

**Management Letter Related to the
Audit of the Foreign Service Retirement and Disability Fund
2008, 2007, and 2006 Financial Statements**

AUD/FM-09-20, June 2009

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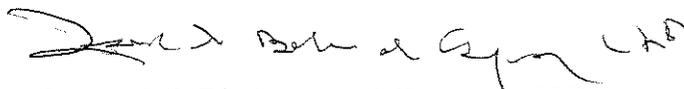
To the Assistant Secretary for Resource Management and Chief Financial Officer, and the Director General of the Foreign Service and Director of Human Resources of the U.S. Department of State:

We have audited the financial statements of the Foreign Service Retirement and Disability Fund (FSRDF) for the years ended September 30, 2008, 2007, and 2006, and have issued our report thereon dated April 6, 2009. In planning and performing our audit of FSRDF's financial statements, we considered FSRDF's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control since the date of our report.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements and therefore may not identify all weaknesses in internal control that may exist. However, we would like to take this opportunity to use our knowledge of FSRDF gained during the audit to provide comments and suggestions that we hope will be useful to you. Although not considered to be significant deficiencies, we noted certain matters involving internal control and other operational matters that are presented in the attachment to this letter for your consideration. These observations are intended to improve FSRDF's internal control or result in other operating efficiencies.

The Bureau of Resource Management's comments on this report are presented as Attachment 2.

Very truly yours,



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)

We found that the Department does not appropriately follow up on older overpayments, some of which date back to FY 1995. Seven of the 21 overpayments tested during the audit had not been recovered. In addition, the Schedule of Overpayments was not regularly updated to reflect the accurate balance. For instance, the repayment for one item had been waived in 2004 but was still included on the list of overpayments.

We recommend that the Department follow up on the older overpayments and either collect them or write them off as uncollectible.

We recommend that the Department update the Schedule of Overpayments at least quarterly to reflect annuitants' accurate balances.

2. Missing Documentation Within Annuitant Files

We found several instances where the annuitant files did not contain required documentation. For instance, we found survivor annuitant files that did not contain a copy of the original annuitant's death certificate.

We recommend that the Department improve procedures to ensure that annuitant files include all of the proper documentation.

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

Our actuary reviewed the actuarial valuation report as of September 30, 2008, dated November 18, 2008, on the Foreign Service Retirement and Disability Fund (FSRDF). This includes the Foreign Service Retirement and Disability System (FSRDS) and the Foreign Service Pension System (FSPS). Our actuary made some observations about the financial status of the fund:

- The fund has earned less than the actuarially assumed rate in each of the last 5 years, and the rate of return is decreasing. If this trend continues, future funding requirements will increase.
- The assets of FSRDS exceed the value of all future benefits of FSRDS. FSRDS continues to receive significant contributions that the plan may not need. It may be appropriate to use some of the future contributions to accelerate the funding of FSPS or for other purposes.

- The report shows that the employer's normal cost percentages did not change for the last 2 years. While possible, it would be unusual for both plans to experience no change in the normal cost rate.

In addition, our actuary made several recommendations to make the report on the FSRDF actuarial liability more informative. Specifically, the actuary recommended that the report

- show the development of the normal cost percentage;
- provide information about future cash flows or future cash payments or both;
- show the rate of return of assets;
- provide additional details regarding the method used to determine the amortization of unfunded liability to help users as well as information on the components of the unfunded liability, such as the initial unfunded amount, the date of the initial amortization, the number of years to amortize the remaining unfunded amount, and the amortization amount; and
- include separate amounts for interest and benefit payments in the statement of changes in the present value of accumulated plan benefits.

We recommend that the Department consider implementing the above recommendations in order to make the FSRDF report more informative.



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.