



consolidated financial statements. We found numerous recorded lease terms that did not agree with supporting documentation. We also found errors in the Department's FMLP calculations despite using accurate lease data. In addition, we tested leases that were scheduled to expire and found multiple leases that had been renewed; however, the renewed lease terms were not included in the Department's FMLP calculations. The Department's processes to record lease information and to ensure the accuracy of FMLP calculations were not always effective. As a result of errors identified by our audit, the Department adjusted its financial statement footnote disclosure.

- **Incomplete and Inaccurate Reporting of Software** – Federal agencies use various types of software applications, called “internal use software” (IUS), to conduct business. Applications in the development phase are considered software in development (SID). Agencies are required to report software as general property in their financial statements. We identified numerous instances in which the data recorded for SID and IUS were inaccurate and additional instances where software projects were inaccurately classified as SID rather than IUS. We also identified software spending that was not reported as SID or IUS. Although the Department performs a quarterly data call to obtain software costs from bureau project managers, this process was not sufficient because it relied on the responsiveness and understanding of individual project managers, not all of whom provided necessary information. Additionally, the Department did not have an effective process to confirm that information provided by project managers was complete or accurate or a process to confirm the status of SID projects. Without an effective process to obtain information pertaining to software projects, the Department may continue to understate its property balances and overstate its expenses.
- **Accounting for Significant Improvements to Overseas Properties** – The Department occupies some facilities overseas using varying types of unique, non-lease, non-ownership agreements. For example, the Department occupies space in facilities owned by other Federal agencies and facilities owned by international organizations. We identified instances in which the Department funded significant improvements to these types of facilities that met the criteria to be recorded as capitalized amounts; the Department, however, treated them as expenses. Although Department officials were generally aware of the accounting requirements relating to capital improvements, the Department had not considered applying the criteria to overseas properties that it occupied but did not own or formally lease. Without a process to capitalize the costs of significant improvements to overseas property that is occupied by but not owned or formally leased by the Department, capital assets will be understated and operating expenses will be overstated on the Department's financial statements.

II. Budgetary Accounting

The Department lacked sufficient reliable funds control over its accounting and business processes to ensure budgetary transactions were properly recorded, monitored, and reported. Beginning in our report on the Department's FY 2010 consolidated financial statements, we identified budgetary accounting as a significant deficiency. During FY 2017, the audit continued to identify control limitations, and we concluded that the combination of control deficiencies