



United States Department of State  
and the Broadcasting Board of Governors

*Office of Inspector General*

MAR 20 2010

Ms. Maryjean Buhler  
Chief Financial Officer  
Broadcasting Board of Governors  
330 Independence Avenue SW, Room 3360  
Washington, DC 20237

Dear Ms. Buhler:

The management letter related to the audit of the Broadcasting Board of Governors (BBG) 2009 and 2008 financial statements (AUD/IB-10-19) is enclosed. The letter was prepared by Leonard G. Birnbaum and Company, LLP (LGB), an independent external auditor, at the direction of the Office of Inspector General (OIG). The letter discusses internal control weaknesses and instances of noncompliance with selected provisions of applicable laws and regulations that LGB identified during its audit of the financial statements, and it makes recommendations in each case. These weaknesses, although of concern, did not rise to the level necessary to be included in the report on the financial statement audit. LGB included BBG's comments to the draft management letter in their entirety as Attachment 2 to the Enclosure.

OIG will not track the recommendations made in the management letter through its formal compliance process. However, the financial statement auditors will evaluate compliance during future audits of the financial statements.

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](mailto:klemstinee@state.gov). You may also call Gayle L. Voshell, Director of the Financial Management Division, at (703) 284-2681.

Sincerely,

Harold W. Geisel  
Deputy Inspector General

Enclosure: As stated.

cc: Mary Kloss, Acting Financial Operations Director, Broadcasting Board of Governors  
Leslie A. Leiper, Leonard G. Birnbaum and Company, LLP

**Management Letter  
Related to the Audit of the  
Broadcasting Board of Governors  
2009 and 2008 Financial Statements**

**AUD/IB-10-19, March 2010**

Leonard G. Birnbaum and Company, LLP  
Certified Public Accountants  
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Alexandria, Virginia 22310

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REDWOOD CITY, CALIFORNIA

November 16, 2009

To the Chief Financial Officer  
Broadcasting Board of Governors:

We have audited the financial statements of the Broadcasting Board of Governors (BBG) for the years ended September 30, 2009 and 2008, and have issued our report thereon dated November 16, 2009 (AUD/IB-10-04). In planning and performing our audit of the BBG financial statements, we considered BBG's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control since the date of our report.

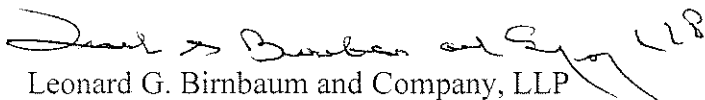
During our audit, we noted certain matters involving internal control over financial reporting that we considered to be significant deficiencies under the standards established by the American Institute of Certified Public Accountants. We reported those deficiencies in the report referenced.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements and therefore may not identify all weaknesses in internal control that may exist. However, we would like to take this opportunity to use our knowledge of BBG gained during the audit to provide comments and suggestions that we hope will be useful to you.

Although not considered to be significant deficiencies, we noted certain matters involving internal control and other operational matters that are presented in the attachment to this letter for your consideration. These observations are intended to improve BBG's internal control or result in other operating efficiencies.

Comments by BBG management on this report are presented as Attachment 2.

Very truly yours,

  
Leonard G. Birnbaum and Company, LLP

Attachments: As stated.

Management Letter Related to the  
Audit of the Broadcasting Board of Governors  
2009 and 2008 Financial Statements

**Observations and Conclusions**

1. Undelivered Orders

Our testing of undelivered orders identified a projected overstatement of more than \$5.7 million because some obligations could not be supported or were no longer needed.

*We recommend that BBG review obligations in a structured manner and on a regular basis to permit deobligation and reprogramming of unused amounts.*

2. Government Purchase Cards

Eight of the 20 cardholders sampled either had purchases with date errors or incomplete purchase logs or had dates that were not arranged chronologically in the purchase log.

One cardholder's individual statement of account was approved by an official who was neither the designated Authorizing Officer/Certifying Officer nor the alternate Authorizing Officer/Certifying Officer.

One cardholder's purchase log was not approved and signed by either the designated Authorizing Officer/Certifying Officer or the alternate Authorizing Officer/Certifying Officer.

One cardholder's purchase log and billing statement was not provided in a timely manner.

Sufficient documentation to support billing statements was not provided in a timely manner for two cardholders.

One cardholder exceeded the 30-day spending limit.

In addition, BBG's Worldwide "SmartPay" Purchase Card Program Guide needs to be revised. The guide references a former employee, and there were numerous references to the former financial management system.

*We recommend that BBG institute effective internal control and oversight procedures to deter and discover erroneous use of the government purchase card.*

3. Grants Management

Our review of Forms SF-272, Federal Cash Transaction Reports, for Radio Free Europe, the Middle East Broadcasting Network, and Radio Free Asia, disclosed instances of noncompliance with provisions of Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education,*

*Hospitals, and Other Non-Profit Organizations.* Specifically, the Circular states, “Cash advances . . . shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements.” We noted that grantees maintained cash on hand sufficient to cover needs for from 1 month to more than 4 1/2 months of expenditures. We also noted an instance in which the SF-272 for one grantee was not submitted in a timely manner and in accordance with OMB Circular A-110.

*We recommend that BBG strengthen its policies and procedures regarding the oversight of grantees’ financial activity to ensure full compliance with OMB Circular A-110.*

#### 4. Information Security

The annual Federal Information Security Management Act report submitted by the Office of Inspector General (OIG) stated that BBG had taken action to improve management controls but that further improvements were needed to address information system and information security program requirements.

*We recommend that BBG continue to allocate staff time and funding to bring the agency into full compliance, as directed by OIG.*

#### 5. Non-Personnel Expenses

Our testing of non-personnel expenses identified a projected overstatement of approximately \$15 million that occurred because prior-year expenses had been recorded in the current year. Based on this information, BBG recorded a \$5 million adjustment to correct a portion of the misstatement related to this internal control weakness.

*We recommend that BBG take steps to correctly record expenses in the proper period.*

#### 6. Accounts Receivable

Our testing of accounts receivable revealed three instances in which qualifying debts (180 days old) were not referred to the Treasury Offset Program. As a result, BBG was not in compliance with the Debt Collection Improvement Act.

*We recommend that BBG take appropriate measures to ensure full compliance with the Debt Collection Improvement Act.*

**Table 1: Follow-up of Observations From the FY 2008 Management Letter**

Observation Number	FY 2008 Observation	FY 2009 Status	FY 2009 Comment
1. Property, Plant, and Equipment	BBG had not recorded property acquisitions and disposals in a timely manner.  In addition, the asset management system was not integrated with the general ledger.	Open	See audit report.
2. Undelivered Orders	A significant number of obligations were not supported or were no longer needed.	Open	See observation 1.
3. Government Purchase Cards	Cardholders were not correctly entering purchases in their purchase logs.  Proper approvals were not obtained for purchase logs and/or cardholder individual statement of accounts.	Open  Open	See observation 2.  See observation 2.
4. Grants Management	The grantees consistently maintained cash on hand in excess of 1 week's activities, as permitted by Circular A-110. Specifically, grantees maintained from 3 weeks to more than 2 months of cash on hand.  We also noted an instance where the SF-272 for one grantee was not submitted in a timely manner and in accordance with OMB Circular A-110.	Open  Open	See observation 3.  See observation 3.
5. Information Security	The annual Federal Information Security Management Act report stated that BBG did not fully comply with some statutory provisions and implementing regulations.	Open	See observation 4.
6. Payroll Compliance	Testing disclosed discrepancies in contributions and withholdings and General Schedule hourly rates.	Closed	
7. Non-personnel expenses	Prior-year expenses were recorded in the current year.	Open	See observation 5.



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

March 12, 2010

Harold W. Geisel  
Deputy Inspector General  
Office of Inspector General  
Department of State  
Washington D.C. 20522-0308

Dear Mr. Geisel:

This is in response to your request for comments on the draft management letter related to the audit of the Broadcasting Board of Governors' 2009 and 2008 financial statements. We have reviewed the observations and conclusions of the independent contractor, Leonard G. Birnbaum and Company, LLP, and in the attachment provided detailed responses to each of the issues identified by the auditors.

I assure you that we take the recommendations seriously and will monitor the progress made to address each recommendation.

Thank you for the opportunity to respond.

Sincerely,

A handwritten signature in black ink, appearing to read "Maryjean Buhler", is written over a horizontal line.

Maryjean Buhler  
Chief Financial Officer

Attachment:

cc: Leslie A. Leiper, Leonard G. Birnbaum and Company, LLP

**Broadcasting Board of Governors  
Audit of Financial Statements  
September 30, 2009 and 2008**

**BBG Responses to the Audit Observations and Conclusions**

**1. Undelivered Orders**

**Audit Recommendation:**

We recommend that BBG review obligations in a structured manner and on a regular basis to permit deobligation and reprogramming of unused amounts.

**BBG Response:**

The office of the Chief Financial Officer (OCFO) performs reviews of all open orders and requests program offices to reconcile their open orders. The OCFO will begin issuing a bimonthly open obligations report to Program Offices for verification and certification that the open obligations contained in the report are valid and should remain open. Simultaneously, the OCFO will review these open obligations and work with each Program Office to determine whether or not they can be deobligated.

**2. Government Purchase Cards**

**Audit Recommendation:**

We recommend that BBG institute effective internal control and oversight procedures to deter and discover erroneous use of the government purchase card.

**BBG Response:**

BBG requires all credit card statements, purchase logs, and receipts be submitted to the Office of Financial Operations and reconciled on a monthly basis. The BBG Purchase Card Manager will be reviewing the Purchase Logs, ensuring the appropriate Approving Officials have signed them and support documents are in compliance with the guidance contained in the "Smart Pay" Purchase Card Program Guide. The Program Guide is in the process of being updated. Furthermore, training is scheduled for Approving Officials and cardholders to ensure consistency in the program.

**3. Grants Management**

**Audit Recommendation:**

We recommend that BBG strengthen its policies and procedures regarding the oversight of grantees' financial activity to ensure full compliance with OMB Circular A-110.

**BBG Response:**

The BBG is mindful that it is required by OMB Circular A-110 to minimize the time elapsing between the transfer of funds to the grantee and disbursement by the grantee.



The BBG has established procedures to address this requirement and at the same time ensure that each grantee has adequate resources for on-going operations. The BBG makes monthly payments to each grantee based on a financial plan that reflects the anticipated obligations and disbursements by month. Each grantee's SF-269, SF-272, and Statement of Obligations and Disbursements are reviewed and compared with the plan. The OCFO follows up as necessary with the grantees to address concerns related to significant deviations between the actual obligations and disbursement and the plan. In addition, the OCFO meets with each of the grantees on a quarterly basis to discuss operations and financing needs and adjusts their financial plans accordingly. Although a grantee may appear to have excessive cash on hand, much of that reserve has been obligated. We will review our policies and procedures to identify areas for potential improvement, and will continue to work with the grantees to ensure full compliance with OMB Circular A-110.

#### **4. Information Security**

**Audit Recommendation:**

We recommend that BBG continue to allocate staff time and funding to bring the agency into full compliance, as directed by OIG.

**BBG Response:**

The BBG continues to allocate staff time and funding to improve compliance with FISMA provisions and implementing regulations. Although there were exceptions to FISMA compliance with respect to the information systems operated by the agency, the financial management system, which is cross-serviced by the Department of the Interior, is fully compliant with all statutory and regulatory requirements and has a current Certification and Accreditation.

#### **5. Non-Personnel Expenses**

**Audit Recommendation:**

We recommend that BBG take steps to correctly record expenses in the proper period.

**BBG Response:**

The OCFO prepares an annual closing memorandum distributed to Program Offices outlining deadlines for processing payments at the end of the fiscal year. In this memo, the OCFO requests that all invoices received prior to September 30<sup>th</sup> be submitted to the Payments Office by close of business on the predetermined deadline date. The financial reporting branch prepares an adjusting entry to the financial statements to enter the expenses and related liability for those invoices which were not submitted in time for processing in Momentum. In FY2009, the BBG recorded an adjustment of \$5.4 million for invoices that had not been paid by September 30<sup>th</sup>. The OCFO will continue to work with Program Offices to ensure invoices are promptly submitted for processing and to correctly record expenses in the proper period.

**6. Accounts Receivable**

**Audit Recommendation:**

We recommend that BBG take appropriate measures to ensure full compliance with the Debt Collection Improvement Act.

**BBG Response:**

The Office of Financial Operations will review accounts receivable to ensure that debts are appropriately referred to the Treasury Offset Program in order to be in full compliance with the Debt Collection Improvement Act.