



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

NOV 15 2010

The Honorable Walter Isaacson
Chair
Broadcasting Board of Governors
330 Independence Avenue SW, Room 3360
Washington, DC 20237

Dear Mr. Isaacson:

An independent certified public accounting firm, Clarke Leiper PLLC, was engaged to audit the financial statements of the Broadcasting Board of Governors (BBG) as of September 30, 2010 and 2009, and for the years then ended, to provide a report on internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, and to report any reportable noncompliance with laws and regulations it tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards; Office of Management and Budget audit guidance; and the *Financial Audit Manual*, issued by the Government Accountability Office and the President's Council on Integrity and Efficiency.

In its audit of BBG, Clarke Leiper PLLC, found

- the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- there were no material weaknesses¹ in internal control; and
- there were no reportable noncompliance with laws and regulations tested.

Clarke Leiper PLLC is responsible for the enclosed auditor's report, *Independent Auditor's Report on the Broadcasting Board of Governors 2010 and 2009 Financial Statements* (AUD/IB-11-05), dated November 15, 2010, and the conclusions expressed in the report. The Office of Inspector General (OIG) does not express an opinion on BBG's financial statements or conclusions on internal control or compliance with laws and regulations.

¹ 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.

BBG's comments on the auditor's report are included as Appendix A to the enclosed report.

OIG appreciates the cooperation extended to it and Clarke Leiper PLLC by BBG managers and staff during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Geisel", with a large, stylized flourish at the end.

Harold W. Geisel
Deputy Inspector General

Enclosure: As stated.

Independent Auditor's Report

**Broadcasting Board of Governors
Financial Statements**

September 30, 2010 and 2009

AUD/IB-11-05, November 2010

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INDEPENDENT AUDITOR'S REPORT

To the Chair
Broadcasting Board of Governors

We have audited the accompanying Broadcasting Board of Governors (BBG) Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources (annual financial statements) as of, and for the years ended, September 30, 2010 and 2009. We have considered internal control over financial reporting and compliance in place as of September 30, 2010, and for the year then ended, and we tested compliance with selected laws and regulations.

In our audits of BBG's 2010 and 2009 financial statements, we found

- the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- no material weaknesses in internal control over financial reporting and compliance with laws and regulations; and
- no instances of reportable noncompliance with laws and regulations we tested.

Each of these conclusions is discussed in more detail on the following pages. This report also discusses our audit objectives, scope, and methodology.

OPINION ON THE 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, 2010 and 2009, and its net cost of operations, changes in net position, and changes in 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 annual financial statements as of, and for the years ended, September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered BBG's internal control over financial reporting and compliance 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 over financial reporting and compliance. Accordingly, we do not express an opinion on the effectiveness of BBG's internal control or on management's assertion on internal control included in the Management's Discussion and Analysis section.

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*, as amended. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, 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:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with laws and regulations: Transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB in Appendix E of Bulletin 07-04, and other laws and regulations that could have a direct and material effect on the annual financial statements.

A deficiency in internal control 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 and correct misstatements on a timely basis. 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.

Our consideration of the internal control over financial reporting and compliance was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. Therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we consider the following four deficiencies in BBG's internal control to be significant deficiencies. A significant deficiency is a deficiency, or a 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.

- BBG's internal control over its financial and accounting system as of September 30, 2010, 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, mainly 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.

- BBG did not maintain adequate internal control over accounts payable. Initial audit testing indicated that there is a significant issue with overseas accounts payable entries not being recorded in proper accounts. Additionally, domestic accounts payable was misstated due to a duplicate posting. Although BBG undertook an initiative to identify and resolve misstatements in accounts payable, the reconciliation was not completed by September 30, 2010.

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

- BBG's internal control over property was inadequate. Deficiencies included the following:
 - Acquisitions and disposals were not recorded in the year of occurrence.
 - Updating of acquisitions and disposals was performed quarterly rather than when they occur.
 - Acquisitions and disposals data supplied for updating capitalized property was unreliable.
 - Costs of shipping property to posts were not treated consistently.
 - Recorded inventory was not reconciled with physical inventory.

This condition was cited in our audit of BBG's annual financial statements as of September 30, 2009.

- BBG's controls over unliquidated obligations are inadequate. As of September 30, 2010, the balance of unliquidated obligations was \$122

million. Tests indicated that approximately \$6.9 million of this balance was overstated because the related obligations could not be supported or were no longer needed.

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 will report to BBG management in a separate letter.

COMPLIANCE WITH LAWS AND REGULATIONS

BBG 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, as amended, that we deemed applicable to BBG's annual financial statements. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to BBG. Noncompliance may occur and not be detected by these tests. This testing may not be sufficient for other purposes. 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.

Reportable 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 selected provisions of laws and regulations disclosed no reportable instances of noncompliance.

CONSISTENCY OF OTHER INFORMATION

BBG's Management's Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We did not audit and accordingly do not express an opinion on this information. We have applied certain limited procedures, which consisted principally of comparing the information for consistency with the financial statements and making inquiries of management regarding the methods of measurement and presentation of the supplementary information. On the basis of this limited work, we found no material inconsistencies with the financial statements, accounting principles generally accepted in the United States of America, or OMB guidance.

RESPONSIBILITIES AND METHODOLOGY

BBG 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, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We are responsible for expressing an opinion on the annual financial statements based on our audits. We are responsible for planning and performing an audit to obtain reasonable assurance about whether BBG's financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We are also responsible for determining whether BBG management maintained effective internal control. In addition, we are responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements and performing limited procedures with respect to certain other information appearing in the annual financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts in 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 entity and its operations, including its internal controls related to financial reporting and compliance with laws and regulations;
- tested relevant internal controls over financial reporting and compliance and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act;

- 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 audits 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 audits provided a reasonable basis for our opinions.

This report is intended solely for the information and use of BBG management, the Office of Inspector General, 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 management on this report are presented as an appendix. The written response by BBG management 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.

A handwritten signature in black ink that reads "Clarke Leiper PLLC". The signature is written in a cursive, flowing style.

Clarke Leiper, PLLC

Alexandria, Virginia
November 15, 2010



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

November 15, 2010

The Honorable Harold W. Geisel
Acting Inspector General
Office of Inspector General
2201 C Street, N.W.
Washington, DC 20520

Dear Mr. Geisel:

Thank you for the opportunity to comment on the draft report of BBG's fiscal year 2010 financial statements. The financial statements received an unqualified opinion. Similarly, the report on internal controls and compliance with laws and regulations noted no material deficiencies or reportable conditions.

We greatly appreciate the professional and cooperative manner in which your staff and the audit firm, Clarke Leiper, PLLC, conducted this audit. Throughout FY 2010, the BBG has made strides toward improving internal financial processes. Some of these improvements are reflected in your report. The report identified three matters involving internal controls that the auditors considered significant.

Two issues relate to property, plant, and equipment – the source information used to develop elements of the financial statements and internal controls over property. During FY 2010, the BBG initiated a project to consolidate the official property records into one system, Property Inventory Processing System (PIPS), and to update PIPS to reflect agency policy for capitalization and depreciation thresholds. Once validated, PIPS will be the official system of record for property information. In addition, BBG updated property, plant, and equipment policies and procedures, and trained staff to ensure consistent application of these policies and procedures. Our efforts resulted in adjustments to property, plant, and equipment values.

The other issue is related to the Agency's reconciliation of select accounts payable transactions. BBG began using the U.S. State Department system for select payments when technological limitations prevented employees at overseas locations from directly logging into the BBG financial system. The BBG has experienced ongoing issues with these transactions and, while the overseas payments made through the State account for 3.81% of all BBG payment transactions and represent only 0.33% (less than 1%) of the total dollars paid by the Agency, the BBG takes this issue seriously. In the coming months, the BBG will review the current process to determine whether we can leverage our web-based financial system to allow direct posting into BBG's financial system, which would give us greater control over the timeliness and accuracy of the data. In addition, the BBG identified a system weakness that allowed a payment transaction to be processed on two separate Treasury schedules. This isolated system anomaly created the appearance of an out balance condition for accounts payable. The system weakness is being corrected through a combination of software changes and staff training for these types of transactions. Finally, BBG will review the decentralized invoicing process to determine whether we can leverage our web-based financial system to improve processing efficiencies and timeliness of payments.

Thank you for the opportunity to comment on the audit report and for working cooperatively with us throughout the audit process. The BBG is committed to continuous improvement of our internal controls, processes, and the quality of our financial reporting.

Sincerely,

A handwritten signature in black ink, appearing to read "Maryjean Buhler".

Maryjean Buhler
Chief Financial Officer