

MANAGEMENT LETTER
AUD-FM-IB-15-09

To the Board of Governors and the Inspector General of the Broadcasting Board of Governors:

Kearney & Company, P.C. (referred to as “we” hereafter), has audited the consolidated financial statements of the Broadcasting Board of Governors (BBG) as of and for the year ended September 30, 2014, and has issued our report thereon dated November 12, 2014.¹ In planning and performing our audit of BBG’s consolidated financial statements, we considered BBG’s internal control over financial reporting and BBG’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. Our auditing procedures were designed for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurances on internal control or compliance. Accordingly, we do not express an opinion on the effectiveness of BBG’s internal control over financial reporting or on BBG’s compliance with certain provisions of laws, regulations, contracts, and grant agreements.

During our audit, we noted certain matters related to internal control over financial reporting that we considered to be material weaknesses or significant deficiencies and certain matters relating to compliance that we considered to be reportable under 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, *Audit Requirements for Federal Financial Statements*. These items are not repeated in this letter, as they are explained in detail in our report on BBG’s FY 2014 financial statements.

Our procedures were designed primarily to enable us to form an opinion on BBG’s consolidated financial statements and therefore may not have identified all internal control weaknesses and instances of noncompliance that may exist. Although not considered to be material weaknesses, significant deficiencies, or reportable instances of noncompliance, we noted certain other matters involving internal control, operations, and compliance. These findings and recommendations, which are summarized in Appendix A, are intended to assist BBG in strengthening internal control and improving operating efficiencies.

We appreciate the courteous and professional assistance provided by BBG personnel during our audit. These findings and recommendations have been discussed with appropriate BBG officials. Comments from BBG’s management on this report are presented in Appendix B.

¹ *Independent Auditor’s Report on the Broadcasting Board of Governors 2014 and 2013 Financial Statements* (AUD-FM-IB-15-10, Nov. 2014).



This letter is intended solely for the information and use of BBG management, those charged with governance, and others within BBG and the Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

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

Alexandria, Virginia
February 19, 2015

MANAGEMENT LETTER COMMENTS

COMMENTS REPEATED FROM PRIOR YEAR

During the audit of the Broadcasting Board of Governors (BBG) FY 2013 financial statements, Kearney & Company (referred to as “we” hereafter) identified matters that were reported in an internal control report¹ and a management letter.² The severity of issues reported in the FY 2013 internal control report related to accounting for leases has decreased, and the open issues related to this area are included in the management letter rather than in the FY 2014 report on internal control. The severity of four issues included in the FY 2013 management letter has decreased, and we consider these items closed. Three issues from the FY 2013 management letter remained open, and we have updated these issues with information obtained during the audit of BBG’s FY 2014 financial statements.

I. Property

Accounting for Leases

BBG leases real property in overseas and domestic locations under varying types of lease agreements. Currently, BBG has approximately 60 leases, all of which are reported as operating leases. Operating leases allow for the use of an asset but do not convey ownership rights. Capital leases are leases that transfer substantially all of the benefits and risks of ownership to the lessor.

We selected a judgmental sample of 45 leases, identified as operating leases, to determine whether the leases should be reported as capital leases. We were unable to determine whether the leases should be reported as capital leases because BBG did not maintain all information needed to assess the applicability of capital lease criteria. Specifically, BBG did not

- Calculate the present value of its future lease payments for any of the 45 (100 percent) leases tested.
- Provide an economic useful life estimate for 9 of 45 (20 percent) leases tested.
- Provide a reasonable economic useful life estimate for 10 of 45 (22 percent) leases tested (for example, the remaining lease term was used as the economic useful life).
- Provide a fair market value estimate for 21 of 45 (47 percent) leases tested.

BBG did not have an effective process in place to ensure that leases were properly recorded for financial reporting purposes. Annually, BBG performs a manual data call to obtain the data needed to report leases in its financial statements. BBG expanded its annual data call process in FY 2014 to include additional locations and requests for estimated fair market values and economic useful lives. However, this information was not provided for many BBG leases.

¹ *Independent Auditor’s Report on the Broadcasting Board of Governors 2013 Financial Statements* (AUD-FM-IB-14-14, Dec. 2013).

² *Management Letter Related to the Audit of the Broadcasting Board of Governors 2013 Financial Statements* (AUD-FM-IB-14-15, Mar. 2014).

Additionally, BBG officials responsible for managing the data call did not perform any follow-up or attempt to determine reasonable estimates when post officials did not respond to the data call in a complete manner. Further, BBG staff responsible for overseeing leases did not perform an analysis of the data that was received to determine whether some leases should have been capitalized in accordance with Federal accounting standards.

Without an effective process to track and assess leases for capitalization, property and expenses may be misstated on BBG's financial statements.

Recommendation

We recommend that BBG:

- Develop and implement a process to ensure that sufficient information for assessing whether leases should be capitalized is obtained.
- Develop and implement a process to ensure that reasonable estimates are determined in cases where BBG does not receive sufficient information from posts.
- Develop and implement a process to ensure that all operating leases are assessed for potential capitalization and properly recorded for financial reporting purposes.

II. Payroll

Maintenance of Time and Attendance Documentation

BBG's Civil Service and Foreign Service Officers are paid by the Defense Finance and Accounting Service. These payments are made based upon time and attendance (T&A) information input by BBG officials into the Defense Finance and Accounting Service payroll system. Each employee prepares a timesheet and confirms that the T&A information, including leave taken, is accurate for the current pay period. Once the timesheet is signed by the employee, the T&A Supervisor reviews each timesheet and certifies that it is accurate. Once certified, timekeepers enter the data from the timesheet into the Defense Finance and Accounting Service payroll system.

We selected a sample of 45 employees who were paid between October 1, 2013, and June 30, 2014. For each employee, we requested that BBG provide the approved timesheet to support the salary payments. For 8 of 45 (18 percent) timesheets tested, BBG was unable to provide evidence that a T&A Supervisor had approved the timesheet. Additionally, in instances where leave was taken, we requested that BBG provide the approved request to support the leave taken. In 10 of 35 (29 percent) instances in which annual leave or sick leave was taken, BBG was unable to provide evidence that the employee had requested leave or a supervisor had approved the employee's leave in accordance with BBG policy. Table 1 summarizes the results of testing.

Table 1: Summary of Results of Testing

Description	Number of Exceptions
No evidence T&A Supervisor approved timesheet	8
No evidence employee requested leave and no evidence supervisor approved leave	7
Employee requested leave but no evidence that supervisor approved leave	1
The employee’s leave request and the supervisor’s approval occurred more than 5 months after leave was taken	2

Although BBG conducted T&A refresher training in FY 2013, we found that BBG officials did not consistently maintain and certify timesheets and leave approvals. BBG did not have an oversight process to ensure that BBG employees and supervisors were properly implementing payroll policies, including the requirement to maintain T&A and leave records. BBG officials indicated that BBG plans to implement an electronic T&A approval system, which would automate the certification process.

Failure to properly certify timesheets and approve leave increases the risk that employees will be compensated for hours not worked. Additionally, inaccurate leave balances may result in improper payments when employees separate from employment.

Recommendation

We recommend that BBG develop and implement an oversight process to ensure that responsible officials approve and retain time and attendance and leave records in accordance with policy.

III. Financial Reporting

Presentation of the Statement of Net Cost

One of the statements that an agency is required to prepare annually is the statement of net cost (SNC). The purpose of the SNC is to provide an understanding of how agency expenses and revenues are linked to agency strategic goals as presented in the Strategic Plan. We found that BBG did not present its September 30, 2014, SNC by the strategic goals described in its Strategic Plan, as required by the Office of Management and Budget (OMB). Instead, BBG presented its SNC as an allocation of expenses and revenues to each of its broadcasting entities.

During FY 2014, BBG adopted a new Strategic Plan. However, key financial reporting personnel were not informed that the new Strategic Plan had been finalized because of ineffective communication between personnel at its Office of Strategy and Development, which is the office responsible for developing the Strategic Plan, and financial reporting personnel.

Because BBG did not present the SNC by strategic goal, BBG was not in compliance with OMB requirements. Without a breakout of net costs by strategic goal, users of BBG’s financial

statements will be unable to analyze and interpret the costs associated with each of the agency's strategic goals. This information is essential for determining the cost effectiveness of BBG's programs.

Recommendation

We recommend that BBG:

- Ensure that the statement of net cost reports the allocation of expenses and revenues based upon BBG's strategic goals in the future.
- Develop and implement a method to improve communication between personnel responsible for strategic planning and personnel responsible for financial reporting.

IV. Compliance With Laws and Regulations

Requirement for Financial Disclosure Reports

Because senior government executives are vested with the public trust and hold positions with a high degree of decisionmaking authority, regulations exist to ensure that these individuals are objective and free from conflicts of interest. One requirement intended to ensure that Government executives are free from conflicts is the submission of Financial Disclosure Reports.

We found that one BBG Board Member³ did not submit a complete Financial Disclosure Report as required. The Board Member had not submitted a Financial Disclosure Report or had submitted a number of incomplete Financial Disclosure Reports dating back to 2011. We also noted that the Board Chairman did not report this violation to the White House Office of Presidential Personnel, Office of Presidential Appointments.

BBG's Office of General Counsel, Ethics and Compliance (OGC), reviews all Financial Disclosure Reports upon receipt to verify that no conflicts of interest are noted and that the forms are complete. OGC will contact personnel required to submit the Disclosure Report to request additional information or clarification in the event information is missing. We found that OGC maintained detailed records of the reviews of the Board Members' Financial Disclosure Reports and the requests made to Board Members for additional information or clarification of information in the Disclosure Reports. Although OGC informed the Board of the noncompliance, the required reports remained incomplete or were missing. The Chairman of the Board of Governors did not take sufficient action to ensure that the Governor complied with Federal financial disclosure requirements.

Improper filing of the Financial Disclosure Reports may lead to undisclosed and unresolved conflicts of interest, real or perceived, between a Board Member's official duties and private financial interests and relationships. Untimely and incomplete submissions may also leave the agency noncompliant with Federal regulations and violate internal policy and procedures.

³ In December 2014, this Board Member's tenure ended with the confirmation of a new Board Member.

Recommendation

We recommend that the Chairman of the Board of Governors take appropriate action to ensure all delinquent Financial Disclosure Reports are submitted in a complete and compliant manner.

NEWLY IDENTIFIED COMMENT

During the audit of BBG’s FY 2014 financial statements, an additional matter came to our attention that had not been previously reported in the FY 2013 internal control report or management letter.

V. General Issue

Documentation Not Provided in a Timely Manner

As part of the financial statement audit, we made requests for data and documentation in order to validate and substantiate account balances and transactions that support BBG’s financial statements. In general, the data we requested should have been an integral component of BBG’s internal control structure and therefore should have been readily available.

BBG did not always provide documentation in a timely manner. As of October 31, 2014, we issued 166 audit requests with due dates prior to October 31, 2014. Table 2 provides an overall summary of the response times for the 166 items that were received by that date.

Table 2: Response Times for Audit Requests

	Total Items Received as of 10/31/2014	Received by Due Date*	Received One Week or Less After Due Date*	Received between One and Two Weeks After* Due Date	Received Between Two and Three Weeks After Due Date*	Received More Than Three Weeks After Due Date*
Audit Requests	166	71	52	15	14	14
Percent	100.0	43.0	31.0	9.0	8.4	8.4

*We considered one week being five business days.

We found that delays in providing documentation were caused by a number of factors. For instance, BBG sometimes had difficulties in obtaining information in a timely manner from overseas posts. Further, a BBG official indicated that resource limitations caused delays in the process of obtaining information from stakeholders and in consolidating, analyzing, and providing the information to the audit team. Additionally, personnel did not comply with BBG’s records management policies to properly store and maintain information for management review.

The inability to produce documentation supporting financial transactions can lengthen processing time for analyses and reconciliations, as well as increase the possibility of undetected errors. Providing timely and accurate information to the financial statement auditors could potentially lead to cost savings in performing the audit.

Recommendation

We recommend that BBG:

- Analyze and modify its procedures to ensure that information is provided to the financial statement audit team in a timely manner.
- Ensure that personnel comply with agency policy for maintaining organized documents and records.

STATUS OF PRIOR YEAR MANAGEMENT LETTER FINDINGS

The current status of findings reported in the management letter related to the audit of BBG’s FY 2013 financial statements is summarized in Table 3.

Table 3: Current Status of Prior Year Management Letter Findings

FY 2013 Management Letter Findings	FY 2014 Status
Reconciliation of Transactions Recorded in Suspense Accounts	Closed
Maintenance of Time and Attendance Documentation	Repeat
Oversight of Foreign Service Nationals’ After-Employment Benefits	Closed
Accounting for Contingent Liabilities	Closed
Presentation of the Statement of Net Cost	Repeat
Preparation of the Statement of Budgetary Resources	Closed
Requirement for Financial Disclosure Reports	Repeat

Appendix B



**BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA**

February 6, 2015

Mr. Norman P. Brown
Assistant Inspector General for Audits
Office of Inspector General
U.S. Department of State

Dear Mr. Brown:

We have received and reviewed the findings and recommendations contained in the draft management letter of the Broadcasting Board of Governors' (BBG) 2014 Financial Statement Audit. We agree with the findings and recommendations, and will work diligently to implement them in a timely manner, subject to the availability of resources. In the enclosed, please find responses to each of the issues identified by the Auditors.

BBG is fully committed to resolving the outstanding findings and recommendations, and will monitor the progress of each remediation.

Thank you for the opportunity to respond. If you have additional questions or concerns, please feel free to contact [Redacted] (b) (6)

Sincerely,

A handwritten signature in black ink that reads "Andrew Lack".

Andrew Lack
Chief Executive Officer & Director

Enclosure: Appendix B

APPENDIX B

I. Property

Accounting for Leases

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We selected a judgmental sample of 45 leases, identified as operating leases, to determine if the leases should be reported as capital leases. We were unable to determine if the leases should be reported as capital leases because BBG did not maintain all information needed to assess the applicability of capital lease criteria. Specifically, BBG did not

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- Provide a fair market value estimate for 21 of 45 (47 percent) leases tested.

BBG did not have an effective process in place to ensure that leases were properly recorded for financial reporting purposes. Annually, BBG performs a manual data call to obtain the data needed to report leases in its financial statements. BBG expanded its annual data call process in FY 2014 to include additional locations and requests for estimated fair market values and economic useful lives. However, this information was not provided for many BBG leases.

Additionally, the BBG officials responsible for managing the data call did not perform any follow-up or attempt to determine reasonable estimates when post officials did not respond to the data call in a complete manner. Further, BBG staff responsible for overseeing leases did not perform an analysis of the data that was received to determine if some leases should have been capitalized in accordance with Federal accounting standards.

Without an effective process to track and assess leases for capitalization, property and expenses may be misstated on BBG's financial statements.

Recommendation

We recommend that BBG:

- Develop and implement a process to ensure that sufficient information for assessing whether leases should be capitalized is obtained.
- Develop and implement a process to ensure that reasonable estimates are determined in cases where BBG does not receive sufficient information from posts.
- Develop and implement a process to ensure that all operating leases are assessed for potential capitalization and properly recorded for financial reporting purposes.

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Management's Response:

The BBG concurs with the findings and recommendation. Pursuant to an assessment of its 2014 leased assets, BBG has developed a draft white paper to account for leases. The white paper is currently being vetting through BBG's policy process. Other than a limited number of GSA vehicles, all of the BBG leased assets are non-personal property items, either real estate or buildings. Our assessment against the accounting criteria has determined that none of the FY 2014 leases would have been capitalized based on the FASAB, SFFAS No 5 and 6. The conclusion of our assessment is that the leased items at BBG are operating leases and do not qualify as capital assets. We will perform a re-assessment every three years to determine if a policy revision is necessary, or at such time the nature of the leased assets change.

II. Payroll

Maintenance of Time and Attendance Documentation

BBG's Civil Service and Foreign Service Officers are paid by the Defense Finance and Accounting Service. These payments are made based upon time and attendance (T&A) information input by BBG officials into the Defense Finance and Accounting Service payroll system. Each employee prepares a timesheet and confirms that the T&A information, including leave taken, is accurate for the current pay period. Once the timesheet is signed by the employee, the T&A Supervisor reviews each timesheet and certifies that it is accurate. Once certified, Timekeepers enter the data from the timesheet into the Defense Finance and Accounting Service payroll system.

We selected a sample of 45 employees who were paid between October 1, 2013, and June 30, 2014. For each employee, we requested that BBG provide the approved timesheet to support the salary payments. For 8 of 45 (18 percent) timesheets tested, BBG was unable to provide evidence that a T&A Supervisor had approved the timesheet. Additionally, in instances where leave was taken, we requested that BBG provide the approved request to support the leave taken. In 10 of 35 (29 percent) instances in which annual or sick leave was taken, BBG was unable to provide evidence that the employee requested leave or a supervisor had approved the employee's leave in accordance with BBG policy. Table 1 summarizes the results of testing.

Table 1. Summary of Results

Description	Number of Exceptions
No evidence T&A Supervisor approved timesheet	8
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Employee requested leave but no evidence that supervisor approved leave	1
The employee's leave request and the supervisor's approval occurred more than 5 months after leave was taken	2

Although BBG conducted T&A refresher training in FY 2013, we found that BBG officials did not consistently maintain and certify timesheets and leave approvals. BBG did not have an oversight process to ensure that BBG employees and supervisors were properly implementing payroll policies, including the requirement to maintain T&A and leave records. BBG officials

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indicated that BBG plans to implement an electronic T&A approval system, which would automate the certification process.

Failure to properly certify timesheets and approve leave increases the risk that employees will be compensated for hours not worked. Additionally, inaccurate leave balances may result in improper payments when employees separate from employment.

Recommendation

We recommend that BBG develop and implement an oversight process to ensure that responsible officials approve and retain time and attendance and leave records in accordance with policy.

Management's Response:

The BBG concurs with the findings and recommendations. Currently, BBG is in the process of launching WebTA, an automated time and attendance solution. This solution provides an agency-wide standardized electronic time and attendance through a web browser, electronic certification/validation of timesheets, a payroll audit trail and real time reporting features that allows various data queries. WebTA is an integrated part of the overall transition to NFC, a service provider for HR and Payroll processing. Initially DFAS will continue to be the provider for processing. BBG anticipates full integration with NFC in FY2016. The agency has purchased the software licenses required for the WebTA implementation, and is in the business assessment stage of the project.

BBG continues to improve the time and attendance process and controls, publishing agency notices, performing program area outreach and individual training as appropriate. Additionally, BBG is reviewing the incremental IPERA testing of payroll to address any non-compliance or trending issues as soon as identified.

III. Financial Reporting

Presentation of the Statement of Net Cost

One of the statements that an agency is required to prepare annually is the statement of net cost (SNC). The purpose of the SNC is to provide an understanding of how agency expenses and revenues are linked to agency strategic goals as presented in the Strategic Plan. We found that BBG did not present its September 30, 2014, SNC by the strategic goals described in its Strategic Plan, as required by OMB. Instead, BBG presented its SNC as an allocation of expenses and revenues to each of its broadcasting entities.

During FY 2014, BBG adopted a new Strategic Plan. However, key financial reporting personnel were not informed that the new Strategic Plan had been finalized due to ineffective communication between its Office of Strategy and Development, which is the office responsible for developing the Strategic Plan, and financial reporting personnel. Because BBG did not present the SNC by strategic goal, BBG was not in compliance with OMB requirements. Without a break-out of net costs by strategic goal, users of BBG's financial

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statements will be unable to analyze and interpret the costs associated with each of the agency's strategic goals. This information is essential for determining the cost effectiveness of its programs.

Recommendation

We recommend that BBG:

- Ensure that the statement of net cost reports the allocation of expenses and revenues based upon BBG's strategic goals in the future.
- Develop and implement a method to improve communication between personnel responsible for strategic planning and personnel responsible for financial reporting.

Management's Response:

The BBG concurs with the finding and recommendations. OCFO, Office of Global Strategy and Program Offices will be working collectively to align the Statement of Net Cost reporting to the agency goals in the current Strategic Plan.

IV. Compliance with Laws and Regulations

Requirement for Financial Disclosure Reports

Because senior government executives are vested with the public trust and hold positions with a high degree of decision-making authority, regulations exist to ensure that these individuals are objective and free of conflicts of interest. One requirement intended to ensure that government executives are free from conflicts is the submission of Financial Disclosure Reports.

We found that one BBG Board Member did not submit a complete Financial Disclosure Report as required. The Board Member had not submitted or had submitted a number of incomplete Financial Disclosure Reports dating back to 2011. We also noted that the Board Chairman did not report this violation to the White House Office of Presidential Personnel, Office of Presidential Appointments.

BBG's Office of General Counsel, Ethics and Compliance (OGC) reviews all Financial Disclosure Reports upon receipt to verify that no conflicts of interest are noted and the forms are complete. OGC will contact personnel required to submit the Report to request additional information or clarification in the event information is missing. We found that OGC maintained detailed records of the reviews of the Board Members' Financial Disclosure Reports and the requests made to Board Members for additional information or clarification of information in the Reports. Although OGC informed the Board of the noncompliance, the required reports remained incomplete or missing. The Chairman of the Board of Governors did not take sufficient action to ensure that the delinquent Governor complied with Federal financial disclosure requirements.

Improper filing of the Financial Disclosure Reports may lead to undisclosed and unresolved conflicts of interest, real or perceived, between a Board Member's official duties and private financial interests and relationships. Untimely and incomplete submissions may also leave the agency noncompliant with Federal regulations and violate internal policy and procedures.

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Recommendation

We recommend that the Chairman of the Board of Governors take appropriate action to ensure all delinquent Financial Disclosure Reports are submitted in a complete and compliant manner.

Management's Response:

BBG's management concurs with the findings and recommendation. As noted, BBG's OGC has followed the agency's policy and procedures for enforcing the submission of required Financial Disclosure Reports. Due to administrative complexity at the Board level, notice to the White House Office of Presidential Personnel, Office of Presidential Appointments was not fully executed. The Board Member for which there was an infraction is no longer with the agency, and new board members have been informed of the Financial Disclosure Reports requirements. At this time, BBG does not foresee future issues with this process.

V. General Issue

Documentation Not Provided in a Timely Manner

As part of the financial statement audit, we made requests for data and documentation in order to validate and substantiate account balances and transactions that support the BBG financial statements. In general, the data we requested should have been an integral component of BBG's internal control structure and therefore should have been readily available.

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The inability to produce documentation supporting financial transactions can lengthen processing time for analyses and reconciliations, as well as increase the possibility of undetected errors. Providing timely and accurate information to the financial statement auditors could potentially lead to cost savings in performing the audit.

Recommendation

We recommend that BBG:

- Analyze and modify its procedures to ensure that information is provided to the financial statement audit team in a timely manner.
- Ensure that personnel comply with agency policy for maintaining organized documents and records.

Management's Response:

BBG's management concurs with the findings and recommendation. During the FY-14 Audit, BBG was unable to back fill prior or recent position vacancies in due to an expected reduction-in-force (RIF). Now that the threat of a RIF has been lifted, BBG is able to rebuild staff resources with the necessary experience and skillsets to meet the agency's goals. With these changes, and working with the auditors to adjust deliverable deadlines to coincide with BBG's business processes, FY 2015 documentation will be more timely.