

Independent Auditor's Report
Foreign Service Retirement and Disability Fund
Financial Statements

September 30, 2008, 2007, and 2006

AUD/FM-09-19, June 2009

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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, 2008, 2007, and 2006. We have considered internal control over financial reporting in place as of September 30, 2008, and for the year then ended, and we tested compliance with selected laws and regulations.

In our opinion, FSRDF's 2008, 2007, and 2006 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 reportable instances of noncompliance with the provisions of laws and regulations that we tested.

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

FINANCIAL STATEMENTS

In our opinion, FSRDF's financial statements, including the notes thereto, present fairly, in all material respects, FSRDF's financial position as of September 30, 2008, 2007, and 2006, 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

In planning and performing our audit of FSRDF's financial statements as of, and for the years ended, September 30, 2008, 2007, and 2006, in accordance with auditing standards generally accepted in the United States of America, we considered FSRDF's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of FSRDF's internal control. Accordingly, we do not provide an opinion on the effectiveness of FSRDF's 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 the Office of Management and Budget (OMB), FSRDF management, or the Office of Inspector General has identified as being significant and for which compliance can be objectively measured and evaluated.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We noted no matters involving internal control that we considered to be material weaknesses as defined herein.

However, we noted certain internal control issues that we have reported to FSRDF's management in a separate letter dated April 6, 2009.

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. 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, that 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.

We noted an instance of noncompliance that we have reported to FSRDF's management in a separate letter dated April 6, 2009.

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

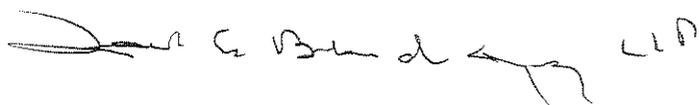
- examined, on a test basis, evidence supporting the amounts on the financial statements and related disclosures;
- assessed the accounting principles used and significant estimates made by management;
- evaluated overall presentation of the financial statements;
- obtained an understanding of the internal controls over financial reporting, including determining whether internal controls had been placed in operation, assessing control risk, and performing 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 and the standards applicable to financial audits contained in the *Government Auditing Standards*. 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 Combining Statement of Projected Plan Benefits and Net Assets Available for Benefits is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Fund Overview and other Supplemental Financial and Management Information is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We reviewed the information contained in the Fund Overview and Other Supplemental Financial and Management Information for the purpose of determining whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the basic financial statements. Our review of this material disclosed no inconsistencies.

Comments by the Bureau of Resource Management on this report are presented as an appendix.

A handwritten signature in cursive script, appearing to read "Leonard G. Birnbaum and Company, LLP".

Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
April 6, 2009



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

JUN 02 2009

To: OIG - Harry W. Geisel, Acting
From: RM - James L. Millette 
Subject: Draft Independent Auditor's Report (Report) on the Foreign Service Retirement and Disability Fund 2008, 2007, and 2006 Financial Statements and Related Management Letter

We have reviewed the subject draft Report and related Management Letter. We do not have any substantive comments on the Report. In regards to the Management Letter, we are providing the following comments.

Recommendation number 1 stated: "We recommend that the Department follow-up on the older overpayments and either collect them or write them off as uncollectible."

We concur with the recommendation. We are conducting periodic reviews of older accounts receivable for either collection actions or to request write-off approvals.

Recommendation number 1 also stated: "We recommend the Department update the Schedule of Overpayments at least on a quarterly basis to reflect annuitants' accurate balances."

We concur with the recommendation.

Recommendation number 2 stated: "We recommend that the Retirement Accounts Division improve procedures to ensure that all annuitant files are complete with all of the proper documentation."

We concur with the recommendation. We have instituted additional procedures to ensure that all Annuitant files contain all the proper documentation.

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Recommendation number 3 made a number of observations regarding the actuarial valuation report, and several recommendations to make the actuarial valuation report more informative.

We concur with the recommendation. We are working with the actuary as part of the FY 2009 actuarial valuation to address the observations and incorporate the recommendations where appropriate.

We appreciate the opportunity to comment on the report, and the collaborative and professional manner in which Leonard G. Birnbaum and Company conducted the audit.

Please feel free to contact me should you have any questions or require further information.