

**Management Letter Related to the  
Audit of the U.S. Department of State  
2008 and 2007 Financial Statements**

**AUD/FM-09-11, April 2009**

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December 12, 2008

To the Chief Financial Officer  
U.S. Department of State:

We have audited the financial statements of the U.S. Department of State for the years ended September 30, 2008 and 2007, and have issued our report thereon dated December 12, 2008 (AUD/FM-09-02A). In planning and performing our audit of the Department's financial statements, we considered the Department's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control over financial reporting that we considered to be significant deficiencies under the standards established by the American Institute of Certified Public Accountants. We reported those deficiencies in the report referenced.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements and therefore may not identify all weaknesses in internal control that may exist. However, we would like to take this opportunity to use our knowledge of the Department gained during the audit to provide comments and suggestions that we hope will be useful to you.

Although not considered to be significant deficiencies, we noted certain matters involving internal control and other operational matters that are presented in Attachment 1 of this letter for your consideration. These observations are intended to improve the Department's internal control or result in other operating efficiencies. Internal control issues identified as a result of the Department's annual assessment required by Office of Management and Budget Circular A-123, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented in Attachment 2.

Comments by BBG management on this report are presented as Attachment 3.

Very truly yours,

A handwritten signature in black ink, appearing to read "Leonard G. Birnbaum and Company, LLP". The signature is written in a cursive style with a large, stylized "L" and "G".

Leonard G. Birnbaum and Company, LLP

Attachments: As stated.

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**Observations and Conclusions**

1. Fund Balance With Treasury

The Department of State has made little progress in resolving prior year unreconciled differences between the adjusted Treasury balance and the adjusted Global Financial Management System (GFMS) balance. The absolute value of the unreconciled differences totaled approximately \$90 million.

We also tested information included on the Monthly Statement of Transactions (Form SF 224). Of the seven non-payroll items selected, six did not agree with information in GFMS. This was due to items being posted in incorrect periods, information posted to incorrect accounts, amounts being recorded incorrectly, manual adjustments not entered into GFMS, and rejected documents. Many of these differences were not corrected for over 5 months.

*We recommend that the Department continue its efforts to reduce unreconciled fund balance differences between the adjusted Treasury balance and the adjusted GFMS balance.*

*We recommend that the Department devote additional resources to ensure that the proper amounts are reported to the Treasury and that adjustments are accomplished in a timely manner.*

2. Accounts Payable

The Department does not maintain an overseas accounts payable subsidiary record. 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.

*We recommend that the Department establish an overseas accounts payable subsidiary ledger.*

3. Payroll Accruals

Payroll accruals continue to be calculated inaccurately because the Department excludes certain types of payroll from the calculation process.

*We recommend that the Department revise its process for accruing payroll to include all types of payroll.*

4. Payroll Documentation

We found that information in the Department's systems did not always reconcile to information in employees' official personnel files. For instance, tests disclosed differences related to health benefit and life insurance elections. In addition, we found that the employees' official personnel files did not always contain all required documentation, including Thrift Savings Plan forms, life insurance election forms, and withholding election forms (Form W-4).

*We recommend that the Department take appropriate steps to ensure that information in its systems is supported by the information in the employees' official personnel files and that copies of required documents are maintained in the personnel files.*

5. Heritage Assets

The Department classified artwork that was not framed or was undergoing preservation treatment as "inactive," and the inventory count of artwork was inappropriately reduced by these items. We believe that the Department should include all artwork in the count of heritage assets unless the artwork is formally removed, missing, or damaged beyond repair.

During our internal control work at selected overseas posts, we noted a number of issues related to heritage assets. For instance, we found heritage assets that were not included in the inventory. We were unable to find some heritage assets and found that other items were reported twice. We also found that some heritage assets were not properly classified.

We also found that the Department reported three additions to the list of Culturally Significant Property and 1,589 additions to the list of assets maintained by the Curatorial Service Program that had been acquired in prior years.

*We recommend that the Department include all artwork, including "inactive" property, in its count of heritage assets and take appropriate action to improve controls over the recording of heritage assets. Heritage assets should not be removed from the count unless they are either sold, returned to the donor, missing, or damaged beyond repair.*

*We recommend that the Department take the appropriate steps to correctly categorize heritage property and validate its inventory listings in order to avoid inventory report inconsistencies.*

6. Deferred Maintenance

The Department has not fully complied with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 14, Amendments to Deferred Maintenance Reporting, in that the Required Supplementary Information section of the Agency Financial Report does not (1) identify each major class of asset for which maintenance has been deferred and (2) include adequate information on the condition assessment survey.

We also found that the Department did not obtain up-to-date information on deferred maintenance from the International Boundary and Water Commission, causing the Department's financial statements to be misstated by \$43 million.

*We recommend that the Department include all of the required deferred maintenance data in the Required Supplementary Information section of the Agency Financial Report in order to fully comply with the requirements of SFFAS No. 14.*

*We recommend that the Department improve its process for obtaining financial data from the International Boundary and Water Commission to ensure that accurate data is included in the financial statements.*

7. Foreign Service Retirement and Disability Fund's (FSRDF) Actuarial Liability

Our actuary made several recommendations to make the report on the FSRDF actuarial liability more informative. Specifically, the actuary recommended that the report

- show the development of the normal cost percentage;
- provide information about future cash flows or future cash payments or both;
- show the rate of return of assets;
- provide additional details regarding the method used to determine the amortization of unfunded liability to help users as well as information on the components of the unfunded liability, such as the initial unfunded amount, the date of the initial amortization, the number of years to amortize the remaining unfunded amount, and the amortization amount; and
- include separate amounts for interest and benefit payments in the statement of changes in the present value of accumulated plan benefits.

*We recommend that the Department consider implementing the above recommendations in order to make the FSRDF report more informative.*

8. Non-Personnel Expenses

Non-personnel expenses were overstated by approximately \$162 million. The error, in large part, was due to expenses that were recorded in an improper period.

*We recommend that the Department take steps to correctly allocate expenses to its proper periods and maintain adequate documentation to establish the validity of expenses.*

9. Prompt Payments

As of August 2008, the Department had paid approximately 76 percent of its domestic 2008 invoices on time as compared with the government's minimally successful goal of 97 percent. Further, the Department had paid approximately \$736 per \$1 million in interest payments. The government-wide goal is to reduce this amount to \$300 per \$1 million in payments.

In comparison with other major federal agencies, the Department is at or near the bottom of the list in percentage of invoices paid late and dollar amounts paid per invoice payments.

*We recommend that the Department strengthen its procedures for timely payment of invoices with the aim of meeting the government's goals for payments.*

10. Controls Over Cash and Cash Receipts at Posts

Our review of controls at posts disclosed several common areas requiring attention, including the following:

- a lack of documentation demonstrating training had been taken;
- (b) (2)
- inadequate management oversight of cashiers.

*We recommend that the Department reemphasize to staff at posts the need to comply with established internal control procedures over cash and cash receipts.*

11. Personal Property

We identified controls over personal property as a significant deficiency in our report on the Department's FY 2008 financial statements. However, because this issue is significant, we are providing additional details in this management letter on issues that were identified:

- We found that controls over property in the hands of contractors need additional improvements to ensure that the Department is correctly reporting this information. During the audit, we used the Defense Contract Audit Agency (DCAA) to test certain assets in the hands of contractors in Iraq and Afghanistan. DCAA reported five exceptions related to the 42 assets tested. Specifically, DCAA could not find three of the items, one of the items had an incorrect description, and one item was not included on the contractor's inventory list. DCAA also found that four of the 10 items randomly selected at post to trace to the Department's list were not reported correctly. Specifically, three items had not been reported to the Department, and one item was not recorded on the contractor's list of assets.
- We noted a significant number of acquisitions recorded in FY 2008 that had actually been acquired in prior years. For instance, 72 percent of the assets reported as acquired in the first two quarters of FY 2008 were actually acquired in prior years. In addition, we noted a number of disposals recorded in FY 2008 that had actually been disposed of in prior years. We found that 55 percent of the assets reported as disposed of in the first two quarters of FY 2008 were disposed of in prior years.
- We found that the acquisition cost of some items had not been entered correctly and that the sale proceeds for some items were not properly recorded. For instance, some acquisitions did not include the cost of shipping, as is required.
- We found that inappropriate salvage values were sometimes used.
- We noted, during our work at overseas posts, instances in which the number of motor vehicles included in the inventory system was not accurate, certain items were mistakenly assigned to other posts, and property was missing or was not accurately reported on the inventory.

*We recommend that the Department enhance its controls over property in the hands of contractors.*

*We recommend that the Department take appropriate action to improve controls over personal property both in domestic bureaus and at overseas posts.*

12. FSRDF Benefit Payments

We found that the Department does not appropriately follow up on older overpayments, some of which date back to FY 1995. Seven of the 21 overpayments tested during this audit had not been recovered. In addition, the Schedule of Overpayments was not regularly updated to reflect the accurate balance. For instance, the repayment for one item had been waived in 2004 but was still included on the list of overpayments.

*We recommend that the Department follow up on the older overpayments and either collect them or write them off as uncollectible.*

*We recommend that the Department update the Schedule of Overpayments at least quarterly to reflect the annuitants' accurate balances.*

13. Managerial Cost Accounting

The Department has developed a framework for implementing managerial cost accounting and is now able to capture bureau cost accounting information. However, the process has not yet been adopted by the individual bureaus.

*We recommend that the Department implement managerial cost accounting at the individual bureaus.*

14. Real Property

The Department's control over real property project completions is not fully effective. We found that one project reported as completed and transferred from construction in progress in FY 2008 was actually completed in a prior year.

We also found that the Department did not have adequate control over recording costs related to construction in progress. We found costs of approximately \$530,000 that had been incurred in prior years but that had not been recorded until FY 2008.

*We recommend that the Department take appropriate action to improve controls over the recording and reporting of real property construction-in-progress completions and costs.*

15. Grants

We found that the Department did not have an effective system in place to ensure that bureaus oversee the provisions of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education*,

*Hospitals, and Other Non-Profit Organizations.* We identified six instances in which grantees maintained more cash on hand than allowed by this circular.

*We recommend that the Department implement additional controls to ensure bureaus oversee the requirement for grantees maintaining the proper amount of cash in compliance with OMB Circular A-110.*

16. Accounts Receivable

We found that the Department did not have adequate control over accounts receivable. As a result, we concluded that this line item was misstated by approximately \$19 million. We determined that policies and procedures related to billed accounts receivable were not being followed and that collection procedures were not being used to the fullest extent possible. We also were unable to obtain adequate supporting documentation for a number of unbilled accounts receivable. In addition, we were not able to obtain adequate documentation to support subsequent receipts.

*We recommend that the Department implement additional controls over accounts receivable to ensure that policies and procedures are being followed and that adequate supporting documentation is maintained.*

*We recommend that the Department evaluate the validity and collectibility of its older accounts receivable balances.*

17. Revenue

Revenue was misstated by approximately \$46 million, mainly because the Department was unable to provide supporting documentation. The most significant exceptions related to revenue from property disposals for the International Cooperative Administrative Support Services program.

*We recommend that the Department take steps to maintain adequate documentation to establish the validity of revenue.*

18. (b) (2)

<sup>(b) (2)</sup> (b) (2)

#### 19. Eliminations

We found that the schedule of eliminations is prepared by one person, with virtually no supervisory oversight to ensure that errors do not occur. The process is dependent on manual calculations, which increase the risk for error.

*We recommend that the Department ensure that the process used to develop the schedule of eliminations is reviewed by a supervisor.*

#### 20. Journal Vouchers

We found that some adjustments made using journal vouchers were not supported. For instance, nine of the 14 journal vouchers tested that related to the working capital fund did not have adequate supporting documentation. While some of these adjustments appeared to be routine, it is important to ensure that all journal vouchers are supported.

*We recommend that the Department review the journal voucher process to ensure that all journal vouchers are appropriately supported.*

## 21. Agency Financial Report

We found that the Department's Agency Financial Report did not include some required items as follows:

- Intragovernmental expenses and revenue were not disclosed separately from costs and revenue from the public.
- The environmental and disposal liability note did not disclose all required information, including sources of clean-up requirements and methods of assigning the costs of clean-up to current periods.
- Information on allocation transfers was not included in the management discussion and analysis portion of the report.

*We recommend that the Department ensure that all required information is included in its Agency Financial Report.*

## 22. Supplemental Foreign Service National Pension Plan – Hong Kong

During the review of the supplemental pension plan for Foreign Service National employees in Hong Kong, we found that the post had not maintained adequate oversight of the plan. The plan did not appear to include provisions that were in the best interests of the employees. For instance, the plan allows the trustees to make unsecured loans using the assets for whatever purpose they determine. In addition, although the plan requires an annual audit of the funds, no audit had been performed since the inception of the plan in 2003.

*We recommend that the Department take action to assess the provisions of the supplemental pension plan in Hong Kong and ensure that the firm has an audit of the assets as required by the agreement.*

## 23. Bilateral Agreements

During the work on bilateral agreements, we found that one post was using purchase authorizations to obligate funds, which was not appropriate. This type of document should be used to commit funds, not to obligate them.

*We recommend that the Department ensure that all posts are using proper documents to obligate funds.*

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**OMB Circular A-123 Findings**

Cycle	Application	Finding/Control Weakness
<b>Financial Reporting</b>	Journal Voucher (JV) Processing	The Department does not have formal desk procedures to ensure sufficient control over the Hyperion JV process.
		<i>The Department should develop procedures for processing JVs.</i>
	JV Processing	A JV that is both entered and approved by the same person is not always verified for accuracy and propriety after being posted to the accounting system.
		<i>The Department should independently review, in a timely manner, a JV that undergoes input and approval by the same accountant.</i>
	JV Processing	The Department did not have adequate controls in place to oversee the preparation and recording of JVs, which increased the likelihood that financial statement adjustments could be recorded improperly.
		<i>To improve the operational effectiveness of the JV process, the Department should (1) develop formal procedures for the JV process and (2) ensure that staff accountants receive training outlining the proper procedures to follow when preparing and recording JVs.</i>
	Intragovernmental	The Department does not have assurance that all intragovernmental transactions have been properly identified for financial presentation and disclosure because the accounting system does not provide sufficient detail to ensure proper identification during the intragovernmental process.
		<i>The Department should strengthen the accounting system's business rules to accurately identify the federal/non-federal attribute and trading partner so that accurate data are captured when transactions are recorded.</i>
	Intragovernmental	Data used in the intragovernmental process are not reconciled to the trial balance to ensure proper summarization.
		<i>The Department should reconcile intragovernmental amounts to the trial balance.</i>
	Allocation Transfers	The Department received no assurance from child agencies that the customized trial balances it provided were accurate and valid.
		<i>The Department should receive assurance from child agencies that the provided customized trial balances are accurate and valid.</i>

Cycle	Application	Finding/Control Weakness
	Trial Balance/Hyperion Process	<p>The Department did not always perform fund reviews, and reviews that were performed lacked sufficient documentation to fully support their effectiveness.</p> <p><i>To increase the operating effectiveness of fund reviews, the Department should (1) ensure sufficient resources are available to perform reviews of significant funds monthly and (2) require accountants to maintain documentation to show that the fund review checklist was completed.</i></p>
	Trial Balance/Hyperion Process	<p>The verification of prior-year ending balances to current-year beginning balances was not performed in a timely manner.</p> <p><i>The Department should implement policies and perform procedures to ensure that the ending balances from the prior fiscal year agree with the beginning balances for the current fiscal year.</i></p>
	Statement Preparation	<p>The supervisory review process overseeing the preparation of supporting schedules, financial statements, and disclosures lacks a sufficient audit trail to evidence edit checks performed, revisions made, and review by management.</p> <p><i>The Department should make sure that evidence of audit trail is maintained by staff and management.</i></p>
<b>Budget and Revenue Management</b>	Appropriations, Apportionments, Transfers & Allotments	<p>The Department does not have specific guidance for recording certain accounting transactions in compliance with the Foreign Affairs Manual and the Foreign Affairs Handbook.</p> <p><i>The Department should develop and maintain detailed procedures for recording accounting transactions.</i></p>
	Appropriations, Apportionments, Transfers & Allotments	<p>The Department does not record nonexpenditure transfers of funds from an allocation transfer in accordance with the Treasury guidance.</p> <p><i>The Department should update the accounting system's mapping rules so that nonexpenditure allocation transfers are posted in accordance with Treasury guidance.</i></p>
	Appropriations, Apportionments, Transfers & Allotments	<p>Budgetary resource transactions, including appropriations, nonexpenditure transfers, and apportionments recorded in the accounting system, did not always agree with underlying documentation (e.g., warrants and apportionments).</p> <p><i>To ensure accuracy of budgetary resource transactions, the Department should (1) develop a report that compares transactions with relevant general ledger balances and (2) review the report quarterly and resolve significant variances.</i></p>

Cycle	Application	Finding/Control Weakness
	Appropriations, Apportionments, Transfers & Allotments	<p>Funds collected and made available to the Department from Fraud Prevention and Detection fees are being processed as nonexpenditure transfers but are not included on the SF-132 apportionment schedule or recorded in the accounting system.</p> <p><i>The Department should work with the Department of the Treasury to determine the appropriate accounting treatment for funds collected from Fraud Prevention and Detection fees.</i></p>
<b>Financial Reporting – Budgetary</b>	Statement of Budgetary Resources (SBR) Preparation	<p>The Department does not maintain a current manual that describes the SBR preparation process.</p> <p><i>The Department should update its procedures to include the current preparation process.</i></p>
	SBR Preparation	<p>The Department does not receive documentation supporting the SF-133s prepared by the child agencies and therefore receives no assurance that the SF-133s are accurate and valid.</p> <p><i>The Department should receive supporting documentation from the child agencies to ensure that the SF-133s are accurate and valid.</i></p>
	SBR Preparation	<p>The SBR may be misstated because (1) unsupported summary level adjustments are made to correct imbalances between proprietary and budgetary balances and budgetary relationships that are not in alignment and (2) adjustments are made to draft SF-133s after the final SBR is submitted. These adjustments are made after the deadline to submit the financial statements but before final SF-133s are submitted to the Department of the Treasury.</p> <p><i>The Department should take action to address the issues related to SBR misstatements.</i></p>
	SF-133 Preparation	<p>The SF-133 manual adjustment workbook contains an error in the methodology for calculating reimbursable expended authority.</p> <p><i>The Department should perform a quality control review of the manual adjustment workbook to ensure that adjustments are reasonable.</i></p>
<b>Procurement</b>	Monitoring Open Obligations	<p>A majority of the Department’s bureaus do not routinely review unliquidated obligation balances to ensure accuracy and continued validity.</p> <p><i>Bureaus should implement a process to identify and deobligate unneeded obligations in a timely manner.</i></p>
<b>Fund Management</b>	SF 6652 Reconciliation – Domestic	<p>The Department’s reconciliation of domestic disbursement and deposit activity reported to and recorded by the Treasury is inadequate because amounts per schedules supporting the Department’s transactions within the accounting system when compared with the Treasury records are not always reconciled to</p>

Cycle	Application	Finding/Control Weakness
		<p>the Treasury reports and unmatched balances reported on the Treasury FMS-6652 report are not resolved in a timely manner.</p> <p><i>The Department must investigate and resolve imbalances between Department of the Treasury recorded activity and system transactions for all identified monthly differences. In addition, procedures and controls must be strengthened to require reconciliation of Treasury Statements of Difference within 90 days.</i></p>
	SF 6655 Reconciliation	<p>The Department's reconciliation of receipt accounts is inadequate because differences identified between the Department's and the Treasury's balances are not researched and resolved.</p> <p><i>The Department should incorporate the reconciliation of receipt accounts shown on the SF-6655 with the SF-6654 reconciliation.</i></p>
	SF 6655 Reconciliation	<p>The Department does not have policies and procedures that fully document the process used to reconcile special fund deposits reported on the SF-6655 with the deposits reported by the Department.</p> <p><i>The Department should develop procedures that fully document the SF-6655 reconciliation process.</i></p>
	SF 224 Domestic	<p>The SF-224 preparation process for domestic operations involves a high degree of manual data entry that has the potential for human error. The current edit checks and supervisory reviews in place do not detect all data entry errors.</p> <p><i>The Department should validate the SF-224 worksheet to source data after data entry. This validation should be performed at the BFY-Fund level and should be approved by a supervisor. The Department should also perform integrity tests to ensure that the accounting system properly summarizes accounting transactions when producing required reports. The SF-224 should be validated against general ledger data on a monthly basis.</i></p>
<b>International Organizations (IO)</b>	Obligations and Expenses	<p>IO does not have written procedures for financial transactions that are comprehensive and up to date.</p> <p><i>IO should complete its policy and procedures guide for financial transactions.</i></p>
	Liability Accruals	<p>Desk procedures and the compilation manual used by the Bureau of Resource Management addressing the IO liability accrual are not up to date and do not reflect current practices.</p> <p><i>RM should update desk procedures and the compilation manual for current practices.</i></p>

Cycle	Application	Finding/Control Weakness
	Liability Accruals	<p>IO and RM do not sufficiently coordinate to determine whether the liability valuation accrual is reasonable.</p> <p><i>RM and IO should coordinate and (1) establish the accuracy of data elements used in the accrual and (2) review the valuation of the resulting accrual to determine reasonableness based upon programmatic and financial experience.</i></p>
<b>FSRDF</b>	Actuarial Liability	<p>The Department does not have sufficient procedures in place to fully verify the reliability of the personnel data to be used to calculate the Foreign Service Retirement actuarial liability.</p> <p><i>The annual actuarial data validation process should be refined to include procedures to validate (1) Non-State Active Employee data, specifically USAID activities, and (2) the completeness of the deferred annuitant population.</i></p>
<b>Procurement Management</b>	Vendor Payments Overseas	<p>GFMS general ledger balances that reflect overseas accounting transactions are not reconciled to subsidiary ledgers to ensure accuracy.</p> <p><i>The Department should develop procedures to reconcile general ledger balances to appropriate subsidiary ledgers for significant overseas accounting transactions.</i></p>
	Vendor Payments Overseas	<p>The Department does not have procedures and automated systems to ensure compliance with significant provisions of the Prompt Payment Act for payments processed at overseas posts.</p> <p><i>The Department should ensure that overseas accounting systems have adequate functionality to process payments in accordance with the Prompt Payment Act.</i></p>
	Reimbursable Agreements – Expenses	<p>Reimbursable expense transactions are not routinely reviewed by cognizant officials to ensure validity.</p> <p><i>The Department should provide bureaus a monthly schedule detailing Intra-Governmental Payment and Collection System expense transactions. It should also require that the bureaus review and approve the schedule to indicate the validity of charges and take appropriate action to correct any invalid charges.</i></p>
<b>Procurement Management</b>	Vendor Payments Domestic	<p>The Department does not always identify the appropriate invoice receipt date and therefore does not identify all payments that are subject to Prompt Payment Act interest penalties.</p> <p><i>The Department should coordinate with bureaus to determine when a proper invoice was received and conduct staff training that outlines the requirements of the Prompt Payment Act: specifically, how to determine when a proper invoice is received.</i></p>

Cycle	Application	Finding/Control Weakness
	Interfaces with GFMS	<p>Rejected transactions are not resolved in a timely manner.</p> <p><i>The Department should establish a benchmark that defines acceptable clearance rates for rejected documents. This benchmark should be used when monitoring reports to determine effectiveness and indicate when further action is needed.</i></p>
	Purchase Cards	<p>The Department cannot ensure the validity and accuracy of domestic purchase card transactions because all offices do not provide approved and reconciled individual statements.</p> <p><i>The Department should stress the importance of approving and submitting the cardholders' statements for review as required. The Department should reject and request corrective action for any statements submitted by bureaus that are not properly reconciled and approved.</i></p>
	Temporary Duty (TDY) Authorizations and Vouchers	<p>The Department's review and approval process for TDY authorizations and vouchers did not detect duplicate airline tickets for one travel authorization/voucher.</p> <p><i>The Department should ensure that travel obligations with duplicate airline ticket postings are resolved in a timely manner.</i></p>
<b>Grants</b>	Obligations	<p>One bureau did not use appropriate obligating documents to establish obligations in GFMS. The obligations were recorded based upon e-mail correspondence.</p> <p><i>The Department should use proper obligating documents when processing obligation transactions.</i></p>
	Payments	<p>One bureau did not obtain a voucher to support the validity of travel costs related to financial assistance provided to a speaker.</p> <p><i>The Department should require travelers to provide vouchers to support travel costs.</i></p>
<b>Payroll Expenses</b>	FSN Payroll Processing and Accounting	<p>Bi-weekly FSN payroll and benefit amounts are not reconciled to subsidiary records to ensure accuracy.</p> <p><i>FSN payroll amounts should be verified. Specifically, the dollar value of FSN payroll-related transactions should be reconciled to amounts recorded in subsidiary records to ensure accuracy.</i></p>
	American Payroll - Time and Attendance	<p>The Department needs to improve the operating effectiveness of controls over time and attendance (T&amp;A).</p> <p><i>To ensure the completeness and accuracy of payroll expenses, the Department should ensure that (1) supervisors review and approve T&amp;A reports to ensure accuracy, (2) T&amp;A and leave slips are retained for 6 years, and (3) leave is properly approved.</i></p>

Cycle	Application	Finding/Control Weakness
<b>Budget &amp; Revenue Management</b>	Reimbursable Agreements and Deferred Revenue	<p>The Department recognizes earned revenue at the time the reimbursable agreement is approved rather than when the services or goods are provided.</p> <p><i>The Department should implement a process to monitor and adjust reimbursable revenue balance for financial reporting purposes.</i></p>
	Reimbursable Agreements	<p>The Department processed an invalid inter-agency collection based on an incomplete analysis of supporting documentation.</p> <p><i>The Department should ensure that billings are fully supported prior to executing interagency transactions. In addition, the Department should determine whether outstanding accounts receivable are related to interagency differences identified as part of the SF-6652 reconciliation.</i></p>
	Consular Fees	<p>The current procedure used to monitor collections processed by lockbox banks is ineffective because reconciling items are not resolved prior to posting collections in the accounting system.</p> <p><i>The Department should identify and resolve reconciling items with the bank in a timely manner.</i></p>
	Consular Fees	<p>All posts are not completing the cumulative comparison between visa fees collected and visa applications.</p> <p><i>In a cable to posts, the Department should stress the importance of completing this reconciliation in a timely manner.</i></p>
<b>Property Management</b>	Capital Leases	<p>Posts do not update the real property system for errors discovered by the Bureau of Overseas Buildings Operations (OBO).</p> <p><i>Posts should record corrections when notified by OBO.</i></p>
	Construction in Progress (CIP)	<p>The Department's control related to the recording of real property and related depreciation expense and accumulated depreciation during most of FY 2006 and all of FY 2005 was inadequate, resulting in (1) significant amounts of construction costs being expensed rather than capitalized and (2) costs of completed projects not being removed from construction in progress on a timely basis.</p> <p><i>The Department should implement internal control procedures to ensure that (1) projects are properly classified as capital or expense in nature and (2) projects are reclassified from CIP when completed and depreciation initiated on a timely basis. The Department should also expand and update documentation policies and processes.</i></p>
	Real Property	<p>Domestic real property is not recorded within the Asset Management module of GFMS. As a result, posting domestic real property transactions (e.g., acquisitions, disposals, and depreciation) in the general ledger is a manual process and more prone to error.</p>

Cycle	Application	Finding/Control Weakness
		<p><i>The Department should record domestic real property in the Asset Management module of GFMS.</i></p>
	Real Property Reconciliation	<p>The subsidiary real property ledger is not routinely reconciled to the general ledger.</p> <p><i>The Department should reconcile overseas real property activity recorded in GFMS to the Asset Management module in GFMS on a monthly basis and fully resolve reconciling items in a timely manner.</i></p>
<b>Property Management</b>	Personal Property	<p>Key issues regarding personal property include the following: there was no standard asset management system, there were deficiencies in the management controls of vehicles and contractor-held property, and posts and bureaus were not fully meeting reporting requirements.</p> <p><i>The Department should (1) clarify policies, roles, and responsibilities of posts and bureaus in the accurate, timely, and complete reporting of personal property; (2) improve personal property operations and oversight by standardizing the property management systems, as well as property management and accounting policies and procedures; (3) improve the monitoring of personal property to ensure timely, accurate, and complete recording of personal property in asset management systems; and (4) revise the training process.</i></p>
<b>Financial Assistance</b>	Obligations and Expenses	<p>One bureau did not maintain current standard operating procedures for financial assistance-related transactions.</p> <p><i>The Department should ensure that written standard operating procedures are developed related to the processing of financial assistance-related transactions.</i></p>
(b) (2)	(b) (2)	(b) (2)



United States Department of State  
Assistant Secretary for Resource Management  
and Chief Financial Officer  
Washington, D.C. 20520

April 14, 2009

UNCLASSIFIED

MEMORANDUM

TO: OIG - Harold W. Geisel, Acting

FROM: RM – Sid L. Kaplan, Acting 

SUBJECT: Draft Management Letter Related to the Audit of the U.S. Department of State 2008 and 2007 Financial Statements.

We have reviewed the Leonard G. Birnbaum and Company's draft report for the subject above. The response for the OMB Circular A-123 Findings Property Management Cycle Construction in Progress (CIP) recommendation Attachment 2 Page 7 of 9 is provided below.

**CIP Recommendation:** The Department should implement internal control procedures to ensure that (1) projects are properly classified as capital or expense in nature and (2) projects are reclassified from CIP when completed and depreciation initiated on a timely basis. The Department should also expand and update documentation policies and processes. (Action: RM)

**Response:** These findings and recommendations are cited for FY 2005 and FY 2006. Please clarify this recommendation. RM has implemented these internal control recommendations in FY 2007.

The response for the OMB Circular A-123 Findings Property Management Real Property Reconciliation (RPR) recommendation Attachment 2 Page 8 of 9 is provided below.

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**RPR Recommendation:** The Department should reconcile overseas real property activity recorded in GFMS to the Asset Management module in GFMS on a monthly basis and fully resolve reconciling items in a timely manner. (Action: RM)

**Response:** The Real Property accountants in Charleston perform reconciliations between the subsidiary real property ledger (Asset Management module of GFMS) and the general ledger each quarter. The auditors were provided a copy of the 9/30/07 reconciliation. For FY 2008, we have provided a copy of the 12/31/07 and 3/31/08 reconciliations on 6/10/08 per the auditor's request for A-123 Tracking #8. The A-123 auditors reviewed this process and did not have any issues with the Charleston reconciliation process.

GFS appreciates the opportunity to comment on the report. The operational point of contact is Betsy Murphy. She may be reached by email [murphybe@state.gov](mailto:murphybe@state.gov) or by phone at (843) 746-0558.

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