



**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

NOV 16 2009

Mr. Jeffrey N. Trimble
Executive Director
Broadcasting Board of Governors
330 Independence Avenue SW, Room 3360
Washington, DC 20237

Dear Mr. Trimble:

An independent certified public accounting firm, Leonard G. Birnbaum and Company, LLP (LGB), was engaged to audit the financial statements of the Broadcasting Board of Governors (BBG) as of September 30, 2009 and 2008, 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 done 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, LGB found

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

LGB is responsible for the enclosed auditor's report, *Independent Auditor's Report on the Broadcasting Board of Governors 2009 and 2008 Financial Statements* (AUD/IB-10-04), dated November 16, 2009, 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 are included as Appendix A to the enclosed report. OIG appreciates the cooperation extended to it and LGB by BBG managers and staff during this audit.

If you or members of your staff have any questions, please contact me or Evelyn R. Klemstine, Assistant Inspector General for Audits, at (703) 284-2604 or by e-mail at klemstinee@state.gov. You may also contact Gayle Voshell, Director of Financial Management Audits, at (703) 284-2681 or by e-mail at voshellg@state.gov.

Sincerely,

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

Harold W. Geisel
Acting Inspector General

Enclosure: As stated.

Independent Auditor's Report

**Broadcasting Board of Governors
Financial Statements**

September 30, 2009 and 2008

AUD/IB-10-04, November 2009

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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, 2009 and 2008. We have considered internal control over financial reporting in place as of September 30, 2009, and for the year then ended, and we tested compliance with selected laws and regulations.

In our audits of BBG's 2009 and 2008 financial statements, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- 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, 2009 and 2008, 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, 2009 and 2008, 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 or on management's assertion on 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, 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 U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with laws and regulations: Transactions, including those related to obligations and costs, are executed in accordance with (1) laws governing the use of budget authority; (2) other laws and regulations that could have a direct and material effect on the financial statements; and (3) any other laws, regulations, and governmentwide policies identified by OMB, BBG management, or the Office of Inspector General as being significant for which compliance can be objectively measured and evaluated.

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 was not designed to identify all deficiencies in internal control that might be 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 three 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, 2009, 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 2009, 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, 2009.

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 controls over property are inadequate. Deficiencies included the following:
 - Acquisitions and disposals were not recorded in the year of occurrence.
 - Costs of shipping property to posts were not treated consistently.
 - Recorded inventory was not reconciled with physical inventory.
 - Salvage values were not treated consistently.

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 management in a separate letter dated November 16, 2009.

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 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.

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.

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 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, U.S. generally accepted accounting principles, 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 obtaining reasonable assurance about whether BBG's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and BBG 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 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 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.

This report is intended solely for the information and use of BBG 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 management on this report are presented in Appendix A. The written response by BBG 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 16, 2009



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

APPENDIX A

November 16, 2009

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

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 20, 2009 and 2008*.

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

We greatly appreciate the professional and cooperative manner in which your staff and the audit firm, Leonard G. Birnbaum and Company, LLP, conducted this audit. Throughout FY 2009, the BBG has made significant strides in 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. The first relates to developing elements of the financial statements, principally property, plant, and equipment, from sources other than the general ledger.

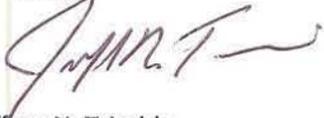
We have had concerns that developing elements of the financial statements from sources outside of the financial system will increase the potential for omission of significant transactions of property, plant, and equipment. However, the BBG has established a process that will reduce the potential for such omissions by using an external database to track property, plant, and equipment. This will be achieved by reconciling acquisition information in the Momentum financial management system, launched in FY 2008, with the information maintained in the property database. Momentum's integration of acquisition and financial management will allow us to track procurement awards for property, plant, and equipment by the following commodity categories: vehicles, land, and other capitalized goods. Additionally, we will utilize the commodity code information from Momentum to reconcile quarterly entries that are derived from the property database with the procurement awards that are identified by commodity category.

The second issue is related to the Agency's reconciliation of accounts payable. Each year, the BBG closes its books on a tight year-end closing schedule. The BBG closed the FY 2009 books on October 8th after reconciliation, including accounts payable, had been performed. Accounts payable for FY 2009 provides an accurate statement of BBG's liabilities.

The third issue relates to Agency internal controls over property. The BBG established a Property Office which has improved the consistency of property oversight by integrating the property records in the BBG's automated Property Inventory Processing System (PIPS).

Thank you for the opportunity to comment on the audit report and for working with us on our FY 2009 audit. The BBG is committed to the improvement of our internal controls and the quality of our financial reporting.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey N. Trimble", with a stylized flourish at the end.

Jeffrey N. Trimble
Executive Director