

**Management Letter
Related to the Audit of the
Broadcasting Board of Governors
2008 and 2007 Financial Statements**

AUD/IB-09-12, March 2009

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November 14, 2008

To the Chief Financial Officer
Broadcasting Board of Governors:

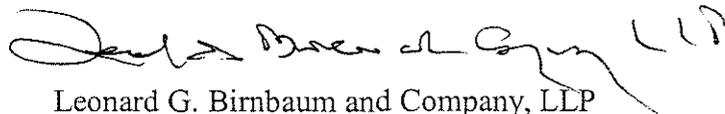
We have audited the financial statements of the Broadcasting Board of Governors (BBG) for the years ended September 30, 2008 and 2007, and have issued our report thereon dated November 14, 2008 (AUD/FM-09-03). In planning and performing our audit of BBG's financial statements, we considered BBG's internal 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.

During our audit, we noted certain matters involving internal control over financial reporting that we considered to be significant deficiencies under the standards established by the American Institute of Certified Public Accountants. We reported those deficiencies in the report referenced.

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 BBG 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 BBG's internal control or result in other operating efficiencies.

Comments by BBG management on this report are presented as Attachment 2.

Very truly yours,



Leonard G. Birnbaum and Company, LLP

Attachments: As stated.

Management Letter Related to the
Audit of the Broadcasting Board of Governors
2008 and 2007 Financial Statements

Observations and Conclusions

1. Property, Plant, and Equipment

During our interim testing of property, plant, and equipment, we found numerous instances in which the Broadcasting Board of Governors (BBG) had not recorded property acquisitions and disposals in a timely manner. The majority of the errors represented acquisitions and disposals that had occurred in prior years but that had been recorded as current-year activity. BBG corrected most of the errors we identified during our interim testing. However, we remain concerned about the controls over entering property data into the system. In addition, the asset management system is not integrated with the general ledger.

We noted several instances in which depreciation expense was inaccurately calculated and recorded because of differences in useful life, acquisition cost, and dates between the asset management system and supporting documents for property items. We also noted instances in which supporting documents for property disposals could not be located.

We recommend that BBG

- *improve its controls over the timeliness of recording property data,*
- *develop an interface between the asset management system and the general ledger,*
- *ensure that accurate and complete documentation related to capital assets is maintained,*
and
- *develop testing procedures to identify potential errors in the asset management system.*

2. Undelivered Orders

Our testing of undelivered orders identified a projected overstatement of more than \$6 million because some obligations could not be supported or were no longer needed. For instance, we found a number of travel orders where the travel had been completed for over 6 months.

We recommend that BBG review obligations in a structured manner and on a regular basis to permit deobligation and reprogramming of unused amounts.

3. Government Purchase Cards

Fourteen of the 20 cardholders sampled either had purchases with date errors or incomplete purchase logs or had dates that were not arranged chronologically in the purchase log.

Three cardholders' individual statements of account were approved by an official who was neither the designated Authorizing Officer/Certifying Officer nor the alternate Authorizing Officer/Certifying Officer.

Two cardholders' purchase logs were not approved and signed by either the designated Authorizing Officer/Certifying Officer or the alternate Authorizing Officer/Certifying Officer.

We recommend that BBG institute effective internal control and oversight procedures to deter and discover erroneous use of the government purchase card.

4. Grants Management

Our review of Forms SF-272, Federal Cash Transaction Reports, for Radio Free Europe, Middle East Broadcasting Network, and Radio Free Asia as of December 31, 2007, and March 31, 2008, disclosed instances of noncompliance with provisions of Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. The grantees consistently maintained cash on hand in excess of 1 week's activities, as permitted by the Circular. Specifically, grantees maintained from 3 weeks to over 2 months of cash on hand. We also noted an instance in which the SF-272 for one grantee was not submitted in a timely manner and in accordance with OMB Circular A-110.

We recommend that BBG strengthen its policies and procedures regarding the oversight of grantees' financial activity to ensure full compliance with OMB Circular A-110.

5. Information Security

The annual Federal Information Security Management Act report submitted by the Office of Inspector General (OIG) stated that while BBG's information security and privacy policies, procedures, and practices are substantively adequate and effective, they do not yet fully comply with some statutory provisions and implementing regulations.

We recommend that BBG continue to allocate staff time and funding to bring the agency into full compliance, as directed by OIG.

6. Payroll Compliance

Although we determined that BBG was in substantial compliance with the Fair Labor Standards Act, Civil Service Retirement Act, Federal Employees Retirement System, Title 5, Federal Employees Health Benefits Act of 1959, and Federal Employees' Group Life Insurance Act of 1980, testing disclosed discrepancies in contributions and withholdings and General Schedule hourly rates.

We recommend that BBG take steps to ensure compliance with payroll-related legislation.

7. Non-Personnel Expenses

Our testing of non-personnel expenses identified a projected overstatement of approximately \$5 million attributable to prior-year expenses being recorded in the current year.

We recommend that BBG take steps to correctly record expenses in the proper period.

Table 1: Follow-up of Observations From the FY 2007 Management Letter

Observation Number	FY 2007 Observation	FY 2008 Status	FY 2008 Comment
1. Property, Plant, and Equipment	<p>BBG had not recorded property acquisitions and disposals in a timely manner.</p> <p>In addition, the asset management system was not integrated with the general ledger.</p>	Open	See observation 1.
2. Undelivered Orders	Testing of undelivered orders disclosed a significant number of obligations that had no activity for lengthy periods of time.	Open	See observation 2.
3. Manual of Administration	BBG had not completed updating its Manual of Administration.	Closed	BBG finalized its Manual of Administration during FY 2008.
4. Government Purchase Cards	<p>Cardholders were not correctly entering purchase dates in their purchase logs.</p> <p>Cardholders seemed to be using information from credit card statements to complete the purchase logs instead of completing the logs when the purchases were made.</p>	Open	See observation 3.



BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA

March 5, 2009

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:

I am writing in response to your request for comments on the draft management letter related to the audit of the Broadcasting Board of Governors' 2008 and 2007 financial statements. We have reviewed the observations and conclusions of the independent contractor, Leonard G. Birnbaum and Company, LLP, and provide detailed responses to each of the issues identified by the auditors.

I assure you that we take the recommendations seriously and will monitor the progress made to address each recommendation.

Thank you for the opportunity to respond.

Sincerely,

A handwritten signature in cursive script, appearing to read "Janet K. Stormes".

Janet K. Stormes
Chief Financial Officer

Attachment: As stated.

cc: Doug Bennett, Financial Operations Director, Broadcasting Board of Governors
Leslie A. Leiper, Leonard G. Birnbaum and Company, LLP

Broadcasting Board of Governors
Audit of Financial Statements
September 30, 2007 and 2008

BBG Responses to the Audit Observations and Conclusions

1. Property, Plant and Equipment (PPE)

Recommendation:

We recommend that BBG:

- Improve its controls over the timeliness of recording property data,
- Develop an interface between the asset management system and the general ledger, and
- Ensure that accurate and complete documentation related to capital assets is maintained.

BBG Response:

The BBG has improved its controls regarding the proper and timely recording of property data. On January 18, 2008, the BBG adopted important changes to its PPE Manual of Operations and Administration (MOA) establishing an Agency Property Management Office to assist Property Control Officers and Accountable Officers manage BBG property and update the Property Inventory Processing System (PIPS). Through the recently adopted MOA for PPE, the BBG has strengthened requirements for document retention and verification and assigned specific responsibilities for documentation maintenance to Property Control Officers and Accountable Officers.

The MOA also establishes procedures to ensure incoming deliveries are properly and timely recorded in the PIPS system, quarterly entries are made for asset acquisitions, dispositions and depreciation, and physical inventories are conducted annually. To further review the accuracy of the PIPS entry, the BBG is comparing the quarterly asset acquisition entries in PIPS with the itemized purchases recorded within the Momentum financial management system.

2. Undelivered Orders

Recommendation:

We recommend that obligations be reviewed in a structured manner and on a regular basis to permit deobligation and reprogramming of unused amounts.

BBG Response:

The Office of the CFO facilitates the review of unliquidated obligations and requests program offices to reconcile their undelivered orders. Monthly, the Office of the CFO reviews the open obligations, randomly selects a sample, and requests that the program offices provide the supporting documentation for these obligations. Simultaneously, the

Office of the CFO continues to work with each Program Office to determine whether the unliquidated obligations can be deobligated.

3. Government Purchase Cards

Recommendation:

We recommend that BBG management institute effective internal control and oversight procedures to deter and discover erroneous use of the government purchase card.

BBG Response:

BBG requires all credit card statements, purchase logs, and receipts be submitted to the Office of Financial Operations and reconciled on a monthly basis. The BBG Purchase Card Manager has instructed cardholders to forward a copy of their purchase log to the Purchase Card Manager who will review these and verify that the appropriate Approving Officials have signed the logs. In addition, classroom training is scheduled for all Approving Officials to ensure consistency in the purchase card internal control and oversight procedures.

4. Grants Management

Recommendation:

We recommend that BBG strengthen its policies and procedures regarding the oversight of grantees' financial activity to ensure full compliance with OMB Circular A-110.

BBG Response:

The BBG is mindful that, as the granting agency, it is required by the A-110 to minimize the time elapsing between the transfer of funds to the grantee and disbursement by the grantee. The BBG has established procedures to address this requirement and at the same time ensure that each grantee has adequate resources for on-going operations. The BBG makes monthly payments to each grantee based on a financial plan that reflects the anticipated obligations and disbursements by month. Each grantee's SF-269, SF-272, and Statement of Obligations and Disbursements are reviewed and compared with the plan. The Office of the CFO follows up as necessary with the grantees to address concerns related to significant deviations between the actual obligations and disbursement and the plan. In addition, the Office of the CFO meets with each grantee on a quarterly basis to discuss budget and financial status issues. The Office of the CFO has also met with the grantee auditors to discuss potential issues and areas for improvement. We will review our policies and procedures to identify areas for potential improvement, and will continue to work with the grantees to ensure full compliance with OMB Circular A-110.

5. Information Security

Recommendation:

We recommend that BBG continue to allocate staff time and funding to bring the agency into full compliance, as directed by OIG.

BBG Response:

The agency continues to allocate staff and funding to enhance our full compliance with FISMA provisions and regulations. Although there were exceptions for some BBG systems to FISMA compliance, the core financial system is fully compliant and has a current Certification and Accreditation.

6. Payroll Compliance

Recommendation:

We recommend that BBG take steps to ensure compliance with payroll-related legislation.

BBG Response:

The BBG understands that it must ensure compliance with payroll-related legislation, and believes that it materially complies. Of the sixteen exceptions identified during the 2008 audit by the auditors, only one was verified as an exception. The other fifteen were resolved after the BBG provided documentation and explanations related to these samples in Audit Response 84. The BBG recognizes that the documentation and explanations were not provided to the auditors until October 21, 2008, making it difficult for the auditors to complete their analysis of the exceptions in a timely manner. The BBG will increase its efforts towards providing auditors with more timely responses.

7. Non-Personnel Expenses

Recommendation:

We recommend that BBG take steps to correctly record expenses in the proper period.

BBG Response:

The Office of the CFO prepares an annual closing memorandum distributed to the Program Offices outlining deadlines for processing payments at year-end. In this memo, the Office of the CFO requests the Program Offices to submit all invoices received prior to September 30th to the Payments Office by close of business on September 30th. The financial reporting branch then prepares an adjusting entry to record the expenses and related liability. In FY2008, the BBG recorded \$38,000 in unpaid invoices. The Office of the CFO will continue to work with Program Offices to ensure all invoices are promptly submitted for processing.