



Audit Report



OIG-13-022

Management Letter for the Audit of the Office of D.C. Pensions' Fiscal Years 2012 and 2011 Financial Statements

December 10, 2012

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 10, 2012

**MEMORANDUM FOR NANCY OSTROWSKI, DIRECTOR
OFFICE OF D.C. PENSIONS**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for the Audit of the
Office of D.C. Pensions' Fiscal Years 2012 and 2011
Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Office of D.C. Pensions' (ODCP) Fiscal Years 2012 and 2011 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of ODCP as of September 30, 2012 and 2011, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses a matter involving internal control over financial reporting and its operation that was identified during the audit but was not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

December 7, 2012

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

In planning and performing our audit of the consolidated financial statements of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP), as of and for the year ended September 30, 2012, 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 Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we considered the ODCP's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control.

During our audit, we noted a certain matter involving internal control and other operational matters that is presented for your consideration. This finding and recommendation, which has been discussed with the appropriate members of management, is intended to improve internal control or result in other operating efficiencies and is summarized in Appendix A to this report.

In addition, we identified certain deficiencies in internal control over financial reporting that we consider collectively to be a significant deficiency, and communicated them in writing as Exhibit I to the Independent Auditors' Report on Internal Control Over Financial Reporting to management and those charged with governance on December 7, 2012.

Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the ODCP's organization gained during our work to make comments and suggestions that we hope will be useful to you. The ODCP's response to our finding and recommendation is included in Appendix A. We did not audit the ODCP's response and, accordingly, we express no opinion on it. Appendix B presents the status of the prior year management letter comments.

We would be pleased to discuss this comment and recommendation with you at any time.

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

Very truly yours,

KPMG LLP

U.S. Department of the Treasury
Office of D.C. Pensions
FY 2012 Management Letter Comment

Strengthen the Process for Documenting Review of Audit Logs

During our review of the ODCP STAR audit log review control, we noted that the *STAR_Daily_Checklist* was not completed for 51 days during the period October 1, 2011 through September 11, 2012, as the primary STAR administrator was out on leave.

Office of DC Pensions System to Administer Retirement (STAR) System Security Plan states:

“15.4.3.6 AU-6: Audit Monitoring, Analysis, and Reporting
STAR administrators review the results from the audit logs daily. If need be, the administrator can modify the results to include more or less information.”

Bureau of the Public Debt, Office of Information Technology, Division of Technical Services, DC Pensions Application and Technical Services Branch STAR Auditing and Logs (a reference document which supports AU-6) states:

“DCP STAR Daily Checklist

The system administrators (SA) will annotate the STAR_DAILY_Checklist.xls on a daily basis. The checklist will annotate at a minimum who performed the check the date and that the following checks were done by the SA for all the servers; Verify successful backup, percent of file system available, PS/Oracle processes, database archive, production transfer, virus definitions, HP-UX syslog file, Windows event logs. This checklist will be monitored by the System Manager on a Monthly basis. This process will be followed to ensure that audit records are reviewed in a timely manner for unauthorized activity”

ODCP’s inability to support their review of audit logs could potentially prohibit management from being able to identify previous security incidents or inappropriate or unusual activity.

Recommendation

We recommend that ODCP establish a formal process to ensure STAR audit logs are monitored and reviewed daily.

Management’s Response

STAR audit logs are monitored and reviewed daily with 24 hour monitoring from the Bureau of Fiscal Services’ 24 hour operations center. The STAR Auditing and Logs document has been updated to reflect the use of the 24 hour monitoring center

**U.S. Department of the Treasury
Office of D.C. Pensions
Status of Prior Year Management Letter Comments**

Prior Year Deficiency	Prior Year Recommendation	Status as of September 30, 2012
Improve compliance with Treasury Directive Publication 85-01	<p>We recommend that ODCP:</p> <ol style="list-style-type: none"> 1. Update the STAR Account Management Policy and Procedures Manual to be in accordance with the TD P 85-01; and 2. Implement a process to monitor compliance with updated Treasury Directive Publications and other Federal requirements on a more frequent basis. 	Closed
Improve Annuitant Recordkeeping	<p>We recommend that ODCP:</p> <ol style="list-style-type: none"> 1. Work with DCRB to ensure they are in compliance with the <i>Recordkeeping</i> requirement as specified in <i>MOU Concerning Interim Benefit Administration of Retirement Programs dated September 26, 2005</i>, section 4.5; and 2. Take appropriate steps to inform DCRB management of the importance of the preservation, maintenance, and monitoring of annuitant files at DCRB by requesting DCRB to implement a file tracking system to include the person with custody of annuitant files, secondary review, file scanning and quality review processes. 	Closed