

Management Letter Related to the Audit of the
Broadcasting Board of Governors'
2005 Principal Financial Statements and
2004 Balance Sheet

AUD/FM-06-06

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November 7, 2005

To the Chief Financial Officer
Broadcasting Board of Governors:

Under generally accepted auditing standards, auditors are encouraged to report on “significant deficiencies in the design or the operation of the internal control structure that, in the auditor’s judgment, could adversely affect the organization’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.” In addition, auditors are encouraged to report, in a separate management letter, less material issues.

In performing an audit of the Broadcasting Board of Governors’ (BBG) Principal Financial Statements, as of and for the year ended September 30, 2005, and its Balance Sheet as of September 30, 2004, we considered BBG’s internal control in determining the nature, timing, and extent of the audit tests applied in connection with our audit. Additionally, in accordance with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended, for those significant internal control policies and procedures that were properly designed and placed in operation, we performed sufficient tests to justify a low assessed level of control risk consistent with *Statement on Auditing Standards* No. 55, promulgated by the American Institute of Certified Public Accountants. Our consideration of internal control did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the internal controls to prevent or detect all errors and irregularities.

BBG’s management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition

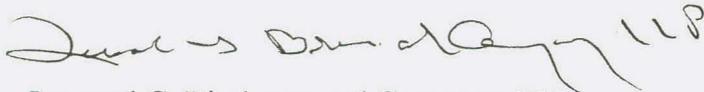
and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the comprehensive basis of accounting described in OMB Circular A-136, *Financial Reporting Requirements*.

Because of inherent limitations in any internal controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that it may become inadequate because of changes in conditions or deterioration in its operating effectiveness.

Although the purpose of our consideration of internal control was not to provide assurances thereon, matters came to our attention that we want to report to you. These matters are discussed in the attachment. These matters do not affect our report, dated November 7, 2005, on BBG's Principal Financial Statements referred to above.

This report is intended solely for the use of BBG's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Leonard G. Birnbaum", followed by "LLP".

Leonard G. Birnbaum and Company, LLP

Attachment: As stated.

Broadcasting Board of Governors
Audit of Principal Financial Statements
September 30, 2005

Observations and Recommendations

1. Payroll Documentation

BBG did not have copies of authorizations from some employees on file to support payroll deductions for life insurance.

We recommend that the Office of Personnel at BBG take appropriate steps to ensure that copies of authorizations for all payroll deductions are maintained in personnel files.

2. Accounts Receivable

Our testing indicated that the accounts receivable line item was overstated as of September 30, 2005. We found collections that were recorded in the general ledger but were not posted to the outstanding accounts receivable.

We recommend that BBG develop a process to ensure that collections are appropriately posted to accounts receivable.

3. Lack of Accounts Payable Subsidiary Record

BBG does not maintain an accounts payable subsidiary record. The amounts included in the general ledger and ultimately the financial statements represent the results of all transactions (posting of payables, liquidations, and adjusting entries) on a rolling basis.

While we recognize that the Broadcasting Financial Management System is limited in this regard, we recommend that BBG take the appropriate steps to purge its accounts payable database of offsetting amounts in order to establish a surrogate accounts payable subsidiary record.

4. Property, Plant, and Equipment

During our testing of property, plant, and equipment, BBG provided us with a schedule of items identified as having been disposed of during FY 2005. Our examination determined that the file of property currently in use still contained these items. This occurred because property management personnel incorrectly coded the items in the Integrated Property Management System.

We recommend that BBG implement the controls necessary to ensure accurate data entry of these transactions.

Our examination of personal property disclosed that BBG had several systems for tracking property that were not integrated and to some extent overlapped. In FY 2005, BBG purchased a database package that has been implemented for domestic property but has not been implemented to the degree necessary to provide effective control over personal property.

We recommend that BBG identify the improvements necessary to ensure proper management and effective use of these resources and develop functional requirements for integration into one database.

5. Leases

During our testing of leases, we noted that incorrect object codes had been used for some lease payments. As a consequence, BBG was unable to reconcile lease payments as presented on its general ledger with lease agreements. In order to streamline and improve its ability to track and report on leases, BBG issued specific guidelines on November 1, 2005, on how to record lease transactions properly.

We recommend that BBG monitor the recording of lease transactions to ensure compliance with its guidelines.

6. Undelivered Orders

Our testing of undelivered orders disclosed a significant number of obligations that had no activity for lengthy periods of time.

We recommend that obligations be reviewed in a structured manner and on a regular basis to permit deobligation and reprogramming of unused amounts.

7. Statement of Net Cost

During our testing of the Statement of Net Cost, we noted that net cost of operations is shown as one program item on the Statement. Although BBG may have only one strategic goal, the current structure of its Statement of Net Cost does not permit visibility into its individual programs or operating structure.

We recommend that BBG disaggregate its Statement of Net Cost by programs.