

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

Independent Auditor's Report

September 30, 2006, 2005, and 2004

AUD/FM-07-39, July 2007

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INDEPENDENT AUDITOR'S REPORT

To the Assistant Secretary for Resource Management and Chief Financial Officer and the Director General of the Foreign Service and Director of Human Resources of the U.S. Department of State:

We have audited the Foreign Service Retirement and Disability Fund's (FSRDF) Statements of Projected Plan Benefits and Net Assets Available for Benefits and the Statements of Changes in Projected Plan Benefits and Net Assets Available for Benefits (financial statements) as of and for the years then ended September 30, 2006, 2005, and 2004. We have examined internal control over financial reporting in place as of September 30, 2006, and for the years then ended, and we have examined compliance with applicable laws and regulations.

In our opinion, FSRDF's 2006, 2005, and 2004 financial statements are presented fairly in all material respects in conformity with accounting principles generally accepted in the United States of America.

We found:

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

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

FINANCIAL STATEMENTS

In our opinion, FSRDF's 2006, 2005, and 2004 financial statements, including the notes thereto, present fairly, in all material respects, FSRDF's financial position as of September 30, 2006, 2005, and 2004, 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.

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 the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in Office of Management and Budget (OMB) Bulletin 06-03, *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; and
- 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 management, or the Inspector General has identified as being significant and for which compliance can be objectively measured and evaluated.

Our consideration of internal control over financial reporting would not necessarily disclose all matters of internal control over financial reporting 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no internal control issues that would be considered a material weakness, as defined above.

However, we noted certain internal control issues that we have reported to FSRDF management in a separate letter dated February 23, 2007.

COMPLIANCE WITH LAWS AND REGULATIONS

FSRDF 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 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 06-03. 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, which 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 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 06-03.

RESPONSIBILITIES AND METHODOLOGY

FSRDF management is responsible for:

- preparing the financial statements and 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 financial statements based on our audit. Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misrepresentation 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.

To fulfill these responsibilities, we:

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

Our audit was 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 06-03. We believe that our audit provided 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 FSRDF Overview and Supplemental Financial and Management Information are presented for purposes of additional analysis and are not required parts of the 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.

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

Comments by RM management on this report are presented as an appendix.

Leonard G. Birnbaum and Company, LLP

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 initial "L".

Alexandria, Virginia
February 23, 2007



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

May 2, 2007

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MEMORANDUM

TO: OIG – Howard J. Krongard

FROM: RM – Sid L. Kaplan, Acting 

**SUBJECT: Draft Audit Report on Foreign Service Retirement and
Disability Fund's Financial Statements for Fiscal Years 2006, 2005 and
2004.**

I endorse and am forwarding the comments contained in the attached response to
the subject OIG correspondence.

Attachment:

RM/EX Memorandum dated May 1, 2007

RM/EX – PSchlatter
RM/CFO – JCoyle

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

May 1, 2007

UNCLASSIFIED
MEMORANDUM

TO: RM - Mr. Bradford R. Higgins

FROM: RM/DCFO - Christopher H. Flaggs *CHT*

SUBJECT: Draft Audit Report on Foreign Service Retirement and
Disability Fund's Financial Statements for Fiscal
Years 2006, 2005 and 2004

We have reviewed the draft report titled "Foreign Service Retirement and Disability Fund Financial Statements, Independent Auditor's Report, September 30, 2006, 2005 and 2004", and Management Letter, 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 2006 audit.

cc: RM/GFS - Mr. James L. Millette

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