



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

FEB 28 2008

Ms. Janet K. Stormes
Chief Financial Officer
Broadcasting Board of Governors
330 Independence Avenue SW, Room 3360
Washington, DC 20237

Dear Ms. Stormes:

The management letter related to the audit of the Broadcasting Board of Governors (BBG) 2007 and 2006 financial statements (AUD/FM-08-06) is enclosed. The letter was prepared by Leonard G. Birnbaum and Company, LLP (LGB), an independent external auditor, at the direction of the Office of Inspector General. The letter discusses internal control weaknesses that LGB identified during its audit of the financial statements and makes recommendations in each case. These weaknesses, although of concern, did not rise to the level necessary to be included in the report on the financial statement audit. LGB included BBG's comments to the draft management letter in their entirety as Attachment 2 to the Enclosure.

The Office of Inspector General will not track the recommendations made in the management letter through its formal compliance process. However, the financial statement auditors will evaluate compliance during future audits of the financial statements.

If you have any questions, please call me at (202) 663-0372, or have your staff call Gayle L. Voshell, Director of the Financial Management Division, at (703) 284-2681.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark W. Duda".

Mark W. Duda
Assistant Inspector General for Audits

Enclosure: As stated.

cc: Mr. Doug Bennett, Financial Operations Director, Broadcasting Board of Governors
Ms. Quiana Kornegay, Audit Manager, Broadcasting Board of Governors
Mr. Leslie A. Leiper, Leonard G. Birnbaum and Company, LLP

**Management Letter Related to the
Audit of the
Broadcasting Board of Governors
2007 and 2006 Financial Statements**

AUD/FM-08-06, February 2008

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SUMMIT, NEW JERSEY
REDWOOD CITY, CALIFORNIA

November 14, 2007

To the Chief Financial Officer
Broadcasting Board of Governors:

Under generally accepted auditing standards, auditors are required to communicate, in writing to management, control deficiencies that, in the auditor's judgment, could adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected. Auditors may also report, in a separate management letter, less material issues.

In performing an audit of the Broadcasting Board of Governors (BBG) Financial Statements, as of and for the years ended September 30, 2007 and 2006 (AUD/FM-08-07), 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. 07-04, *Audit Requirements for Federal Financial Statements*, for those internal controls that were properly designed and placed in operation, we performed sufficient tests to support a low level of assessed 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. We have not considered internal control since the date of our report.

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 about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations and to permit the preparation of financial statements in accordance with the comprehensive basis of accounting described in OMB Circular A-136, *Financial Reporting Requirements*.

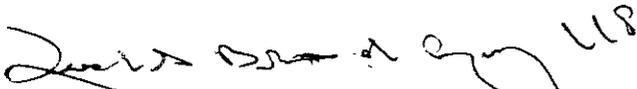
Because of inherent limitations in any internal controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that it may become inadequate because of changes in conditions or deterioration in its operating 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 Attachment 1. These matters do not affect our report, dated November 14, 2007, on BBG's Financial Statements referred to above.

This report is intended solely for the information and use of BBG's management, the Inspector General of the U.S. Department of State and Broadcasting Board of Governors, OMB, Department of the Treasury, and Congress and is not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by BBG management on this report are presented as Attachment 2.

Very truly yours,


Leonard G. Birnbaum and Company, LLP

Attachments: As stated.

Management Letter Related to the
Audit of the Broadcasting Board of Governors
2007 and 2006 Financial Statements

Observations and Conclusions

1. Property, Plant, and Equipment

During our interim testing of property, plant, and equipment, we found numerous instances in which BBG had not recorded property acquisitions and disposals in a timely manner. The majority of the errors represented acquisitions and disposals that had occurred in prior years but that had been recorded as current-year activity. BBG consolidated all property records into a single asset management system. It also corrected most of the errors we identified during the annual inventory process. However, we remain concerned about the controls over entering property data into the system. In addition, the asset management system is not integrated with the general ledger.

Further, we noted several instances in which depreciation expense was inaccurately calculated and recorded because of differences in useful life, acquisition cost, and date differences between the asset management system and supporting documents for property items.

We recommend that BBG

- improve its controls over the timeliness of recording property data,
- develop an interface between the asset management system and the general ledger, and
- ensure that accurate and complete documentation related to capital assets is maintained.

2. Undelivered Orders

Our testing of undelivered orders identified a projected overstatement of more than \$7 million because a significant number of obligations 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.

3. Manual of Administration

As noted in the FY 2006 management letter, BBG has not fully updated and issued its Manual of Administration. We received draft versions of several sections.

We recommend that BBG update and finalize its Manual of Administration.

4. Government Purchase Cards

Twelve of 20 cardholders sampled either had purchases with date errors or the dates were not arranged chronologically within the purchase log.

One cardholder exceeded the 30-day spending limit for November 2006.

Three of 20 cardholders sampled had individual statements of account that were not signed by either the cardholder or the approving official (AO).

One cardholder's individual statement of account was signed by an AO who was not the designated and authorized AO for that cardholder.

We recommend that BBG management institute effective internal control and oversight procedures to deter and discover erroneous use of the government purchase card.

Table 1: Follow-up on Observations From the FY 2006 Management Letter

Observation Number	FY 2006 Observation	FY 2007 Status	FY 2007 Comment
1. Payroll Documentation	BBG did not have copies of authorizations from some employees to support payroll deductions.	Closed	
2. Accounts Receivable	Accounts Receivable was overstated as of year-end FY 2006. BBG did not consistently record receivables from reimbursable agreements, and collections were recorded in the general ledger but were not posted to the outstanding accounts receivable subsidiary ledger.	Closed	
3. Lack of Accounts Payable Subsidiary Ledger	BBG did not maintain an accounts payable subsidiary ledger. The amounts included in the general ledger and ultimately the financial statements represent the results of all transactions on a rolling basis.	Open	This issue was a significant deficiency in the Independent Auditor's Report on the Broadcasting Board of Governors 2007 and 2006 Financial Statements (AUD/FM-08-07).
4. Property, Plant, and Equipment	BBG had not recorded property acquisitions and disposals in a timely manner. In addition, the asset management system was not integrated with the general ledger.	Open	See observation 1.
5. Deferred Maintenance	BBG did not report deferred maintenance as a part of Required Supplementary Information.	Closed	BBG has implemented procedures to report deferred maintenance costs.
6. Undelivered Orders	Testing of undelivered orders disclosed a significant number of obligations that had no activity for lengthy periods of time.	Open	See observation 2.

Observation Number	FY 2006 Observation	FY 2007 Status	FY 2007 Comment
7. Manual of Administration	BBG had not completed updating its Manual of Administration.	Open	See observation 3.
8. Grants Management	A GAO Report dated August 4, 2006, <i>Management of Middle East Broadcasting Service Could be Improved</i> (GAO-06-762), recommended that BBG improve efficiency and operations of the Middle East Broadcasting Networks (MBN). For instance, BBG should fully implement strategic planning, internal control, and regular program reviews as well as address weaknesses in conducting and reporting audience research.	Closed	FY 2007 audit follow-up determined that BBG has made a significant effort to improve efficiency and operations at MBN.
9. Information and Communication	An OIG report dated September 2006, <i>Review of the Information Security Program at the Broadcasting Board of Governors</i> (IT-I-06-04), disclosed that BBG was noncompliant with the Federal Information Security Management Act.	Closed	BBG recognizes that additional work is required as it continues to make progress in integrating Chief Information Officer input in agency information technology decisions.
10. Government Purchase Cards	<p>Cardholders were not correctly entering purchase dates in their purchase logs. Cardholders seemed to be using information from credit card statements to complete the purchase logs instead of completing the log when the purchase was made.</p> <p>A number of payment vouchers for monthly credit card statements could not be provided for several overseas transmitting stations.</p>	Open	See observation 4.



BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA

February 12, 2008

Mark W. Duda
Assistant Inspector General for Audits
Office of Inspector General
Department of State
Washington D.C. 20522-0308

Dear Mr. Duda:

This is in response to your request for comments on the draft management letter related to the audit of the Broadcasting Board of Governors' 2007 and 2006 financial statements. We have reviewed the observations and conclusions of the independent contractor, Leonard G. Birnbaum and Company, LLP, and in the attachment provide detailed responses to each of the issues identified by the auditors.

I assure you that we take the recommendations seriously and will monitor the progress made to address each recommendation.

Thank you for the opportunity to respond.

Sincerely,

A handwritten signature in black ink, appearing to read "Janet K. Stormes".

Janet K. Stormes
Chief Financial Officer

Attachment: As stated

Broadcasting Board of Governors
Audit of Financial Statements
September 30, 2006 and 2007

BBG Responses to the Audit Observations and Conclusions

1. Property, Plant and Equipment (PPE)

Audit Recommendation:

We recommend that BBG:

- Improve its controls over the timeliness of recording property data,
- Develop an interlace between the asset management system and the general ledger, and
- Ensure that accurate and complete documentation related to capital assets is maintained.

BBG Response:

The BBG has improved its controls regarding the proper and timely recording of property data. On January 18, 2008, the BBG adopted important changes to its PPE Manual of Operations and Administration (MOA) establishing an Agency Property Management Office to assist Property Control Officers and Accountable Officers manage their property and update the Property Inventory Processing System (PIPS). The MOA establishes procedures to ensure incoming deliveries are properly and timely recorded in the PIPS system, quarterly entries are made for asset acquisitions, dispositions and depreciation, and physical inventories are conducted annually. The MOA for PPE also sets requirements for document retention and verification. Additionally, the BBG has assigned specific responsibilities for documentation maintenance to Property Control Officers and Accountable Officers.

The BBG is also implementing Momentum as its financial management system. This system will provide improved recording of the cost of property acquisitions within the financial system. The BBG has established a single Property Management Office that works in close coordination with the Office of the CFO to update the General Ledger on a quarterly basis and provide accurate and timely reporting of PPE.

2. Undelivered Orders

Audit Recommendation:

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

BBG Response:

The BBG has taken proactive and measurable steps in addressing this issue. The Office of the CFO has continued to facilitate and lead the detailed review of open obligations. The Office of the CFO reviews all open orders and works with the program offices to

reconcile the open orders. To facilitate the reconciliation, the Office of the CFO distributes open obligation reports to the program offices. The Office of the CFO has monitored the progress of the reconciliation of the open obligations and met with each Administrative Officer to review the open obligations. These steps were repeated throughout FY 2007 with increasing frequency at the end of FY 2007, and continued in the first quarter of FY 2008. As a result of this effort, we have reduced our unliquidated obligations by \$6.0 million.

We are implementing Momentum financial management system in 2008. This new system will combine our acquisition, budgeting, and general ledger applications under an integrated system facilitating reconciliation and management of the Agency's obligations.

3. Manual of Administration

Audit Recommendation:

We recommend that BBG update and finalize its Manual of Administration.

BBG Response:

The Manual of Administration (MOA) is a living document, updated as required by changes in policies, rules and regulations. The BBG has procedures to review and update the MOA. Policy and organizational changes are numbered and cataloged according to the year implemented. Each element head is responsible for reviewing the portion of the MOA that pertains to their function and ensuring it is current and reflects appropriate legislative changes. During FY2007, we finalized several sections including: (1) Cash Management; (2) Payroll, Time and Attendance, and Leave Accounting; (3) Debt Management; and (4) Grants and Other Financial Assistance. We recently updated our MOA on Property Plant and Equipment and are reviewing the sections covering Travel and Payments. Updates to these sections will be posted in FY 2008.

In addition, the International Broadcasting Bureau Deputy Director is establishing an agency-wide task force to review and improve the process for updating all Agency policies and procedures in the MOA. The task force members represent all Agency offices, and will begin meeting in mid-February.

4. Government Purchase Cards

Audit Recommendation:

We recommend that BBG management institute effective internal control and oversight procedures to deter and discover erroneous use of the government purchase card.

BBG Response:

BBG policy requires that all credit card statements, purchase logs, and receipts be submitted to the Office of Financial Operations and reconciled on a monthly basis. BBG is implementing the credit card module in its new Momentum Financial Management System. This will enhance controls by preventing the posting of entries on unreconciled credit card accounts.

The Office of Contracts oversees the government purchase card program and establishes limits on the amount for individual transactions and 30 day spending limits on individual cards. The Office of Contracts also conducts random reviews of the purchase logs ensuring that they are properly prepared and authorized. Finally, the BBG contracts with an independent auditor to review our purchase card program annually. The independent auditor recently began its second audit of the program.

Additional Observations from the FY 2006 Management Letter

Lack of Accounts Payable Subsidiary

Audit Observation:

BBG does not maintain an accounts payable subsidiary ledger. The amounts included in the general ledger and ultimately the financial statements represent the results of all transactions on a rolling basis.

BBG Response:

The Office of Financial Operations is in constant contact with the State Department to ensure that all the missing files are loaded into BFMS so that we are able to take the appropriate steps to purge our accounts payable database of offsetting amounts in order to establish the surrogate accounts payable subsidiary record.

The Office of Financial Operations and State Department have identified approximately 1,100 transactions, which were loaded into the test region of BFMS. State Department is analyzing these transactions to determine if they are correctly formatted and ensure the data are not rejected. There are approximately 50 additional transactions that require further research and manual entry into the test region. Once these entries are validated, they will be loaded into BFMS. We expect to have the entries in BFMS by March 31, 2008.