



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

November 15, 2011

Board of Governors
Broadcasting Board of Governors
330 Independence Avenue SW, Room 3360
Washington, DC 20237

Dear Members of the Board:

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, 2011 and 2010, 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 instances of 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 2011 and 2010 Financial Statements* (AUD/IB-12-07), dated November 15, 2011, 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.

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, sweeping flourish extending to the right.

Harold W. Geisel
Deputy Inspector General

Enclosure: As stated.

Independent Auditor's Report

**Broadcasting Board of Governors
Financial Statements**

September 30, 2011 and 2010

AUD/IB-12-07, November 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors
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, 2011 and 2010. We have considered internal control over financial reporting and compliance in place as of September 30, 2011, and for the year then ended, and we tested compliance with selected laws and regulations.

In our audits of BBG's 2011 and 2010 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, 2011 and 2010, 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, 2011 and 2010, 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 (FMFIA), 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 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.

- During audit work, we identified exceptions with BBG property records. For instance, we found that BBG did not always record acquisitions and disposals in the year of occurrence. Because of these delays, we noted errors related to the amounts of depreciation recorded for some items. BBG did not have a sufficient process in place to ensure that property records were up to date. Although BBG identifies and corrects discrepancies during its annual physical inventory process, additional reconciliation procedures are not performed during the year to ensure that the asset inventory accurately reflects acquisitions and disposals. Inadequate controls over property custodianship can increase the risk of theft or fraud.

The condition related to property, plant, and equipment was cited in our audit of BBG's FY 2009 financial statements.

- BBG's controls over unliquidated obligations (ULO) are inadequate. BBG does not have a sufficient process to ensure that invalid ULOs are identified and deobligated in a timely manner. A weak control environment over ULOs increases the potential for a material misstatement. Invalid ULOs also affect the management of funds. Specifically, funds that could be used by BBG for other purposes have remained in unneeded obligations. Further, the large number of invalid ULOs makes monitoring ULOs more difficult and increases the risk of duplicate or fraudulent payments. In addition, the inability to produce documentation supporting financial transactions can lengthen processing times for analyses and reconciliations, as well as increase the possibility of undetected errors.

The condition related to ULOs was cited in our audit of BBG's FY 2010 financial statements.

- BBG does not have a process or procedures in place for estimating the liability for Foreign Service National after-employment benefits, including lump-sum retirement and separation benefits. Although BBG has estimated an amount for its FY 2011 financial statements, the methodology has not been vetted by an actuary and therefore may not be sufficiently estimating BBG's liability.

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 and required supplementary 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 FMFIA 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 FMFIA;
- 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 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 cursive script that reads "Clarke Leiper PLLC".

Clarke Leiper, PLLC

Alexandria, Virginia
November 15, 2011



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

November 15, 2011

The Honorable Harold W. Geisel
Deputy 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 2011 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 2011, 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.

The first issue relates to internal controls over property, plant, and equipment. BBG will strengthen internal control over property, plant, and equipment to ensure property transactions are timely and accurately recorded by expanding the knowledge, through external training, of all entities involved in the process. In addition, the BBG Property Office will refine the standard process for recording acquisitions and disposal information for property that emphasizes the importance of timely and accurate information.

The second issue relates to unliquidated obligations balances. In the past year, the BBG has implemented a new monthly process to facilitate the timely review of unliquidated balances. The CFO's Office will expand and implement the ULO procedures to help ensure a systematic process for monitoring and verifying unliquidated obligation balances and ensuring timely deobligations.

The third issue relates to estimating Foreign Service Nationals (FSN) after-employment benefits liability. The BBG will implement processes and procedures to accurately estimate the FSN after-employment liabilities and will maintain a current inventory of after-employment benefits provided to FSN employees by post.

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 blue ink, appearing to read "Maryjean Buhler".

Maryjean Buhler
Chief Financial Officer