



# Audit Report



OIG-16-035

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Department of the Treasury's Fiscal Years 2015 and 2014 Financial Statements

February 5, 2016

Office of  
Inspector General

Department of the Treasury

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OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

February 5, 2016

**MEMORANDUM FOR BRODI L. FONTENOT  
ASSISTANT SECRETARY FOR MANAGEMENT**

**FROM:** James Hodge /s/  
Director, Financial Statement and Procurement Audits

**SUBJECT:** Management Letter for the Audit of the Department of the Treasury's Fiscal Years 2015 and 2014 Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the financial statements of the Department of the Treasury as of September 30, 2015 and 2014, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated February 5, 2016, that discusses certain matters involving internal control and other operational matters that were identified during the audit, but were not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards with respect to this management letter.

Should you have any questions, please contact me at (202) 927-0009, or Ade Bankole, Manager, Financial Statement and Procurement Audits, at (202) 927-5329.

Attachment

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

February 5, 2016

Inspector General  
Department of the Treasury:

In planning and performing our audit of the consolidated financial statements of the Department of the Treasury (Department), as of and for the year ended September 30, 2015, 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 Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

We did not audit the financial statements of the Internal Revenue Service and the Office of Financial Stability, component entities of the Department. Those statements were audited by other auditors.

During our audit we noted certain matters involving internal control and other operational matters that are presented below for your consideration. In addition, we and the other auditors noted additional matters that were reported separately to component management. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

## **1. Obligation Evidence Not Sufficient**

In May 2015, the Department's Treasury Forfeiture Fund (TFF) received a consent order of forfeiture related to a seizure of cash totaling approximately \$3.8 billion. In September 2015, after receiving a revised apportionment (SF-132) signed by the Office of Management and Budget, TFF recorded an obligation of approximately \$3.6 billion, the balance of the forfeiture less sequestration required by the Balanced Budget and Emergency Deficit Control Act. The Department indicated that it recorded the obligation because the Department of Justice informed TFF that it intends to use these forfeited funds to compensate individuals harmed by the sanctioned regimes associated with the seizure. As of September 30, 2015, the Department did not have sufficient evidence to demonstrate that the amount should be recorded as an obligation in accordance with OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, which indicates: "Obligation means a legally binding agreement that will result in outlays, immediately or in the future. When you place an order, sign a



contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, you incur an obligation.”

### **Recommendations**

We recommend that the Office of the Deputy Chief Financial Officer (ODCFO) work with TFF to develop and implement a policy that provides guidance to obtain sufficient evidence for TFF obligations and to record TFF obligations in accordance with OMB Circular No. A-11.

### **Management Response**

The Department agrees with the recommendation. The TFF will work closely with the ODCFO and the Department’s Office of General Counsel to develop and implement a policy that provides guidance to obtain sufficient evidence for TFF obligations and to record TFF obligations in accordance with OMB Circular No. A-11.

## **2. Improve Reconciliation of General Ledgers to Financial Reporting System**

The Department uses the data from the financial reporting system to prepare its quarterly financial statements and agency financial report, and closing package financial statements. On a monthly basis, each reporting entity (i.e. bureau and/or office) generates a data file of cumulative account balances from the reporting entity’s general ledger accounting system, adjusts the data file as appropriate, and uploads the data file to the financial reporting system because there is no automated interface into the financial reporting system.

Although many of the reporting entities reconcile the reporting entity’s general ledger accounting system plus/minus adjustments to the financial reporting system, the Department does not have a policy requiring such reconciliation in order to verify that data was completely and accurately uploaded into the financial reporting system. In addition, the reporting entities did not perform the reconciliations with sufficient precision as follows:

- a. The reconciliations do not consistently reconcile balances at the trading partner level needed to support financial reports by trading partner.
- b. One reporting entity reconciled the total of all other revenue (i.e., standard general ledger account 5900xxxx series); however, the individual other revenue general ledger accounts are reported on different financial statements and thus should be reconciled by the individual financial statement account rather than in total.
- c. One reporting entity manually input an incorrect balance for the financial reporting system’s other receivables (i.e., standard general ledger account 19900000), and the reviewer and approver did not identify the error.

### **Recommendations**

We recommend that the ODCFO:

- a. Develop and communicate a policy that requires each reporting entity to (1) reconcile reporting entity’s general ledger accounting system plus/minus adjustments to the financial reporting system; (2) document such reconciliation, including explanations for any differences; (3) have a second individual review and approve the reconciliation by agreeing the balances from the



reconciliation to the general ledger and the financial reporting system's trial balances and approving the reconciliation; and (4) maintain the reconciliation and approval documentation. At a minimum, the reconciliation should be performed on a quarterly basis by Treasury fund symbol, standard general ledger account included in the financial reporting system, and trading partner.

- b. Require the Department's financial reporting team to develop a process for ensuring that the reporting entity reconciliations are performed in accordance with the Department's guidelines, and include appropriate documented explanations for any differences.

### **Management Response**

The Department agrees with the comment and recommendations, and the ODCFO will work with the reporting entities to identify and implement the specific control activities and enhancements, as necessary, to continuously improve internal controls over financial reporting in an efficient, effective and cost effective manner. The ODCFO will enhance, document, and/or clarify existing reconciliation procedures for the reporting entities, as needed, through developing new or expanding existing Department-wide policies to be implemented in fiscal year 2016. Furthermore, the ODCFO will determine the most efficient methodology for ensuring that the reporting entities are completing these reconciliations in accordance with Departmental policy guidelines.

### **3. Improve the Internal Control Assessment Process**

The Department assessed internal controls over financial reporting in accordance with Appendix A of Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*; however, the Department needs to improve the internal control assessment process as we noted the following:

- a. The Department's guidance did not require the Bureau of the Fiscal Service (Fiscal Service) to identify, document, and test internal controls (including information system controls) over the government-wide cash portion of the liability due to the General Fund.
- b. The Department did not obtain a service organization report for the cash collections related to the transactions with the International Monetary Fund.
- c. The Department did not have documentation demonstrating that they had identified and tested the relevant complementary customer agency controls for one of its service organization reports.

### **Recommendations**

We recommend that the ODCFO:

- a. Update the Department's guidance to require the Fiscal Service to identify, document, and test internal controls (including information system controls) over the government-wide cash portion of the liability due to the General Fund. This should include proper identification of all service organizations and sub-service organizations used in performing internal controls on behalf of the Fiscal Service.
- b. Obtain and evaluate the service organization report for the cash collections related to the transactions with the International Monetary Fund.
- c. Document the identification and testing of the relevant complementary customer agency controls for all service organization reports.



### **Management Response**

The Department agrees with the comments and recommendations. The ODCFO will have Fiscal Service include the offsetting government-wide cash portion of the liability due to the General Fund in its OMB A-123, Appendix A implementation due the materiality threshold set forth in the Treasury guidance. The Fiscal Service currently has a plan in place to test the government-wide cash for fiscal year 2016. After the Fiscal Service has identified the service and sub-service organizations and developed a plan for testing, the ODCFO will work with the Fiscal Service to obtain and evaluate service organization reports for relevant service organizations and sub-service organizations.

The Department will work with the appropriate office to obtain the service organization report for the cash collections related to the transactions with the International Monetary Fund. Furthermore, the ODCFO will work with the reporting entities to identify, document, and test as necessary the key complementary customer agency controls from the service organization' reports.

### **4. Using Shared Privileged Accounts**

Departmental Offices (DO) has not assigned individual privileged accounts to the members of the financial reporting system's configuration management team, and instead, the configuration management team shares two privileged user accounts. The use of shared user accounts is prohibited by the Department's policy and DO did not have a formal waiver to allow for the shared privileged user accounts.

DO has a compensating control that logs the activity of the privileged user accounts and enables DO to determine who utilized the privileged user accounts and DO reviews and certifies these logs on a weekly basis.

### **Recommendation**

We recommend that the ODCFO work with DO to assign unique privileged user accounts to the members of the financial reporting system's configuration management team.

### **Management Response**

The Department agrees with the comment and recommendation. The ODCFO implemented this recommendation by creating separate accounts for each of the financial reporting system's configuration management team members and granting schema access to each of those separate accounts. The Department indicated that this corrective action was completed on October 18, 2015.

### **5. Vulnerability Scan Evidence Not Readily Available**

In the prior year, we reported that Departmental Offices (DO) was unable to provide supporting documentation evidencing supervisory review of the monthly financial systems' vulnerability scans. In the current year, DO provided the financial systems' vulnerability scans for the two selected months of January 2015 and March 2015; however, the evidence was not sufficient because the vulnerability scans did not indicate who performed the review and when the review was completed in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* (A-123). OMB A-123 indicates management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process.



### **Recommendation**

We recommend that the ODCFO work with DO to update its policies and procedures to require that system administrators, system owners, and security management document their review of the monthly vulnerability scan results. This documentation should denote who reviewed the scan results and the date that the review was completed.

### **Management Response**

The Department agrees with the comment and recommendation. The ODCFO will review and revise its guidance to ensure that appropriate supporting documentation is maintained to evidence management's review of the monthly financial systems' vulnerability scans.

## **6. Password Configurations are not Consistent with Department Policy**

DO did not properly configure password settings for the financial reporting system's database accounts in accordance with the Department's policy. Specifically, the maximum password age was set to 180 days, which is greater than the required 90 days from the Department's policy, and the system was set to prevent using only the last password, which is less than the previous ten passwords stated in the Department's policy.

### **Recommendations**

We recommend that the ODCFO work with DO to configure the password settings for the financial reporting system's database accounts in accordance with its Department's policy as follows:

- a. Set the maximum password age to 90 days.
- b. Set the password configurations to prevent using the previous ten passwords.

### **Management Response**

The Department agrees with the comment and recommendations. The Department indicated that DO implemented this recommendation by limiting the account password age to 90 days and requiring that account passwords be different for ten iterations before they can be reused for the financial reporting system. The Department indicated that this corrective action was completed on October 18, 2015.

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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 Department's organization gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at any time.

The Department's responses to the deficiencies identified in our audit are described above. The Department's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.



Office of Inspector General  
U.S. Department of the Treasury  
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The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

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