



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

Office of Inspector General

NOV 15 2010

Government Accountability Office
Attn: Ms. Louise DiBenedetto
441 G Street, NW, Room 5T16
Washington, DC 20548

Dear Ms. DiBenedetto:

In compliance with the *Treasury Financial Manual*, Part 2, Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States" the Office of Inspector General (OIG) is providing the *Independent Auditor's Report on the U.S. Department of State 2010 and 2009 Special-Purpose Financial Statements* (OIG Report No. AUD/FM-11-02). This report was prepared by Kearney & Company, P.C., an independent certified public accounting firm, at OIG's direction. Also provided are the following:

- Reclassified Financial Statements – GF003F Closing Package Financial Statement Report
- GF004F Trading Partner Summary Note Report
- GF003G Closing Package Line Reclassification Summary Report
- GF006 FR Notes Report
- GF007 Other FR Data Report
- Management Representation Letter on the Closing Package (including Summary of Uncorrected Misstatements)

For your information, we have provided the Department of the Treasury and the Office of Federal Financial Management, within the Office of Management and Budget, an identical letter.

Sincerely,

A handwritten signature in black ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Deputy Inspector General

Enclosures: As stated.

cc: RM – James L. Millette, Acting
RM/DCFO – Chris H. Flaggs



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

Office of Inspector General

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Department of the Treasury
Financial Management Services
3700 East-West Highway, Room 509B
Hyattsville, MD 20782

Dear Sir or Madam:

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For your information, we have provided the Government Accountability Office and the Office of Federal Financial Management, within the Office of Management and Budget, an identical letter.

Sincerely,

A handwritten signature in blue ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Deputy Inspector General

Enclosures: As stated.

cc: RM – James L. Millette, Acting
RM/DCFO – Chris H. Flaggs



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

Office of Inspector General

Office of Management and Budget
New Executive Office Building
Office of Federal Financial Management
725 17th St., NW, Suite 6025
Washington, DC 20503

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Dear Sir or Madam:

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Sincerely,

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Harold W. Geisel
Deputy Inspector General

Enclosures: As stated.

cc: RM – James L. Millette, Acting
RM/DCFO – Chris H. Flaggs

Drafted: OIG/AUD/FM: NCoonley

OIG/AUD: EKlemstine
OIG/AUD: AUrbanczyk
OIG/AUD: GVoshell

11/24/09 (703) 284-2673

I/FO: AUD Unclassified/FM Division/FY 10 Financial Statements/FY 10 Closing Package

bcc: FO Secretariat, NCoonley

**INDEPENDENT AUDITORS' REPORT ON THE U.S. DEPARTMENT OF STATE
2010 AND 2009 SPECIAL-PURPOSE FINANCIAL STATEMENTS**

We have audited the accompanying reclassified balance sheets as of September 30, 2010 and 2009, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the U.S. Department of State (Department). These special-purpose financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated December 15, 2009, we expressed an opinion that the scope of our work was not sufficient to express an unqualified opinion on the 2009 special-purpose financial statements. We qualified our report based on a scope limitation related to property and equipment. The Department was unable to provide timely and complete competent evidential matter to enable us to perform audit procedures to satisfy ourselves that the property and equipment balance was free of material misstatements. Our work identified issues related to land valuation; identification and valuation of assets and liabilities under capital leases; completeness and accuracy of real property; and existence, completeness, and valuation of personal property. As a result of these limitations, we were unable to obtain sufficient evidential support for property and equipment amounts presented in the 2009 special-purpose financial statements. As described in Note 17, the Department addressed these issues and restated its 2009 special-purpose financial statements. Accordingly, our present opinion on the 2009 special-purpose financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the special-purpose financial statements and accompanying notes referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2010 and 2009, and its net cost of operations and changes in net position for the years then ended, in conformity with accounting principles generally accepted in the United



States of America and the presentation pursuant to the requirements of the Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700.

The special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the TFM Chapter 4700, solely for the purpose of providing financial information to the U.S. Department of the Treasury and the Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the Department's financial statements.

The information included in the Other Data Report is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in the Department's special-purpose financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports dated November 14, 2010, on our consideration of the Department's internal control over financial reporting and compliance and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general-purpose financial statement reporting performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be read in conjunction with this report in considering the results of our audits.

In planning and performing our audits of the special-purpose financial statements, we also considered the Department's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, 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 special-purpose financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700

requirements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audits of the special-purpose financial statements, and accordingly, we do not express such opinions.

This report is intended solely for the information and use of the Department, the Office of Inspector General, the U.S. Department of the Treasury, OMB, and the Government Accountability Office in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.



November 15, 2010