

**INDEPENDENT AUDITOR'S REPORT ON CLOSING PACKAGE  
FINANCIAL STATEMENTS  
AUD-FM-15-06**

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

**Report on the Closing Package Financial Statements**

We have audited the accompanying Closing Package Financial Statement Report of the U.S. Department of State (Department), which comprises the Closing Package Financial Statement Report – Balance Sheet as of September 30, 2014 and 2013, and the related Closing Package Financial Statement Reports – Statement of Net Cost and Statement of Changes in Net Position for the years then ended, and the accompanying Financial Report (FR) Notes Report (except for the information in the FR Notes Report entitled “Threshold,” Sections E and F in FR Notes Report No. 16, Text Data Line No. 2 in FR Notes Report No. 25, and Text Data Line No. 3 in FR Notes Report No. 26); the accompanying Additional Notes; the accompanying Trading Partner Summary Note Report – Balance Sheet as of September 30, 2014 and 2013; and the related Trading Partner Summary Note Report – Statement of Net Cost and Statement of Changes in Net Position for the years then ended (hereinafter referred to as the “closing package financial statements”).

***Management's Responsibility for the Closing Package Financial Statements***

Management is responsible for the preparation and fair presentation of these closing package financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the closing package financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these closing package financial statements based on our audits. We conducted our audits 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2014 and 2013, and its net costs and changes in net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

We draw attention to the fact that the closing package financial statements were prepared to comply with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM), Volume I, Part 2, Chapter 4700, for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the consolidated balance sheets of the Department as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as "general-purpose financial statements") for the years then ended. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Opinion on the General-Purpose Financial Statements***

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 OMB Bulletin No. 14-02, the general-purpose financial statements of the Department as of September 30, 2014 and 2013, and our report thereon, dated November 15, 2014, expressed an unmodified opinion on those financial statements.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the information in Section E in FR Notes Report No. 16, Text Data Line No. 2 in FR Notes Report No. 25, Text Data Line No. 3 in FR Notes Report No. 26, and Other Data Report Nos. 1, 3-9, 14, 17, and 18, except for the information included in the Other Text Data of Other Data Report

No. 1 and the information in the Other Data Report entitled “Threshold,” be presented to supplement the basic financial statements.

Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the closing package financial statements, and other knowledge we obtained during our audits of the closing package 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*

Our audits were conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information in Section F in the FR Notes Report No. 16; the information in the sections included in the Other Data Report Nos. 2, 10–13, 15, and 16; the information included in the Other Text Data of Other Data Report No. 1; the information entitled “Threshold” in the Other Data Report; the information in the sections entitled “Threshold” in the FR Notes Report; the information in the Closing Package Line Reclassification Summary Report – Balance Sheet; and the information in the Closing Package Line Reclassification Summary Reports – Statement of Net Cost and Statement of Changes in Net Position, are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and are not a required part of the closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the closing package financial statements, and accordingly, we do not express an opinion or provide any assurances on it.

### **Intended Purpose of the Report on the Closing Package Financial Statements**

This report is intended solely for the information and use of the management of the Department, the U.S. Department of the Treasury, OMB, and the U.S. Government Accountability Office in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued reports dated November 15, 2014, on our consideration of the Department’s internal control over financial reporting and on the results of our tests of the Department’s compliance with certain provisions of laws, regulations, contracts, and grant agreements for the year ended September 30, 2014, that are required to be reported under *Government Auditing Standards*. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02 in considering the Department’s internal

control and compliance and should be read in conjunction with this report in considering the results of our audits of the closing package financial statements.

In our FY 2014 audit of the general-purpose financial statements of the Department, we noted significant deficiencies in the following areas:

- Financial Reporting
- Property and Equipment
- Budgetary Accounting
- Validity and Accuracy of Unliquidated Obligations
- Information Technology

Our FY 2014 audit of the general-purpose financial statements of the Department noted reportable instances of noncompliance in the following areas:

- Federal Financial Management Improvement Act of 1996
- Antideficiency Act
- Prompt Payment Act

### **Internal Control Over Financial Reporting Specific to the Closing Package Financial Statements**

In planning and performing our audit of the closing package financial statements as of and for the year ended September 30, 2014, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the closing package 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.

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 a 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 for the closing package financial statements 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance Specific to the Closing Package Financial Statements**

As part of obtaining reasonable assurance about whether the Department's closing package financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of TFM Chapter 4700, noncompliance with which could have a direct and material effect on the determination of closing package financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package financial statements, and accordingly, we do not express such an opinion. The results of our tests of compliance with certain provisions of TFM Chapter 4700 disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 14-02.

## **Purpose of the Other Reporting Required by *Government Auditing Standards***

The purpose of the communication provided in the Other Reporting Required by *Government Auditing Standards* section of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the agency's internal control or on compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control and compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the closing package financial statements. Accordingly, this communication is not suitable for any other purpose.

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

Alexandria, Virginia  
November 18, 2014