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**Foreign Service Retirement
and Disability Fund
Financial Statements**

Independent Auditor's Report

September 30, 2005, 2004, and 2003

AUD/FM-06-37, August 2006

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Alexandria, Virginia 22310
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INDEPENDENT AUDITOR'S REPORT

To the Chief Financial Officer, Department of State:

We have audited the Foreign Service Retirement and Disability Fund's (FSRDF) Statement of Projected Plan Benefits and Net Assets Available for Benefits, Statement of Changes in Projected Plan Benefits and Net Assets Available for Benefits, and Combining Statement of Projected Plan Benefits and Net Assets Available for Benefits (financial statements) as of, and for the years ended, September 30, 2005, 2004, and 2003. We have examined internal control over financial reporting in place as of September 30, 2005, and compliance with applicable laws and regulations.

In our opinion, FSRDF's 2005, 2004, and 2003 Financial Statements are presented fairly, in all material respects.

We found:

- no matters involving internal control that we consider to be a material weakness as defined below; and
- no instances of noncompliance with selected provisions of applicable laws and regulations that we consider to be material as defined below.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

FINANCIAL STATEMENTS

In our opinion, FSRDF's 2005, 2004, and 2003 Financial Statements, including the notes thereto, present fairly, in all material respects, FSRDF's financial position as of September 30, 2005, 2004, and 2003 and the changes in projected plan benefits and net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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INTERNAL CONTROL

We considered FSRDF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on FSRDF's Financial Statements. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget's (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers Financial Integrity Act of 1982, such as those controls related to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized use or disposition;
- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that OMB, FSRDF, or the Inspector General have identified as being significant and for which compliance can be objectively measured and evaluated; and
- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Our consideration of internal control over financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect FSRDF's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited, may occur and not be detected within a timely

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period by employees in the normal course of performing their assigned functions. Our audit did not disclose any material weaknesses as described above.

COMPLIANCE WITH LAWS AND REGULATIONS

FSRDF's management is responsible for complying with laws and regulations applicable to FSRDF. As part of obtaining reasonable assurance about whether the Financial Statements are free of material misstatement, we performed tests of FSRDF's compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 01-02. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to FSRDF.

The objective of our audit of the Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes and regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Financial Statements or that sensitivity warrants disclosure thereof.

The results of our test of compliance with the laws and regulations described in the preceding paragraph did not disclose any material instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Bulletin 01-02.

RESPONSIBILITIES AND METHODOLOGY

FSRDF's management has the responsibility for:

- preparing the Financial Statements in conformity with accounting principles generally accepted in the United States of America;
- establishing and maintaining effective internal control; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on the Financial Statements based on our audit. Auditing standards generally accepted in the United States of America require that we

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plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement and presented fairly in accordance with accounting principles generally accepted in the United States of America. We considered FSRDF's internal control for the purpose of expressing our opinion on the Financial Statements, and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the Financial Statements.

In order to fulfill these responsibilities, we:

- examined on a test basis, to the extent possible, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Financial Statements;
- obtained an understanding of the internal controls relevant to financial reporting, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;
- tested compliance with selected provisions of the laws and regulations that may have a material effect on the Financial Statements;
- obtained written representations from management; and
- performed other procedures as we considered necessary under the circumstances.

Our audits were conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin 01-02. We believe that our audits provide a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Fund Overview and Supplemental Financial and Management Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

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This report is intended for the information of the Inspector General of the U.S. Department of State and the management FSRDF. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

The Department agreed with the findings in this report, and its comments on the draft are included in their entirety as Appendix A.


Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
April 21, 2006

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Appendix A



United States Department of State

Deputy Chief Financial Officer

Washington, D.C. 20520

August 8, 2006

MEMORANDUM

TO: OIG – Mr. William Todd

FROM: RM/DCFO – Christopher Flagg *Christopher Flagg*

SUBJECT: Draft Audit Report on Foreign Service Retirement and Disability Fund's Financial Statements for Fiscal Years 2005, 2004 and 2003

We have reviewed the draft report titled "Foreign Service Retirement and Disability Fund, Independent Auditor's Report" for fiscal years (FY) 2005, 2004 and 2003, and have no comments.

We thank you for the opportunity to comment on the draft report and extend our sincere appreciation for the professional manner in which Leonard G. Birnbaum and Company and your office conducted the FY 2005 audit.

CC: Mr. Bradford R. Higgins
Mr. Howard J. Krongard
Mr. James L. Millette
Mr. Mark W. Duda
Ms. Gayle L. Voshell
Mr. Leslie Leiper
Mr. Phillip J. Schlatter
Ms. Cecelia A. Cooper

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