

**Management Letter Related to the  
International Cooperative Administrative Support  
Services' Financial Statements**

September 30, 2005 and 2004

AUD/FM-07-17, February 2007

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March 30, 2006

To the ICASS Executive Board:

Under auditing standards generally accepted in the United States of America, 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 International Cooperative Administrative Support Services' (ICASS) Statements of Financial Position, Statements of Operations and Changes in Net Position, and Statements of Cash Flow as of and for the years ended September 30, 2005 and 2004, we considered ICASS' 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, *Consideration of Internal Control in a Financial Statement Audit*, issued 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 internal control to prevent or detect all errors and irregularities.

ICASS' 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.

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 operating effectiveness.

Although the purpose of our consideration of the internal control was not to provide assurances thereon, matters came to our attention that we want to report to you. These matters, discussed in the attachment, do not affect our report dated March 30, 2006, on the ICASS Financial Statements referred to above.

This report is intended solely for the use of ICASS' management. 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 appear as Attachment 2.

  
Leonard G. Birnbaum & Company, LLP

Attachments: As stated.

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September 30, 2005 and 2004

**Internal Control Weaknesses - ICASS**

1. Timeliness of Financial Reporting

ICASS' financial statements were not prepared in a timely manner after the end of the fiscal year.

*We recommend that ICASS management implement such procedures as are necessary to ensure that ICASS' financial statements can be prepared in a timely manner.*

**Internal Control Weaknesses - General**

The following weaknesses in internal control were disclosed in conjunction with our audit of the Department of State's Principal Financial Statements as of, and for the year ended September 30, 2005 and 2004. These weaknesses have an impact on ICASS because ICASS uses the Department's financial management systems for processing and recording transactions.

1. Accounts Receivable

Our review of accounts receivable disclosed that the amounts presented on the balance sheet included amounts from fund 3200, which is reserved as the repository for accounts receivable related to expired funds. Such receivables, if deemed collectible, are properly reported by the Department of the Treasury.

*We recommend that the Department implement such procedures as are necessary to preclude the presentation of receivables related to expired funds as departmental assets.*

2. Lack of Overseas Accounts Payable Subsidiary Record

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

During FY 2004, the Department began to implement an accounts payable subsidiary ledger that currently supports domestic accounts payable.

*We recommend that the Department continue with its efforts to establish an overseas accounts payable subsidiary ledger.*

3. Anti-Deficiency Act

As of FY 2005, no formalized process has been put in place for the oversight of potential violations of the Anti-Deficiency Act. The Bureau of Resource Management has developed objectives for the Anti-Deficiency Act monitoring program and discussed in a cursory fashion the process with the legal adviser assigned to review and issue opinions on financial issues. The legal adviser has agreed to review the process in FY 2006.

*We recommend that the Department follow through with its plan to develop this Anti-Deficiency Act monitoring program.*



United States Department of State  
Washington, D.C. 20520

JJK

MEMORANDUM

TO: OIG - Mr. Howard J. Krongard

FROM: RME/EX - Philip J. Schlatter *735 240 1077*

SUBJECT: Draft Audit Report on the International Cooperative  
Administrative Support Services' 2005 and 2004 Financial  
Statements

Thank you for the opportunity to review and comment on the subject draft report. In relation to internal control, the report identified two material weaknesses: (1) the vulnerability of our information systems networks to unauthorized access, and (2) deficiencies related to the recording of personal property and related depreciation expense and accumulated depreciation. The report also identified the inadequacy of the Department's financial management system to routinely issue timely financial statements as a reportable condition.

We are pleased to report that during 2006 we continued to make progress to strengthen our controls in the systems and processes used to prepare financial statements. For example, the Department's security for information systems and processes to account for personal property were strengthened. As a result, the Independent Auditor has downgraded these areas to reportable conditions (from material weaknesses) in their report on the Department's FY 2006 agencywide financial statements. We also recognize that our commitment and efforts must remain strong in 2007 and beyond to resolve all remaining deficiencies in these areas.

Our comments on the issues described above are contained in our responses to the audit reports relating to the FY 2004 and 2003 Department-wide Principal Financial Statements included in our Performance and Accountability Reports for those years.

We wish to thank your staff, and the staff of Leonard G. Birnbaum and Company, for the cooperative and professional manner in which the audit was conducted. If you have any questions concerning our response to the audit report, please contact Chris Flaggs, Deputy Chief Financial Officer, on 202-261-8620.

CC: Leonard G. Birnbaum - Leslie Leiper  
RM/GFS - James L. Millette  
RM/ICASS - Ismail Asmal  
RM/BP - Jim Tychoski  
RM/EX - Phil Schlatter, Acting