

**Audit of the
Broadcasting Board of Governors'
Financial Statements
September 30, 2007 and 2006
Independent Auditor's Report
AUD/FM-08-07**

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INDEPENDENT AUDITOR'S REPORT

To the Chairman
Broadcasting Board of Governors

We have audited the Broadcasting Board of Governors' (BBG) Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources (Annual Financial Statements) as of, and for the years ended, September 30, 2007 and 2006; we considered internal control over financial reporting in place as of September 30, 2007, and for the year then ended; and we tested compliance with selected laws and regulations.

In our opinion, BBG's 2007 and 2006 annual financial statements are presented fairly in all material respects.

We found:

- significant deficiencies in internal control, and
- an instance of noncompliance with selected provisions of applicable laws and regulations.

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

ANNUAL FINANCIAL STATEMENTS

In our opinion, BBG's annual financial statements, including the notes thereto, present fairly, in all material respects, BBG's financial position as of September 30, 2007 and 2006, and its net cost of operations, changes in net position, and use of budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

INTERNAL CONTROL

In planning and performing our audits of BBG's annual financial statements as of, and for the years ended, September 30, 2007 and 2006, in accordance with auditing standards generally accepted in the United States of America, we considered BBG's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the annual financial statements but not for the purpose of expressing an opinion on the effectiveness of BBG's internal control. Accordingly, we do not express an opinion on the effectiveness of BBG's internal control. We limited our consideration of internal control to those controls necessary to achieve the objectives described in Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not express an opinion on internal control.

The purpose of internal control is 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 acquisition, 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, BBG management, or the Office of Inspector General has identified as being significant 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 the internal control over financial reporting would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions,

to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects 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 entity's financial statements that is more than inconsequential will not be prevented or detected.

We noted two matters involving internal control that we consider to be significant deficiencies:

- BBG's internal control over its financial and accounting system as of September 30, 2007, was inadequate. There is a risk of materially misstating financial information under the current conditions. The principal areas of inadequacy were as follows:
 - certain elements of the financial statements, principally property, plant, and equipment, are developed from sources other than the general ledger. The use of sources other than the general ledger to generate elements of the financial statements increases the potential for omission of significant transactions.
 - BBG has not fully codified its financial management operating procedures. The absence of codified operating procedures presents opportunities for inconsistencies and errors in processing financial transactions.

This condition was cited in our audit of BBG's Balance Sheet as of September 30, 2004, and in subsequent audits.

- During FY 2007, BBG did not maintain adequate internal control over accounts payable. Initial audit testing indicated that the amount presented as accounts payable was misstated by approximately 42 percent. Although BBG undertook an initiative to identify and resolve misstatements in accounts payable, the reconciliation had not been completed by September 30, 2007.

This condition was cited in our audit of BBG's annual financial statements as of September 30, 2006.

We are required to review BBG's current FMFIA report and disclose differences with the material weaknesses cited in our report. We did not identify any discrepancies.

Finally, with respect to internal control related to performance measures, we obtained an understanding, as required by OMB Bulletin 07-04, of the design of significant controls relating to the existence and completeness assertions and determined whether those controls had been placed in operation. Our procedures were not designed to provide

assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion on such controls.

We noted certain other internal control issues that we have reported to BBG management in a separate letter dated November 14, 2007.

COMPLIANCE WITH LAWS AND REGULATIONS

BBG management is responsible for complying with laws and regulations applicable to BBG. As part of obtaining reasonable assurance as to whether the annual financial statements are free of material misstatement, we performed tests of BBG's compliance with certain provisions of 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 07-04. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to BBG. The objective of our audit of the annual financial statements, including our tests of compliance with provisions of selected 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 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 tests of compliance with the laws and regulations described above disclosed the following instance 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 07-04.

We found that BBG's financial management system did not comply with OMB Circular A-123, *Management Accountability and Control*. The circular requires that documentation for management controls be clear and readily available for examination. The absence of fully codified financial management procedures fails to meet this objective.

The above noncompliance was cited in our audit of BBG's Balance Sheet as of September 30, 2004, and in subsequent audits. The results of our tests of compliance with other laws and regulations disclosed no material instances of noncompliance.

RESPONSIBILITIES AND METHODOLOGY

BBG management is responsible for:

- preparing the annual financial statements, required supplementary information, and other accompanying information 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 annual financial statements based on our audits. Auditing standards generally accepted in the United States of America require that we plan and perform the audits to obtain reasonable assurance as to whether the annual financial statements are free of material misrepresentation and are presented fairly in accordance with accounting principles generally accepted in the United States of America. We considered BBG's internal control for the purpose of expressing our opinion on the annual financial statements and not to provide an opinion on internal control. We are also responsible for testing compliance with provisions of selected laws and regulations that may materially affect the annual financial statements.

In order to fulfill these responsibilities, we:

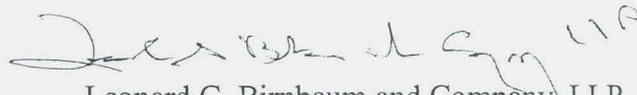
- examined, on a test basis, evidence supporting the amounts on the annual financial statements and related disclosures;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the annual financial statements;
- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of BBG's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;
- obtained an understanding of the internal controls relevant to performance measures included in Management's Discussion and Analysis, including obtaining an understanding of the design of internal controls relating to the existence and completeness assertions and determining whether they had been placed in operation;
- tested compliance with provisions of selected laws and regulations that may have a direct and material effect on the Annual 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 07-04. We believe that our audits provided a reasonable basis for our opinions.

The Management's Discussion and Analysis and Required Supplementary Information are supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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, the 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 Appendix A. The written response by BBG management to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion on these comments.


Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 14, 2007



BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA

November 15, 2007

The Honorable Howard J. Krongard
Inspector General
Office of Inspector General
Department of State
Washington D.C. 20522-0308

Dear Mr. Krongard:

This is in response to your request for comments on the report *AUD-FM-08-07, Audit of the Broadcasting Board of Governors 2007 and 2006 Principal Financial Statements*.

This is the fourth year the BBG has prepared financial statements, and the fourth audit that the BBG has undergone. The independent audit firm has issued an unqualified ("clean") opinion on BBG's principal financial statements.

Achieving an unqualified opinion on its financial statements is a significant achievement. This was accomplished under a tight year-end closing schedule – the agency closed its FY 2007 books on October 2nd. We would like to express our appreciation to your staff and to the audit firm, Leonard G. Birnbaum and Company, LLP, for the professional and cooperative manner in which the audit was conducted.

The audit report notes one reportable condition regarding the agency's internal controls over its the financial and accounting system. In addition, the audit report notes that, while the financial system is not fully compliant with the *Budget and Accounting Procedures Act of 1950*, OMB Circular A-127, *Financial Management Systems*, and OMB Circular A-123, *Management Accountability and Control*, the BBG's financial management system is in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996.

The report states that the current financial system requires us to develop elements of the financial statements, principally property, plant, and equipment, from sources other than the general ledger and there is a lack of fully codified financial management operating procedures. We understand that developing elements of the financial statements from sources outside of the financial system increases the potential for omission of significant transactions. We also recognize that the lack of fully codified procedures presents opportunities for inconsistencies and errors in processing financial transactions.

We are continuing to take steps to correct these areas. While the financial system does not issue interim financial reports, the BBG has established a reporting tool that enables us to produce interim financial reports based on the general ledger. Since FY 2005, utilizing this reporting tool, the BBG has submitted timely its quarterly financial statements to the Office of Management and Budget.

We currently cross service with the Department of State for financial system services. We will be transitioning to the Department of Interior's Momentum system by mid-FY 2008. We anticipate that the new financial system will allow for the integration of property data into the general ledger and interim financial reporting.

In FY 2005, the BBG began updating and rewriting the Manual of Operations and Administration (MOA). We have drafted all sections for the Office of the Chief Financial Officer, including codifying the financial management, budget, and performance management operating procedures. We have completed nine of the eleven sections, and they are posted on the Agency intranet website. The remaining two sections are being finalized.

The report also notes one reportable condition regarding the Agency's reconciliation of accounts payable. We are working with the Department of State to accomplish this and have recently received a file with the overseas accounts payable files that need to be reconciled.

Thank you for the opportunity to comment on the audit report and for collaboratively working with us on our FY 2007 audit. We believe that the BBG has made significant strides in the past year as we underwent our fourth audit of our principal financial statements, and we are committed to continually improving the management of our programs and the quality of our financial reporting.

Sincerely,



Janet K. Stormes
Chief Financial Officer