



# Audit Report



OIG-05-008

Audit of the Financial Management Service's Fiscal Years 2004  
and 2003 Schedules of Non-Entity Government-Wide Cash

November 15, 2004

Office of  
Inspector General

Department of the Treasury



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

November 15, 2004

MEMORANDUM FOR RICHARD L. GREGG, COMMISSIONER  
FINANCIAL MANAGEMENT SERVICE

FROM:

William H. Pugh *William H. Pugh*  
Deputy Assistant Inspector General  
for Financial Management and Information  
Technology Audits

SUBJECT:

Audit of the Financial Management Service's  
Fiscal Years 2004 and 2003 Schedules of Non-Entity  
Government-wide Cash

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years (FY) 2004 and 2003 Schedules of Non-Entity Government-wide Cash (the Schedules). We contracted with the independent certified public accounting firm of Clifton Gunderson LLP to audit the Schedules of Non-Entity Government-wide Cash for FY 2004 and 2003. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, Audit Requirements for Federal Financial Statements; and the GAO/PCIE Financial Audit Manual.

The following reports, prepared by Clifton Gunderson LLP, are incorporated in the attachment:

- Independent Auditor's Report;
- Independent Auditor's Report On Internal Control; and
- Independent Auditor's Report On Compliance With Laws and Regulations.

In its audit of FMS' Schedules, Clifton Gunderson LLP found:

- the Schedules present fairly, in all material respects, the balance of Non-Entity Government-wide Cash for FY 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America,

- one matter involving internal control and its operation that is considered a reportable condition<sup>1</sup> (described below), and
- no instances of reportable noncompliance with laws and regulations tested.

Clifton Gunderson LLP concluded that there were general control weaknesses that did not effectively prevent (1) unauthorized access to and disclosure of sensitive information, or (2) unauthorized changes to systems and applications software. In the prior year, Clifton Gunderson LLP identified general control and application control weaknesses, which in the aggregate, constituted a material weakness. In FY 2004, FMS took corrective actions to address certain conditions; the remaining weaknesses were not considered a material weakness.

In connection with the contract, we reviewed Clifton Gunderson LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on FMS' Schedules or conclusions about the effectiveness of internal control or compliance with laws and regulations. Clifton Gunderson LLP is responsible for the attached auditor's reports dated October 22, 2004 and the conclusions expressed in the reports. However, our review disclosed no instances where Clifton Gunderson LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

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<sup>1</sup> Reportable conditions are matters coming to the auditor's attention that, in his judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the Schedule.

**DEPARTMENT OF THE TREASURY,  
FINANCIAL MANAGEMENT SERVICE  
Washington, DC**

**INDEPENDENT AUDITOR'S REPORTS  
AND SCHEDULES OF NON-ENTITY  
GOVERNMENT-WIDE CASH**

**September 30, 2004 and 2003**

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## Independent Auditor's Report

To the Office of Inspector General  
of the Department of the Treasury and the  
Commissioner of the Financial Management Service

We have audited the accompanying Schedules of Non-Entity Government-wide Cash of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2004 and 2003. These schedules are the responsibility of FMS' management. Our responsibility is to express an opinion on these schedules 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 applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Schedules of Non-Entity Government-wide Cash referred to above present fairly, in all material respects, the balance of Non-Entity Government-wide Cash managed by FMS as of September 30, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 22, 2004, on our consideration of FMS' internal control over financial reporting relating to Non-Entity Government-wide Cash and on our tests of FMS' compliance with certain provisions of laws and regulations relating to Non-Entity Government-wide Cash. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Clifton Gunderson LLP*

Calverton, Maryland  
October 22, 2004

## Independent Auditor's Report On Internal Control

To the Office of Inspector General  
of the Department of the Treasury and the  
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Government-wide Cash of the U.S. Department of the Treasury's Financial Management Service (FMS), as of September 30, 2004, and have issued our report thereon dated October 22, 2004. We conducted our audit 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 applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered FMS' internal control over financial reporting for Non-Entity Government-wide Cash by obtaining an understanding of relevant 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 opinion on the schedule. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting for Non-Entity Government-wide Cash would not necessarily disclose all matters in the internal control over financial reporting for Non-Entity Government-wide Cash that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect FMS' ability to record, process, summarize, and report financial data consistent with the assertions by management in the schedule referred to above. Material weaknesses are reportable 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 caused by error or fraud in amounts that would be material in relation to the schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted the following matter involving the internal control and its operation that we consider to be a reportable condition. However, we do not believe this reportable condition is a material weakness.

## **Effectiveness of Computer Controls**

FMS relies on extensive information technology systems to administer Government-wide cash. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud and other illegal acts.

Our review of information technology controls covered general and selected application controls. General controls are the structure, policies and procedures that apply to an entity's overall computer systems. They include entitywide security management, access controls, system software controls, application software development and change controls, segregation of duties and service continuity controls. Application controls involve input, processing, and output controls related to specific IT applications.

We performed a review of the computer controls at the Hyattsville Regional Operations Center (HROC) and Riggs Bank using the *Federal Information Systems Controls Audit Manual* (FISCAM). Our review included a general controls review of the operating environment associated with the CASHLINK II application and a general controls review of mainframe access controls and systems software using FISCAM methodology developed by GAO. We also performed an application controls review of the CASHLINK II application.

For several years, there had been material weaknesses at FMS in this area, and most recently it was focused on the Hyattsville Regional Operations Center. FMS continues to make progress and we commend FMS for the effort and improvement in the IT controls environment. Our testing indicated that there are still existing general control weaknesses that do not effectively prevent (1) unauthorized access to and disclosure of sensitive information, or (2) unauthorized changes to systems and applications software. Our detailed findings and recommendations will be provided to management in a separate limited official use management letter dated October 22, 2004. A summary of the key general controls findings follows:

***Access Controls*** – Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss or impairment. Such controls include logical and physical security controls. While most of the prior access control findings have been addressed or are in process of resolution, we still found that improvement is needed in the administration of access controls.

***Change Controls*** – Change controls are designed to prevent the introduction of unauthorized changes to application software programs. Although we noted progress, improvement is still needed in the enforcement of configuration management procedures.

## **Management Response and Our Comments**

Management has indicated that it concurs with the finding and will formulate a plan for corrective action. The response is included in the attachment to this report.

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

*Clifton Gundersen LLP*

Calverton, Maryland  
October 22, 2004



## Independent Auditor's Report On Compliance With Laws and Regulations

To the Office of Inspector General  
of the Department of the Treasury and the  
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Government-wide Cash of the U.S. Department of the Treasury's Financial Management Service (FMS), as of September 30, 2004, and have issued our report thereon dated October 22, 2004. We conducted our audit 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 applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of FMS is responsible for complying with laws and regulations applicable to Non-Entity Government-wide Cash. As part of obtaining reasonable assurance about whether the Schedule of Non-Entity Government-wide Cash is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of schedule amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to those provisions, and we did not test compliance with all laws and regulations applicable to FMS.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations described in the preceding paragraph that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

*Clifton Gunderson LLP*

Calverton, Maryland  
October 22, 2004

**DEPARTMENT OF THE TREASURY,  
FINANCIAL MANAGEMENT SERVICE  
SCHEDULES OF NON-ENTITY GOVERNMENT-WIDE CASH**  
(In Thousands)

	September 30,	
	<u>2004</u>	<u>2003</u>
Cash, Foreign Currency and Other Monetary Assets (Notes 1 and 2)	<u>\$ 31,156,606</u>	<u>\$ 50,860,885</u>

The accompanying notes are an integral part of these schedules.

**DEPARTMENT OF THE TREASURY,  
FINANCIAL MANAGEMENT SERVICE  
NOTES TO SCHEDULES OF NON-ENTITY GOVERNMENT-WIDE CASH  
September 30, 2004 and 2003**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Financial Management Service (FMS) is a bureau of the U.S. Department of the Treasury (Treasury). FMS' mission is to improve the quality of the Federal government's financial management. FMS' commitment and responsibility is to help its customers achieve success. FMS does this by linking program and financial management objectives and by providing financial services, information, advice, and assistance to its customers. FMS serves taxpayers, Treasury, federal program agencies, and government policy makers.

Non-entity accounts are those accounts that FMS holds but are not available to FMS in its operations. For example, FMS accounts for certain cash that the Federal Government collects and holds on behalf of the U.S. Government or other entities. This schedule includes the non-entity government-wide cash accounts.

**Basis of Accounting**

The standards used in the preparation of the accompanying schedule are issued by the Federal Accounting Standards Advisory Board (FASAB), as the body authorized to establish generally accepted accounting principles for federal government entities. Accordingly, the accompanying schedules are prepared in accordance with generally accepted accounting principles.

The accompanying schedule is different from the financial reports, prepared by FMS pursuant to OMB directives that are used to monitor and control FMS' use of budgetary resources.

**Intra-governmental Financial Activities**

The financial activities of FMS are affected by, and are dependent upon, those of the U.S. Department of the Treasury and the Federal Government as a whole. Thus, the accompanying schedules do not reflect the results of all financial decisions and activities applicable to FMS as if it were a stand-alone entity.

**NOTE 2 – NON-ENTITY CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS**

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the Federal Government, managed by Treasury. Also included is foreign currency maintained by various U.S. and military disbursing offices.

**DEPARTMENT OF THE TREASURY,  
FINANCIAL MANAGEMENT SERVICE  
NOTES TO SCHEDULES OF NON-ENTITY GOVERNMENT-WIDE CASH  
September 30, 2004 and 2003**

**NOTE 2 – NON-ENTITY CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS (CONTINUED)**

Operating Cash of the Federal Government represents balances from tax collections, customs duties, other revenues, federal debt receipts, time deposits, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks (FRBs), foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts.

Up until 2004 the Government maintained formal arrangements with numerous financial institutions for holding time deposit balances as compensation for services provided on behalf of the Federal Government (such as handling over the counter deposits for federal program agencies, providing lockbox services for agency collection programs, etc.). These balances, which are included in the Operating Cash of the Federal Government, totaled \$22,191 million as of September 30, 2003. The compensating balances as of September 30, 2003 included \$14,991 million invested, by Treasury on behalf of financial institutions, in nonmarketable Depositary Compensation Securities. Commercial banks receive interest on these Depositary Compensation Securities. The remaining \$7,200 million in compensating balances as of the September 30, 2003, was invested at the financial institutions' discretion.

With the passage of the Consolidated Appropriation Act, 2004, Treasury received a permanent and indefinite appropriation to compensate financial institutions for services rendered. Therefore, time deposit balances and Depositary Compensation Securities accounts were closed.

Operating Cash of the Federal Government held by depositary institutions is either insured (for balances up to \$100,000) by the Federal Deposit Insurance Corporation or collateralized by securities pledged by the depositary institutions.

This information is an integral part of the accompanying schedules.

**ATTACHMENT**



COMMISSIONER

DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE  
WASHINGTON, D.C. 20227

November 10, 2004

Mr. Bill Oliver, Partner  
Clifton Gunderson, LLP  
4041 Powder Mill Road, Suite 410  
Calverton, MD 20705-3106

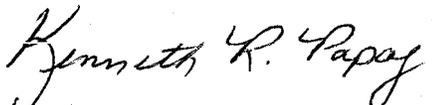
Dear Mr. Oliver:

This is in response to your reports to the Commissioner of the Financial Management Service (FMS) and the Department of the Treasury Office of Inspector General on our fiscal year 2004 Schedules of Non-Entity Government-wide Cash as of September 30, 2004 and 2003.

Once again we are pleased to receive an unqualified audit opinion on our financial statements. We are pleased at your recognition that FMS' internal control over IT information technology systems is no longer a material weakness. We recognize the need for strong, effective controls to protect our assets, and that IT security requires a constant and vigilant effort. Additionally, we appreciate your statement that FMS continues to make progress and is to be commended for the effort and improvement in the IT controls environment.

Specific corrective action plans and timetables will be formulated as soon as management is able to review your management letter in detail and decide upon appropriate courses of action.

Sincerely,

  
 Richard L. Gregg