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INDEPENDENT AUDITOR'S REPORT

AUD-FM-24-07

To the Secretary of the U.S. Department of State and the Acting Inspector General:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the U.S. Department of State (Department), which comprise the consolidated balance sheets as of September 30, 2023 and 2022; the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended; and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2023 and 2022, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, "Audit Requirements for Federal Financial Statements." Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the Introduction, Message from the Secretary, Message from the Comptroller, Section III: Other Information, and Appendices as listed in the Table of Contents of the Department's Agency Financial Report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01, we have also issued reports, dated November 15, 2023, on our consideration of the Department's internal control over financial reporting and on our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements for the year ended September 30, 2023. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2023

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Secretary of the U.S. Department of State and the Acting Inspector General:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, "Audit Requirements for Federal Financial Statements," the financial statements and the related notes to the financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2023, and we have issued our report thereon dated November 15, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982,[1] such as those controls relevant to ensuring efficient operations.

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

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

[1] Federal Managers' Financial Integrity Act of 1982, Public Law 97-255 (September 8, 1982).

material weaknesses. We identified certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Significant Deficiencies

I. Property and Equipment

The Department reported more than $30 billion in net property and equipment on its FY 2023 consolidated balance sheet. Real and leased property consisted primarily of residential and functional facilities and capital improvements to these facilities. Personal property consisted of several asset categories, including aircraft, vehicles, security equipment, communication equipment, and software. Weaknesses in property and equipment were initially reported during the audit of the Department's FY 2005 financial statements. In FY 2023, the Department's internal control structure continued to exhibit several deficiencies that negatively affected the Department's ability to account for property in a complete, accurate, and timely manner. We concluded that the combination of property-related control deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:

- <u>Overseas Real Property</u> – The Department operates at more than 270 embassies, consulates, and other posts in more than 180 countries and is primarily responsible for the acquisition, management, and disposal of real property in foreign countries on behalf of civilian U.S. Government agencies. We identified overseas real property acquisitions and a disposal that were not recorded by the Department in a timely manner. We also found instances in which the Department did not transfer amounts recorded as prepayments for real property acquisitions (e.g., deposits or option fees) to a property account in a timely manner. Additionally, we identified one instance in which the Department did not accurately record prepayments made related to a planned real property acquisition. Although the Department implemented certain controls, such as a quarterly data call, to identify real property acquisitions and disposals, the controls did not ensure that all real property transactions were recorded in the proper fiscal year or that prepayments were identified and recorded as required. The untimely and inaccurate processing of overseas property transactions resulted in misstatements in the Department's asset balances.

- <u>Domestic and Overseas Construction Projects</u> – During FY 2023, the Department managed more than $7 billion in active construction projects, both domestically and overseas. The Department's policies require the capitalization of new construction, major real property renovations, or leasehold improvements of $1 million or more.

  The majority of the Department's domestic facilities are managed by the General Services Administration (GSA).[2] GSA periodically renovates or improves the facilities

[2] GSA-managed properties include those that are owned or leased by GSA.

based on the needs of the Department. In most cases the Department pays for those renovations or improvements. We found that for those facilities managed by GSA, the Department recorded construction costs as operating expenses rather than construction-in-progress (an asset account), even when the costs exceeded $1 million (the capitalization threshold).

To determine the correct accounting treatment of these domestic construction transactions, the Department, the Department of the Treasury, and GSA submitted a technical inquiry to the Federal Accounting Standards Advisory Board (FASAB).[3] As of November 2023, FASAB had not responded to the technical inquiry. Until guidance is provided by FASAB, the Department may not appropriately and consistently account for domestic real property construction costs, which would result in understating assets and overstating expenses in the Department's financial statements.

We also found instances in which costs associated with operating expenses were incorrectly recorded as domestic construction-in-progress. Additionally, we found instances in which overseas construction-in-progress transactions were not recorded in a timely manner and completed overseas construction projects that were not transferred to the proper real property accounts in a timely manner. Although the Department has policies and procedures related to accounting for overseas construction, they were not always effective to ensure proper reporting. For example, the Department performs a quarterly real property data call; however, the process did not ensure that all completed construction projects were recorded in the proper fiscal year. The Department also did not have effective processes and controls to ensure that transactions related to operating expenses were not recorded as construction-in-progress. Additionally, the Department's process to identify capital overseas projects when the projects start was not always effective. The inaccurate and untimely recording of overseas and domestic construction costs resulted in misstatements to the Department's financial statements.

- Leases – The Department manages more than 17,000 overseas real property leases; the majority of which are short-term operating leases. The Department must disclose the future minimum lease payments related to the Department's operating lease obligations in the notes related to the financial statements. We found numerous recorded lease terms that did not agree with supporting documentation. The Department's processes to record lease information were not always effective. The errors resulted in misstatements in the Department's notes related to the financial statements.

- Personal Property – The Department uses several nonintegrated systems to track, manage, and record personal property transactions. Information in the property

[3] FASAB issues federal financial accounting standards and provides guidance on those standards.

systems is periodically merged or reconciled with the financial management system to centrally account for the acquisition, disposal, and transfer of personal property. We identified a significant number of personal property transactions that were not recorded in the correct fiscal year. In addition, we found that the acquisition value or the acquisition date recorded for numerous selected items could not be supported or was incorrect. Furthermore, we found that the gain or loss recorded for some personal property disposals was not recorded properly. The Department's internal control structure did not ensure that personal property acquisitions and disposals were recorded in a complete, timely, and accurate manner. In addition, the Department's monitoring activities were not effective to ensure proper financial reporting for personal property. The errors resulted in misstatements to the Department's prior year financial statements. In addition, the lack of effective control may result in the loss of accountability for asset custodianship, which could lead to undetected theft or waste.

- Software – Federal agencies use various types of software applications, called internal use software, to conduct business. Applications in the development phase are considered software in development (SID). Agencies are required to report software as property in their financial statements. We identified instances in which the data recorded for SID were unsupported or inaccurate. We also identified instances in which completed projects were not transferred from SID to the internal use software account in a timely manner. Additionally, we identified a software initiative that should have been identified as an SID project; however, the Department inaccurately recorded costs related to this project as operating expenses. One reason this occurred was that the Department's quarterly data call process relied on the responsiveness and understanding of individual project managers, not all of whom understood the accounting requirements for reporting SID. Additionally, the Department did not have an effective process to confirm that information provided by project managers was complete, accurate, or supported. Furthermore, the Department lacked an effective process to ensure that software initiatives that met the Department's criteria for capitalization were properly classified at the start of the project. The errors resulted in misstatements to the Department's financial statements.

- Heritage Assets – Heritage assets are assets that are unique because of historical or natural significance; are of cultural, educational, or artistic importance; or have significant architectural characteristics. The Department maintains nine separate collections of heritage assets. Each collection maintains a listing of its heritage assets. Those assets are reported as a note in the Department's annual financial statements. During FY 2022, the Department transferred more than 3,000 heritage assets from the Cultural Heritage collection to the Art in Embassies collection. During the transfer, the assets were erroneously re-categorized in the property system without retaining the designation as heritage property. This occurred because the Department lacked sufficient controls to ensure that its heritage asset financial statement note disclosure was complete and accurate. Specifically, the Department did not have sufficient oversight controls to recognize a significant decrease in heritage assets. The Department adjusted its FY 2023 notes to the financial statements to correct the heritage assets collection count.

II. Validity and Accuracy of Unliquidated Obligations

Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services that were ordered have not been received or the goods and services have been received but payment has not yet been made. The Department's policies and procedures provide guidance that requires allotment holders to perform at least monthly reviews of ULOs. Weaknesses in controls over ULOs were initially reported during the audit of the Department's FY 1997 financial statements. We continued to identify a significant number and amount of invalid ULOs based on expired periods of performance, inactivity, lack of supporting documentation, and the inability to support bona fide need.

Although the Department takes steps to remediate long-standing ULO validity issues through its annual ULO review, the scope of the review does not include all ULOs. Overseas ULOs and domestic ULOs that do not meet the annual domestic review categories established by the Department continue to be a risk for invalidity. Furthermore, not all allotment holders were performing periodic reviews of ULO balances as required. The Department adjusted its FY 2023 financial statements to address the invalid ULOs that we identified during the audit. In addition, funds that could have been used for other purposes may have remained open as invalid ULOs, and the risk of duplicate or fraudulent payments increased.

III. Financial Reporting

Weaknesses in controls over financial reporting were initially reported during the audit of the Department's FY 2019 financial statements. During FY 2023, the audit continued to identify control limitations, and we concluded that financial reporting remained a significant deficiency.

In some cases, appropriated funds are required to be transferred to other agencies for programmatic execution (referred to as "child funds"). Despite transferring these funds to another agency, the Department is required to report on the use and status of child funds in its financial statements. During FY 2023, the Department made significant child fund transfers to three agencies. To obtain audit coverage of the Department's most significant child funds, we requested that the financial statements auditors of two of the three agencies perform certain audit steps. One of those auditors identified some invalid ULOs. In addition, during our FY 2021 financial statement audit, we requested that the Department obtain detailed financial information from the third agency, which received a less significant amount of child funds from the Department. However, we found that the data provided by this agency were not complete or accurate and did not reconcile to the agency's trial balance data. During our FY 2023 financial statement audit, Department officials stated that this agency continued to be unable to provide the Department with transaction-level data. One reason for the issues identified was that the Department did not have an effective, routine process to ensure that amounts reported by agencies receiving child funds were accurate. For example, the Department did not communicate effectively with child fund agencies to ensure that the validity of ULOs was reviewed periodically. In addition, the Department did not have a routine process to ensure that transaction-level details were readily available from the other agencies and were auditable. Without an effective process to monitor child funds, there is a risk of errors in the Department's future financial statements.

IV. Information Technology

The Department's information systems and electronic data depend on the confidentiality, integrity, and availability of the Department's comprehensive and interconnected IT infrastructure using various technologies around the globe. Therefore, it is critical that the Department manage information security risks effectively throughout the organization. The Department uses several financial management systems to compile information for financial reporting purposes. The Department's general support system, a component of its information security program, is the gateway for all the Department's systems, including its financial management systems. Generally, control deficiencies noted in the information security program are inherited by the systems that reside in it.

On behalf of the Office of Inspector General, we performed an audit of the Department's FY 2023 information security program, in accordance with the Federal Information Security Modernization Act of 2014 (FISMA).[4] During that audit,[5] we concluded that the Department did not have an effective organization-wide information security program. Specifically, we determined that eight of nine domains included in the "FY 2023-2024 Inspector General Federal Information Security Modernization Act of 2014 (FISMA) Reporting Metrics" were operating below an effective level. Some of the deficiencies identified that we determined had an impact on internal controls related to financial reporting were the lack of an effective process to authorize and reauthorize the Department's information systems to operate in a timely manner,[6] as well as ineffective processes to track and remediate identified vulnerabilities.

[4] Public Law 113-283 (December 18, 2014), codified at Title 44 United States Code Chapter 35, Subchapter II, "Information Security."

[5] Office of Inspector General, *Audit of the Department of State FY 2023 Information Security Program* (AUD-IT-23-31, September 2023).

[6] According to the National Institute of Standards and Technology, Special Publication 800-37, rev. 2, "Risk Management Framework for Information Systems and Organizations, A System Life Cycle Approach for Security and Privacy" December 2018, page 91, an authorization to operate is "the official management decision given by a senior [f]ederal official or officials to authorize operation of an information system and to explicitly accept the risk to agency operations (including mission, functions, image, or reputation), agency assets, individuals, other organizations, and the Nation based on the implementation of an agreed-upon set of security and privacy controls."

Without an effective information security program, the Department remains vulnerable to IT-centered attacks and threats to its critical mission-related functions. Information security program weaknesses can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered, either accidentally or intentionally. Information security program weaknesses and deficiencies increase the risk that the Department will be unable to report financial data accurately.

We considered the weaknesses and deficiencies identified during the FISMA audit to be a significant deficiency within the scope of the FY 2023 financial statements audit. We have reported weaknesses and deficiencies in IT security controls as a significant deficiency annually since our audit of the Department's FY 2009 financial statements.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to Department management in a separate letter.

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting that was included in the audit report on the Department's FY 2022 financial statements,[7] we noted several issues that were related to internal control over financial reporting. The status of the FY 2022 internal control findings is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2022 Status	FY 2023 Status
Property and Equipment	Significant Deficiency	Significant Deficiency
Validity and Accuracy of Unliquidated Obligations	Significant Deficiency	Significant Deficiency
Financial Reporting	Significant Deficiency	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

Department's Response to Findings

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

[7] Office of Inspector General, *Independent Auditor's Report on the U.S. Department of State FY 2022 and FY 2021 Financial Statements* (AUD-FM-23-07, November 2022).

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2023

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

To the Secretary of the U.S. Department of State and the Acting Inspector General:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, "Audit Requirements for Federal Financial Statements," the financial statements and the related notes to the financial statements, of the U.S. Department of State (Department) as of and for the year ended September 30, 2023, and we have issued our report thereon dated November 15, 2023.

Report on Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts and disclosures, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA).[1] We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion.

The results of our tests, exclusive of those related to FFMIA, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-01. Specifically, we noted noncompliance with the Prompt Payment Act.[2] This Act requires federal agencies to make payments in a timely manner, pay interest penalties when payments are late, and take discounts only when payments are made within the discount period. We found that the Department did not consistently calculate or pay interest penalties for overdue payments to overseas vendors or international organizations. The Department was unable to provide legal justification exempting the Department from paying interest penalties for payments to these types of entities. Conditions impacting the Department's compliance with the Prompt Payment Act have been reported annually since our FY 2009 audit.

The results of our tests of compliance with FFMIA disclosed no instances in which the Department's financial management systems did not comply substantially with Section 803(a)

[1] Federal Financial Management Improvement Act of 1996, Public Law No. 104-208, (September 30, 1996).
[2] 31 United States Code Chapter 39, "Prompt Payment."

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requirements related to federal financial management system requirements, applicable federal accounting standards, or application of the United States Standard General Ledger at the transactional level.

During the audit, we noted certain additional matters involving compliance that we will report to Department management in a separate letter.

Department's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance with laws, regulations, contracts, and grant agreements and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the Department's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2023

Appendix A

United States Department of State

Comptroller

Washington, DC 20520

UNCLASSIFIED
MEMORANDUM

November 15, 2023

TO: OIG – Diana Shaw, Acting Inspector General

FROM: CGFS – James A. Walsh, Comptroller

SUBJECT: Draft Report on the Department of State's Fiscal Year 2023 Financial Statements

This memo is in response to your request for comments on the draft report of the Independent Auditor's Report on Internal Control Over Financial Reporting, and Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements.

As you are aware, the scale and complexity of Department activities and corresponding financial management operations and requirements are immense. The Department does business in more than 270 locations. The more than 180 countries in which we operate include some extraordinarily challenging environments. These factors are a backdrop as we work diligently to maintain and operate an efficient and transparent financial management platform in support of the Department's and U.S. Government's essential foreign affairs mission.

We value accountability in all we do, and the discipline of the annual external audit process and the issuance of the Department's audited financial statements represent our commitment to this accountability to the American people. I'm sure few outside the financial management community fully realize the time and effort that go into producing the audit and the Agency Financial Report. The collaboration, issues resolution, and pursuit to strengthen our financial management across all parties is outstanding. We extend our sincere thanks for the commitment by all parties, including the OIG and Kearney & Company, to work together constructively and within a concentrated timeframe to complete the comprehensive audit process. We know there always will be new challenges and concerns given our global operating environment and scope of compliance requirements. The overall results of the audit reflect the continuous diligence and strong performance we strive to achieve in the Bureau of the Comptroller and Global Financial Services (CGFS) and across the Department's financial management community.

We are pleased to learn the Independent Auditor's Report concludes the Department has received an unmodified ("clean") audit opinion on its FY 2023 and FY 2022 principal financial statements. Moreover, the audit reflects no material weaknesses.

We remain committed to strong corporate governance and internal controls as demonstrated by our robust system of internal controls. This framework is overseen by our Senior Assessment Team (SAT) and Management Control Steering Committee (MCSC), with senior leadership providing validation. We appreciate the OIG's participation in both the SAT and MCSC discussions. For FY 2023, no material weaknesses in internal controls were identified by senior leadership. As a result, the Secretary was able to provide an unmodified Statement of Assurance for the Department in accordance with the Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act.

We recognize there is more to be done, and the items identified in the Draft Report will demand additional action to achieve further improvement. We look forward to working with you, Kearney & Company, and other stakeholders to address these issues in the coming year.