



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

Office of Inspector General

Attn: Ms. Lynda Downing
441 G Street, NW, Room 5V09
Washington, DC 20548

NOV 17 2007

Dear Ms. Downing:

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 Department of State's Special-Purpose Financial Statements* (OIG Report No. AUD/FM-08-03). This report was prepared by Leonard G. Birnbaum and Company, LLP, an independent certified public accounting firm, at OIG's direction. Also provided are the following:

- reclassified financial statements
- GF004F Trading Partner Summary Note report
- GF003G Closing Package Line Reclassification Summary Report
- GF006 FR Notes Report
- GF007 Other Data Report
- Management Representation Letter on the Closing Package (including Summary of Unadjusted Misstatements)

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark W. Duda".

Mark W. Duda
Assistant Inspector General for Audits

Enclosures: As stated.

cc: RM/DCFO – Mr. Chris H. Flaggs



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

Office of Inspector General

Financial Management Services
Attn: Ms. Karen Hunter
3700 East-West Highway, Room 509B
Hyattsville, MD 20782

NOV 17 2007

Dear Ms. Hunter:

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 Special-Purpose Financial Statements* (OIG Report No. AUD/FM-08-03). The report was prepared by Leonard G. Birnbaum and Company, LLP, an independent certified public accounting firm, at OIG's direction. Also provided are the following:

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Mark W. Duda
Assistant Inspector General for Audits

Enclosures: As stated.

cc: RM/DCFO – Mr. 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
Attn: OFFM
725 17th St., NW, Suite 6025
Washington, DC 20503

NOV 17 2007

Dear Sir or Madam:

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 Special-Purpose Financial Statements* (OIG Report No. AUD/FM-08-03). The report was prepared by Leonard G. Birnbaum and Company, LLP, an independent certified public accounting firm, at OIG's direction. Also provided are the following:

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A handwritten signature in cursive script, appearing to read "Mark W. Duda".

Mark W. Duda
Assistant Inspector General for Audits

Enclosures: As stated.

cc: RM/DCFO – Mr. Chris H. Flaggs

Drafted: OIG/AUD/FM: GVoshell

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OIG/AUD: KBell

OIG/AUD: LScullin

11/14/07 (703) 284-2681

I/FO: AUD Unclassified/FM Division/FY 07 Financial Statements/FY 07 Special Purpose Report
Package

bcc: FO Secretariat, MBrillinger

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Independent Auditor's Report

To the Secretary, Department of State:

We were engaged to audit the accompanying reclassified balance sheet as of September 30, 2007 and 2006 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 Department of State. These special-purpose financial statements are the responsibility of the Department of State's management.

Because the Department was unable to respond to requests for evidential material in a timely manner, and we were not able to perform other auditing procedures to satisfy ourselves as to the accuracy of the Department's 2007 general purpose financial statements in time to meet the November 15, 2007, deadline imposed by the Office of Management and Budget (OMB) for issuing our report on the Department's general purpose financial statements, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on those financial statements. Since the Department's general purpose financial statements are the source of the amounts presented in the special-purpose financial statements, we are unable to express, and we do not express, an opinion on the Department's 2007 special-purpose financial statements.

In our report dated November 15, 2006, we disclaimed an opinion on the Department's reclassified balance sheet as of September 30, 2006, and the related reclassified statements of net cost and changes in net position for the year then ended (special-purpose statements). The Department was unable to provide complete financial statements or respond to requests for evidential material in a timely manner, and we were not able to perform other auditing procedures to satisfy ourselves as to the accuracy of the Department's 2006 general purpose financial statements in time to meet the November 15, 2006 deadline imposed by OMB for issuing our report thereon. Since the Department's general purpose financial statements are the source of the amounts presented in the special-purpose financial statements, we were unable to express, and did not express, an opinion on the Department's 2006 special-purpose financial statements.

On December 12, 2006, we reissued our report on the Department's 2006 general purpose financial statements in which we opined that those statements, including the notes thereto, presented fairly, in all material respects, the Department's financial position as of September 30, 2006, and its net cost of operation, and changes in net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. The Department's 2006 general purpose financial statements which were the subject of our December 12, 2006 report are the source of the 2006 special-purpose financial statements presented by the Department with its 2007 special-purpose financial statements. In our opinion, those statements, including the notes thereto, except the data presented in Form GF004F Trading Partner Summary Note Report, present fairly, in all material respects, the Department's financial position as of September 30, 2006, and the net cost of operation, changes in net position, and use of budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America. We were unable to validate the intragovernmental balances and activity shown on Form GF004F as of, and for the year ended, September 30, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. 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 considered the limitations on the scope of our work in forming our conclusions.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared in accordance with the U.S. Department of the Treasury's Financial Manual (TFM), Volume I, Part 2, Chapter 4700, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. 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 of State's financial statements.

The information included in the Other Data 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 of State's 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, we have also issued a report dated November 14, 2007 on our consideration of the Department of State's internal control over financial reporting and its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with Government Auditing Standards and OMB Bulletin No. 07-04, and should be read in conjunction with this report in considering the results of our audit.

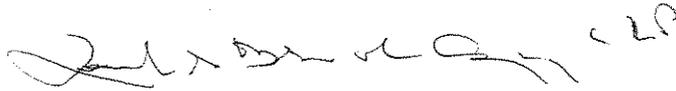
In planning and performing our audit of the special-purpose financial statements, we also considered the Department of State's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing 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 the internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affect the Department's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the special-purpose financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or a combination of significant deficiencies, that result in a more than remote likelihood that material misstatements in relation to the special-purpose financial statements being audited will not be prevented or detected.

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. However, providing an opinion on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter

4700 requirements was not an objective of our audit 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 of State, the U.S. Department of the Treasury, OMB, and the U.S. 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.

A handwritten signature in black ink, appearing to read "Leonard G. Birnbaum", with a stylized flourish at the end.

Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 16, 2007