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Independent Auditor's Report

To the Secretary, Department of State:

We were engaged to audit the accompanying reclassified balance sheet as of September 30, 2006, and the related reclassified statements of net cost and changes in net position for the year then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the Department of State. These special-purpose financial statements are the responsibility of the Department of State's management.

Because the Department was unable to provide complete financial statements or respond to requests for evidential material in a timely manner, and we were not able to perform other auditing procedures to satisfy ourselves as to the accuracy of the Department's 2006 general purpose financial statements in time to meet the November 15, 2006, deadline imposed by the Office of Management and Budget for issuing our report on the Department's general purpose financial statements, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on those financial statements. Since the Department's general purpose financial statements are the source of the amounts presented in the special-purpose financial statements, we are unable to express, and we do not express, an opinion on the Department's 2006 special-purpose financial statements.

We conducted our work in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. We considered the limitations on the scope of our work in forming our conclusions.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared in accordance with the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the Department of State's financial statements.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in the Department of State's financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 06-03, we have also issued a report dated November 14, 2006, on our consideration of the Department of State's internal control over financial reporting and its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 06-03, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our work the special-purpose financial statements, we also considered the Department of State's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be reportable conditions. Under standards issued 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 the internal control over financial reporting that, in our judgment, could adversely affect the Department of State's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the special-purpose 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 misstatements, in amounts which would be material 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 found no reportable conditions in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03. However, providing an opinion on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements was not an objective of our work on the special-purpose financial statements and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Department of State, the U.S. Department of the Treasury, the Office of Management and Budget, and the U.S. Government Accountability Office in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.



Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 16, 2006