

Independent Auditor's Report

**Broadcasting Board of Governors'
Financial Statements**

September 30, 2008 and 2007

AUD/FM-09-03, November 2008

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INDEPENDENT AUDITOR'S REPORT

To the Chairman
Broadcasting Board of Governors

We have audited the Broadcasting Board of Governors' (BBG) Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources (annual financial statements) as of, and for the years ended, September 30, 2008 and 2007. 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, BBG's 2008 and 2007 annual financial statements are presented fairly in all material respects. We did identify certain deficiencies in BBG's internal control that we considered to be significant.

Each of these conclusions is discussed in more detail on the following pages. This report also discusses the scope of our work.

ANNUAL FINANCIAL STATEMENTS

In our opinion, BBG's annual financial statements, including the notes thereto, present fairly, in all material respects, BBG's financial position as of September 30, 2008 and 2007, and its net cost of operations, changes in net position, and use of budgetary resources 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 audits of BBG's financial statements as of, and for the years ended, September 30, 2008 and 2007, in accordance with auditing standards generally accepted in the United States of America, we considered BBG's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the annual financial statements but not for the purpose of expressing an opinion on the effectiveness of BBG's internal control. Accordingly, we do not express an opinion on the effectiveness of BBG's internal control. We limited our consideration of internal control to those controls necessary to achieve the objectives described in Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

The purpose of internal control is 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 acquisition, 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 OMB, BBG's management, or the Office of Inspector General has identified as being significant for which compliance can be objectively measured and evaluated.

Our consideration of the internal control over financial reporting would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.

We consider the following two deficiencies to be significant deficiencies in internal control:

- BBG's internal control over its financial and accounting system as of September 30, 2008, was inadequate. There is a risk of materially misstating financial information under the current conditions. The principal area of inadequacy was that certain elements of the financial statements, principally property, plant, and equipment, are developed from sources other than the general ledger. The use of sources other than the general ledger to generate elements of the financial statements increases the potential for omission of significant transactions.

This condition was cited in our audit of BBG's balance sheet as of September 30, 2004, and in subsequent audits.

- During FY 2008, BBG did not maintain adequate internal control over accounts payable. Initial audit testing indicated that the amount presented as accounts payable was misstated by approximately 35 percent. Although BBG undertook an initiative to identify and resolve misstatements in accounts payable, the reconciliation was not completed by September 30, 2008.

This condition was cited in our audit of BBG's annual financial statements as of September 30, 2006, and in subsequent audits.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than 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 or its operation that we considered to be material weaknesses as defined herein.

We are required to review BBG's current FMFIA report and disclose differences with the material weaknesses cited in our report. We did not identify any discrepancies.

We noted certain other internal control issues that we have reported to BBG's management in a separate letter dated November 14, 2008.

COMPLIANCE WITH LAWS AND REGULATIONS

BBG's management is responsible for complying with laws and regulations applicable to BBG. As part of obtaining reasonable assurance about whether the annual financial statements are free of material misstatement, we performed tests of BBG'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 specified in OMB Bulletin 07-04. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to BBG. The objective of our audit of the annual financial

statements, including our tests of compliance with provisions of selected 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 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 laws and regulations disclosed no material instances of noncompliance.

RESPONSIBILITIES AND METHODOLOGY

BBG's management has the responsibility for

- preparing the annual financial statements, 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.

We are responsible for obtaining reasonable assurance about whether management maintained effective internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts on the annual financial statements and related disclosures;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the annual financial statements;
- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of BBG's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;
- tested compliance with provisions of selected laws and regulations that may have a direct and material effect on the annual financial statements;
- obtained written representations from management; and

- performed other procedures as we considered necessary under the circumstances.

We performed our work in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the *Government Auditing Standards*, and the provisions of OMB Bulletin 07-04. We believe that our work provided a reasonable basis for our opinions.

The Management's Discussion and Analysis and Required Supplementary Information are supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of BBG's management, the Inspector General of the U.S. Department of State and Broadcasting Board of Governors, OMB, the Government Accountability Office, the Department of the Treasury, and Congress and is not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by BBG's management on this report are presented in Appendix A. The written response by BBG's management to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly we do not express an opinion on these comments.



Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 14, 2008



**BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA**

November 17, 2008

The Honorable Harold W. Geisel
Acting Inspector General
Office of Inspector General
U.S. Department of State
Washington D.C. 20522-0308

Dear Mr. Geisel:

This is in response to your request for comments on the report, *Audit of the Broadcasting Board of Governors Financial Statements September 30, 2008 and 2007*.

This is the fifth year the BBG has prepared financial statements and undergone an audit. The independent audit firm has issued an unqualified ("clean") opinion on BBG's principal financial statements.

Achieving an unqualified opinion on its financial statements is a particularly significant achievement this year because the BBG converted to a new financial management system in June 2008. As in prior years, this was also accomplished under a tight year-end closing schedule – the agency closed its FY 2008 books on October 9th. We appreciate the professional and cooperative manner in which your staff and the audit firm, Leonard G. Birnbaum and Company, LLP conducted the audit.

The report identified two matters involving internal control that the auditors considered to be significant. The first relates to developing elements of the financial statements, principally property, plant, and equipment, from sources other than the general ledger.

We understand that developing elements of the financial statements from sources outside of the financial system increases the potential for omission of significant transactions. While BBG uses an external database to track property, plant, and equipment, the BBG is establishing a process to reduce the potential for omitting significant transactions. This will be achieved by reconciling acquisition information in the Momentum system with information in the property database. Momentum's integration of acquisition and financial management allows us to track awards for property, plant, and equipment by the following commodity categories: vehicles, land, and other capitalized goods. We will utilize the commodity code information from Momentum to reconcile our quarterly entries derived from the property database with the procurement awards in Momentum identified by commodity category.

The second issue is related to the Agency's reconciliation of accounts payable. This deficiency was due to duplicate postings of our overseas files in June 2008 that were not reconciled by September 30th. We have not seen any other instances of duplicate postings since then, and we are continuing to research and implement the necessary corrections to accounts payable.

Thank you for the opportunity to comment on the audit report and for collaboratively working with us on our FY 2008 audit. The BBG has made significant strides in the past year as we converted to a new financial management system to improve internal financial processes, and underwent the fifth audit of the Agency's principal financial statements. We are committed to continually improving the Agency's financial management and the quality of our financial reporting.

Sincerely,

A handwritten signature in black ink, appearing to read "Janet K. Stormes". The signature is fluid and cursive, with the first name "Janet" being the most prominent.

Janet K. Stormes
Chief Financial Officer