REPORT ON THE TREASURY BUREAU OF THE PUBLIC DEBT TRUST FUND MANAGEMENT BRANCH INLAND WATERWAYS TRUST FUND SCHEDULES FOR THE YEAR ENDED SEPTEMBER 30, 1999

OIG-00-039 FEBRUARY 7, 2000

Office of Inspector General

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United States Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR VAN ZECK, COMMISSIONER
BUREAU OF THE PUBLIC DEBT

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Schedule of Assets and Liabilities and Schedule of Activity for the Inland Waterways Trust Fund for the Year Ended September 30, 1999

I am pleased to transmit the attached audit report related to the Fiscal Year (FY) 1999 schedule of assets and liabilities and schedule of activity (the Schedules) of the Inland Waterways Trust Fund (the Trust Fund). These Schedules relate solely to the functions performed by the Bureau of the Public Debt (BPD) Trust Fund Management Branch (TFMB) as custodian of the Trust Fund monies and investments.

The trustee program agency is responsible for administering, regulating, and monitoring the program activities funded by the Trust Fund. The trustee program agency also makes all decisions regarding dispositions from the Trust Fund. The TFMB provides accounting, investment, and financial reporting services to the Trust Fund. The TFMB also records receipts, disbursements, and transfers related to the Trust Fund based on information submitted by the Office of Tax Analysis, the Internal Revenue Service, and other Treasury bureaus and offices, and the U.S. Army Corps of Engineers. As such, the Schedules do not represent a complete accounting for all assets, liabilities, and sources and uses of funds of the Trust Fund.

The following reports were issued by KPMG LLP, an independent public accountant (IPA) related to the FY 1999 schedule of assets and liabilities and schedule of activity of the Trust Fund:

- Independent Auditors' Report on the Schedules;
- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on the FY 1999 Schedules of the Trust Fund. The IPA's report on internal controls contained no reportable conditions related to the internal

controls for the Trust Fund. The IPA's report on compliance with laws and regulations contained one instance of noncompliance relating to the Office of Management and Budget (OMB) Circular A-127 requiring Federal entities to use an integrated financial management system. We understand that BPD is implementing integrated systems for FY 2000.

The IPA also issued a management letter dated December 24, 1999, discussing various issues that were identified during the audit, but are not required to be included in the audit reports.

As in the prior year, my staff monitored the conduct of this audit and performed a quality control review of the IPA's working papers. The audit was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and met the requirements of OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit (Financial Management), at (202) 927-5430.

Attachment

cc: Gary Gensler
Under Secretary for Domestic Finance

Donald V. Hammond
Fiscal Assistant Secretary

U.S. Department of the Treasury
Bureau of the Public Debt
Division of Federal Investments
Trust Fund Management Branch

Inland Waterways Trust Fund
Schedules
September 30, 1999

U.S. Department of the Treasury
Inland Waterways Trust Fund

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A. Independent Auditors' Report on the Schedules

KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on the Schedules

The Inspector General, U.S. Department of the Treasury,
Commissioner of the Bureau of the Public Debt, and
Chief of Engineers of the Army Corps of Engineers:

We have audited the accompanying schedule of assets and liabilities of the Inland Waterways Trust Fund (Trust Fund), administered by the Bureau of the Public Debt (BPD) of the U.S. Department of the Treasury, as of September 30, 1999, and the related schedule of activity for the year then ended. These schedules are the responsibility of the BPD's management. Our responsibility is to express an opinion on these schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedules referred to above present fairly, in all material respects, the assets, liabilities and related activity administered by BPD for the Inland Waterways Trust Fund as of September 30, 1999, and for the year then ended, in conformity with generally accepted accounting principles.

With respect to the BPD's administration of the Trust Fund, and in accordance with *Government Auditing Standards,* we have also issued reports dated December 24, 1999, on our consideration of BPD's internal control over Trust Fund financial reporting and our tests of compliance with certain provisions of laws and regulations applicable to BPD's administration of the Trust Fund.

KPMG LLP

December 24, 1999

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

B. Independent Auditors' Report on Internal Control over Financial Reporting

KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Internal Control over Financial Reporting

The Inspector General, U.S. Department of the Treasury, and
Commissioner of the Bureau of the Public Debt:

We have audited the schedules of assets and liabilities and the related schedules of activity (the Schedules) prepared by the Bureau of the Public Debt (BPD) of the U.S. Department of the Treasury, as of and for the year ended September 30, 1999 for the following trust fund activity administered by BPD, and have issued our reports thereon dated December 24, 1999:

- Airport and Airway Trust Fund
- Aquatic Resources Trust Fund
- Federal Hospital Insurance Trust Fund
- Federal Supplementary Medical Insurance Trust Fund
- Harbor Maintenance Trust Fund
- Hazardous Substance Superfund Trust Fund
- Highway Trust Fund
- Inland Waterway Trust Fund
- Leaking Underground Storage Tank Trust Fund
- Oil Spill Liability Trust Fund

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.*

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

BPD's management is responsible for establishing and maintaining internal controls over financial reporting related to the administration of the trust funds. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control over financial reporting, as they relate to the administration of the trust funds, are to provide BPD and program agency management with reasonable, but not absolute, assurance that (1) transactions are executed in accordance with laws and regulations that could have a direct and material effect on the determination of the schedule amounts, and certain other laws and regulations as applicable to the administration of the trust funds; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are properly recorded, processed, and summarized to permit the preparation of the schedules in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control over financial reporting, misstatements, losses or noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audits, we considered internal control over financial reporting related to the administration of the trust funds by obtaining an understanding of the internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinions on the schedules. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 98-08. We did not test all internal controls relevant to operating objectives broadly defined by the Federal Manager's Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal controls.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting relating to the trust funds that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the trust funds' internal control and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving internal controls over financial reporting and their operation for the trust funds that we have reported to the management of the BPD in a separate letter dated December 24, 1999.

This report is intended solely for the information and use of the BPD's management, the U.S. Department of the Treasury Office of the Inspector General, program agencies, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 24, 1999

C. Independent Auditors' Report on Compliance with Laws and Regulations

KPMG

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Inspector General, U.S. Department of the Treasury, and
Commissioner of the Bureau of the Public Debt:

We have audited the schedules of assets and liabilities and the related schedules of activity (the Schedules) prepared by the Bureau of the Public Debt (BPD) of the U.S. Department of the Treasury, as of and for the year ended September 30, 1999 for the following trust fund activity administered by BPD, and have issued our reports thereon dated December 24, 1999:

- Airport and Airway Trust Fund
- Aquatic Resources Trust Fund
- Federal Hospital Insurance Trust Fund
- Federal Supplementary Medical Insurance Trust Fund
- Harbor Maintenance Trust Fund
- Hazardous Substance Superfund Trust Fund
- Highway Trust Fund
- Inland Waterway Trust Fund
- Leaking Underground Storage Tank Trust Fund
- Oil Spill Liability Trust Fund

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements.*

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

The management of the BPD is responsible for complying with laws and regulations applicable to the administration of the trust funds. As part of obtaining reasonable assurance about whether the information included in the schedules referred to above is free of material misstatement, we performed tests of BPD's compliance with certain provisions of laws and regulations related to the administration of the trust funds, noncompliance with which could have a direct and material effect on the determination of the schedule amounts, and certain other laws and regulations specified in OMB Bulletin No. 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to BPD's administration of the trust funds. However, providing an opinion on compliance with applicable provisions of laws and regulations was not an objective of our audits, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 98-08.

Under FFMIA, we are required to report whether the financial management systems used to administer the trust funds substantially comply with (1) Federal financial management systems requirements, (2) Federal accounting standards, and (3) the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08.

The results of our tests disclosed an instance that is described in the accompanying Exhibit, where BPD's financial management systems did not substantially comply with the requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the BPD's management, the U.S. Department of the Treasury Office of the Inspector General, program agencies, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 24, 1999

Exhibit

Trust Funds Administered by the Bureau of the Public Debt

Noncompliance with Laws and Regulations

September 30, 1999

A-127 Financial Management Systems

Comment

OMB Circular A-127 requires federal entities to use an integrated financial management system that eliminates unnecessary duplication of transaction entry. BPD is responsible for administering the trust funds' financial systems. We noted that BPD records receipt, investment, and disposition transactions on a computer spreadsheet, known as a cash sheet, and records the transactions again in the general ledger. Because using the general ledger is a cumbersome tool for monitoring investment activity, BPD uses the cash sheet to ensure funds are invested timely.

Recommendation

We recommend that BPD complete its current process of implementing integrated systems that will eliminate the duplication of transaction entry and take appropriate action by September 30, 2000.

D. Schedules of the Inland Waterways Trust Fund

U.S. Department of the Treasury
Bureau of the Public Debt
Inland Waterways Trust Fund
Schedule of Assets and Liabilities
As of September 30, 1999

ASSETS

Fund Balance with Treasury SGL 1010	$288
Investments, Net SGL 1610 (Note 2)	368,516,560
Interest Receivable SGL 1340	682,440
Due from Treasury General Fund	1,432,000
Total Assets	$370,631,288

LIABILITIES

Program Agency Equity SGL 3310 (Note 3)	$370,631,288
Total Liabilities	$370,631,288

The accompanying notes are an integral part of the schedules.

U.S. Department of the Treasury
Bureau of the Public Debt
Inland Waterways Trust Fund
Schedule of Activity
For the Year Ended September 30, 1999

REVENUES	
Excise Taxes from Treasury's Office of Tax Analysis and Internal Revenue Service SGL 5800	$105,800,016
Interest Income on Investments SGL 5310	16,015,322
Gains on Redemption of Securities SGL 7110	21,149
Losses on Redemption of Securities SGL 7210	(55,045)
Total Revenues	$121,781,442
DISPOSITION OF REVENUES	
Transfers to Army Corps of Engineers SGL 5730	$88,237,957
Total Disposition of Revenues	$88,237,957
Net Increase in Program Agency Equity (Note 3)	$33,543,485

The accompanying notes are an integral part of the schedules.

U.S. Department of the Treasury
Inland Waterways Trust Fund
Notes to the Schedules
September 30, 1999

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying schedules of assets and liabilities and related activity pertain to the aspects of the Inland Waterways Trust Fund (Trust Fund) that are serviced by the Trust Fund Management Branch (TFMB) of the Bureau of the Public Debt (BPD) of the Department of the Treasury (Treasury). The Trust Fund was created by and is maintained in accordance with 26 USC Chapter 98, Subchapter A, Sec. 9506 of the Internal Revenue Code, as amended.

TFMB acts as a service organization which processes receipts, disbursements and transfers related to the Trust Fund based upon information provided by the Internal Revenue Service (IRS), the Office of Tax Analysis (OTA), the Army Corps of Engineers and other Treasury bureaus. As part of its functions, BPD also manages the investments, maintains related accounting records and supporting documentation, and reports financial activity. As such, these schedules do not include information regarding the ultimate disposition of amounts transferred from the Trust Fund to the program agencies.

The Army Corps of Engineers is responsible for administering, regulating, and monitoring the program activities funded by the Trust Fund. The program agency makes all decisions regarding dispositions from the Trust Fund. The financial activity reported in these schedules is limited to the activities performed by the TFMB.

B. Basis of Presentation

The schedules have been prepared to report the assets and liabilities of the Trust Fund under the function performed by TFMB and the related activity in accordance with applicable financial presentation guidelines to the extent those guidelines apply to the limited activities performed by TFMB.

C. Basis of Accounting

Transactions during the year are recorded using the cash basis of accounting. At year-end, adjustments are made to record revenue and expense accruals in accordance with generally accepted accounting principles applicable to Federal Government entities.

Inland Waterways Trust Fund
Notes to the Schedules

Note 1 - Summary of Significant Accounting Policies (continued)

D. Trust Fund Activity

Appropriations to the Trust Fund are made in the amounts equivalent to the taxes received in the Treasury in accordance with Title 26, Subtitle I, Chapter 98, Subchapter A, Sec. 9506 (b) of the Internal Revenue Code. The appropriations are made twice a month and at the end of each quarter based on OTA's estimates of monthly tax receipts and IRS' certification of actual tax receipts. Dispositions from the Trust Fund are made in accordance with Title 26, Subtitle I, Chapter 98, Subchapter A, Sec. 9506 (c) of the Internal Revenue Code to pay obligations relating to construction and rehabilitation for navigation on the inland coastal waterways of the United States and other expenditures as defined by law.

E. Fund Balance with Treasury

The Trust Fund does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Treasury. The Fund Balance with Treasury represents the net revenue, disposition of revenue, and investment activity.

F. Investments

Pursuant to 26 USC 9602, the Secretary of the Treasury shall invest such portion of the Trust Fund as is not necessary to meet current withdrawals. The Fiscal Assistant Secretary of Treasury has authorized the issuance of market-based (MK) securities to the Trust Fund.

These non-marketable MK securities are Treasury securities, that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. The non-marketable MK securities are issued and redeemed by the Bureau of the Public Debt. Securities are acquired and held in the name of the Secretary of the Treasury for the Trust Fund. The interest on and proceeds from the sale or redemption of any security held for the Trust Fund are credited to the Trust Fund.

The TFMB determines the type of security and related maturity date that should be purchased based primarily on the program agency's estimated future expenditures.

Inland Waterways Trust Fund
Notes to the Schedules

Note 1 - Summary of Significant Accounting Policies (continued)

G. Investment Policy and Valuation Methods for Investments

TFMB follows Treasury fiscal investment policy guidelines. These guidelines allow TFMB to invest all excess Trust Fund collections and liquidate securities as funds are needed. Investments are selected for liquidation based on the earliest maturity date, lowest interest rate, first-in first-out (FIFO) method. The intent of the trust fund manager is to hold all investments to maturity. Investments are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight line method for short term securities (MK Bills) and the interest method for longer term securities (MK Notes).

Note 2 - Investments

The investments at September 30, 1999, were non-marketable market based intragovernmental securities as follows:

	Cost	Net Unamortized Discount/Premium	Net Investments	Market Value
One-day Certificates	$ 20,432,000	N/A	$ 20,432,000	$ 20,432,000
Bills and Notes	352,029,000	($3,944,440)	348,084,560	343,096,526
Totals	$372,461,000	($3,944,440)	$368,516,560	$363,528,526

The required market disclosure for marketable bills, notes, and bonds was calculated using rates for September 30, 1999, as published in the *Treasury Quote Sheets*. The net unrealized loss on the securities was $ 4,988,034 at September 30, 1999.

Note 3 - Change in Program Agency Equity

Change in program agency equity for the year ended September 30, 1999, is:

Balance, beginning of year	$337,087,803
Increase in balance	33,543,485
Balance, end of year	$370,631,288

Note 4 - Contingencies

In the opinion of BPD management and legal counsel, there are no known administrative proceedings, legal actions, or claims that will result in a decision which will materially alter the assets, liabilities or activity of the Trust Fund.

Note 5 - Related Parties

TFMB, on behalf of the Secretary of the Treasury, compiles amounts deposited to the Trust Fund, invests receipts in Treasury securities, redeems securities and transfers funds to the program agency, maintains accounting records for all receipts and disbursements of the Trust Fund, and reports Trust Fund financial activity to the program agency and other interested parties. The IRS and OTA determine the amounts to be deposited in the Trust Fund. The program agency determines the disposition of these revenues.