

**Management Letter Related to the
Audit of the Foreign Service Retirement and Disability Fund's
2006, 2005, and 2004 Financial Statements**

AUD/FM-07-40, July 2007

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February 23, 2007

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:

Under generally accepted auditing standards, 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 financial statements of the Foreign Service Retirement and Disability Fund (FSRDF) as of and for the year ended September 30, 2006, we considered FSRDF's 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. 06-03, *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, promulgated 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 the internal controls to prevent or detect all errors and irregularities.

FSRDF's 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 in accordance with the comprehensive basis of accounting described in OMB Circular A-136, *Financial Reporting Requirements*.

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 its operating effectiveness.

Although the purpose of our consideration of internal control was not to provide assurances thereon, matters came to our attention that we want to report to you. These matters are discussed in the attachment. These matters do not affect our report dated February 23, 2007, on the FSRDF's Financial Statements referred to above.

This report is intended solely for the use of the Department and FSRDF's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by Department management on this report are presented as Attachment 2.

Very truly yours,

A handwritten signature in cursive script, reading "Leonard G. Birnbaum and Company, LLP". The signature is written in dark ink and is positioned to the right of the typed name below.

Leonard G. Birnbaum and Company, LLP

Attachment: As stated.

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Observations and Recommendations

1. Overpayments to Annuitants (Debt Collection Act of 1982)

While testing FSRDF benefit payments in conjunction with the FY 2006, 2005, and 2004 Department of State Consolidated Financial Statement Audits, the Bureau of Resource Management's Retirement Accounts Division did not always establish an accounts receivable in a timely manner after the discovery of overpayments to annuitants.

We recommend that the Bureau of Resource Management establish accounts receivable for collection of overpayments to annuitants as soon as overpayments are discovered.

2. Foreign Service Retirement and Disability Fund's Actuarial Liability

Our actuary provided a number of suggestions on how the Department could improve its actuarial report related to FSRDF, as follows.

- The report could have shown results before and after the actuarial assumption changes.
- The report could have shown the development of the normal cost percentage.
- The report could have shown the actuarial gain or loss due to the assumption changes.
- The report could have information about future cash flows and/or future benefit payments.
- The report could have shown the rate of return of assets.
- Additional details regarding the method used to determine the amortization of unfunded liability would help users.

We recommend that the Department consider the suggestions provided by the independent actuary during future actuarial assessments.



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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