you have any questions, please contact Rachel F. Hilton, Acting Director of Governance and Oversight at (b) (6)

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas A. Pitkin".

Douglas A. Pitkin

ABBREVIATIONS

CGFS	Bureau of the Comptroller and Global Financial Services
GOV	Office of Governance and Oversight
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019

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