



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

DEC 15 2009

Government Accountability Office
Attn: Ms. Louise DiBenedetto
441 G Street, NW, Room 5T16
Washington, DC 20548

Dear Ms. DiBenedetto:

In compliance with the *Treasury Financial Manual*, Part 2, Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States, the Office of Inspector General (OIG) is providing the *Independent Auditor's Report on the Department of State Special-Purpose Financial Statements* (OIG Report No. AUD/FM-10-02). This report was prepared by Kearney & Company, P.C., an independent certified public accounting firm, at OIG's direction. Also provided are the following:

- reclassified financial statements
- GF004F Trading Partner Summary Note Report
- GF003G Closing Package Line Reclassification Summary Report
- GF006 FR Notes Report
- GF007 Other FR Data Report
- Management Representation Letter on the Closing Package (including Summary of Uncorrected Misstatements)

For your information, we have provided Ms. Karen Hunter, of the Department of the Treasury, and the Office of Federal Financial Management, within the Office of Management and Budget, with an identical letter.

Sincerely,

Harold W. Geisel
Deputy Inspector General

Enclosures: As stated.

cc: RM – Mr. James L. Millette, Acting
RM/DCFO – Mr. Chris H. Flagg



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

DEC 15 2009

Department of the Treasury
Financial Management Services
Attn: Ms. Karen Hunter
3700 East-West Highway, Room 509B
Hyattsville, MD 20782

Dear Ms. Hunter:

In compliance with the *Treasury Financial Manual*, Part 2, Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States, the Office of Inspector General (OIG) is providing the *Independent Auditor's Report on the Department of State's Special-Purpose Financial Statements* (OIG Report No. AUD/FM-10-02). The report was prepared by Kearney & Company, P.C., an independent certified public accounting firm, at OIG's direction. Also provided are the following:

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- Management Representation Letter on the Closing Package (including Summary of Uncorrected Misstatements)

For your information, we have provided Ms. Louise DiBenedetto, of the Government Accountability Office, and the Office of Federal Financial Management, within the Office of Management and Budget, with an identical letter.

Sincerely,

Harold W. Geisel
Deputy Inspector General

Enclosures: As stated.

cc: RM – Mr. James L. Millette, Acting
RM/DCFO – Mr. Chris H. Flaggs



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

DEC 15 2009

Office of Management and Budget
New Executive Office Building
Office of Federal Financial Management
725 17th St., NW, Suite 6025
Washington, DC 20503

Dear Sir or Madam:

In compliance with the *Treasury Financial Manual*, Part 2, Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States, the Office of Inspector General (OIG) is providing the *Independent Auditor's Report on the Department of State's Special-Purpose Financial Statements* (OIG Report No. AUD/FM-10-02). The report was prepared by Kearney & Company, P.C., an independent certified public accounting firm, at OIG's direction. Also provided are the following:

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For your information, we have provided Ms. Karen Hunter, of the Department of the Treasury, and Ms. Louise DiBenedetto, of the Government Accountability Office, with an identical letter.

Sincerely,

Harold W. Geisel
Deputy Inspector General

Enclosures: As stated.

cc: RM – Mr. James L. Millette, Acting
RM/DCFO – Mr. Chris H. Flaggs

INDEPENDENT AUDITOR'S REPORT ON SPECIAL-PURPOSE FINANCIAL STATEMENTS

We have audited the accompanying reclassified balance sheet as of September 30, 2009, 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 U.S. Department of State (Department). These special-purpose financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit. The special-purpose financial statements of the Department as of September 30, 2008, were audited by other auditors whose report dated November 17, 2008, issued a disclaimer on those statements.

Except as described in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Department was unable to provide timely and complete evidential material to enable us to perform audit procedures to satisfy ourselves that the property and equipment (P&E) balance was free of material misstatements. Our work identified issues related to land valuation; identification and valuation of assets and liabilities under capital leases; completeness and accuracy of real property; and the existence, completeness, and valuation of personal property. As a result of these limitations, we were unable to obtain sufficient evidential support for P&E amounts presented in the FY 2009 consolidated balance sheet and consolidated statement of changes in net position.

The special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of 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 the 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's financial statements.

Because of the matters discussed in the preceding paragraphs, we were unable to obtain sufficient and competent evidential matter related to the Department's P&E balance as of September 30, 2009. We cannot determine if the special-purpose financial statements and accompanying notes referred to above are free from material misstatement. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence related to the P&E balance, the special-purpose financial statements and accompanying notes referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2009, and its net costs and changes in net position for the year then ended, in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

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. Such information has not been subjected to auditing procedures. Accordingly, we express no opinion on it. We were unable to apply certain procedures prescribed by professional standards to the information within the timeframes established by OMB because of the limitations on the scope of financial statement audit.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued our reports dated December 14, 2009, on our consideration of the Department's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general purpose financial statement reporting performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be read in conjunction with this report in considering the results of our audit. Our engagement to audit the consolidated financial statements of the Department for the year ended September 30, 2009, disclosed the following material weaknesses and significant deficiencies in the Department's internal control structure:

- Material Weakness: Environmental Liability Restatement
- Material Weakness: Accounting for Property and Equipment
- Material Weakness: Controls over the Financial Reporting Process
- Significant Deficiency: Accounts Payable Accruals
- Significant Deficiency: Validity and Accuracy of Unliquidated Obligations
- Significant Deficiency: Information Technology Controls.

In planning and performing our audit of the special-purpose financial statements, we also considered the Department'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 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 significant deficiencies. Under standards issued by the



American Institute of Certified Public Accountants, a material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We identified no material weaknesses 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 the *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended. 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 audit of 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, the U.S. Department of the Treasury, OMB, 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.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

December 15, 2009
Alexandria, Virginia