



# Audit Report



OIG-07-015

Audit of the Financial Management Service's Fiscal Years 2006  
and 2005 Schedules of Non-Entity Government-Wide Cash

November 20, 2006

Office of  
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 20, 2006

**MEMORANDUM FOR KENNETH R. PAPAJ, COMMISSIONER  
FINANCIAL MANAGEMENT SERVICE**

**FROM:** Michael Fitzgerald *Michael Fitzgerald*  
Acting Deputy Assistant Inspector General  
for Financial Management and Information  
Technology Audits

**SUBJECT:** Audit of the Financial Management Service's  
Fiscal Years 2006 and 2005 Schedules of Non-Entity  
Government-wide Cash

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years (FY) 2006 and 2005 Schedules of Non-Entity Government-wide Cash (the Schedules). We contracted with the independent certified public accounting firm Clifton Gunderson LLP to audit the Schedules of Non-Entity Government-wide Cash for FY 2006 and 2005. 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. 06-03, *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 and Other Matters.

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 as of September 30, 2006 and 2005, 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) ensure that connectivity to systems/applications are available during a disaster. Collectively these findings indicated the lack of fully effective entity-wide security management.

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 31, 2006 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) 927-5789.

Attachment

cc: Donald V. Hammond  
Fiscal Assistant Secretary

---

<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.

**U. S. DEPARTMENT OF THE TREASURY,  
FINANCIAL MANAGEMENT SERVICE  
Washington, DC**

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

**September 30, 2006 and 2005**

## TABLE OF CONTENTS

	<b>PAGE</b>
<b>INDEPENDENT AUDITOR’S REPORT .....</b>	<b>1</b>
<b>INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL .....</b>	<b>2</b>
<b>INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND OTHER MATTERS.....</b>	<b>5</b>
<b>SCHEDULES OF NON-ENTITY GOVERNMENT-WIDE CASH .....</b>	<b>6</b>
<b>NOTES TO THE SCHEDULES OF NON-ENTITY GOVERNMENT-WIDE CASH.....</b>	<b>7</b>
<b>ATTACHMENT – MANAGEMENT COMMENTS .....</b>	<b>9</b>



## Independent Auditor's Report

To the Office of Inspector General  
of the U. S. 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, 2006 and 2005. 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. 06-03, *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, 2006 and 2005 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 31, 2006, 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 and other matters 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 31, 2006

## **Independent Auditor's Report On Internal Control**

To the Office of Inspector General  
of the U. S. 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, 2006, and have issued our report thereon dated October 31, 2006. 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. 06-03, *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. 06-03. 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 (IT) 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 entity-wide 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 Kansas City Regional Operations Center (KROC) using the *Federal Information Systems Controls Audit Manual* (FISCAM). Our review included general control testing of the Treasury Check Information System (TCIS), Central Accounting System (STAR), and Government On-Line Accounting Link II/Citrix (GOALS II/Citrix) applications.

For several years there have been IT general controls 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 revealed that there are still existing general control weaknesses that do not effectively (1) prevent unauthorized access to and disclosure of sensitive information, or (2) ensure that connectivity to systems/applications are available during a disaster. Collectively these findings indicate the lack of fully effective entity-wide security management. Our detailed findings and recommendations will be provided to management in a separate sensitive but unclassified management letter dated October 31, 2006. A summary of the key general controls findings follows:

***Entity-wide Security Management*** – An entity-wide program for security planning and management represents the foundation for an entity's security control structure and a reflection of senior management's commitment to addressing security risks. The program should establish a framework and continuing cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources. FMS has demonstrated its ability to remediate specific IT findings. However, we found a lack of consistent application of an agency-wide strategy that should be followed in all system implementations. The true measure of an Entity-wide Security Management is their ability to implement enhancements to the controls environment entity-wide, on all new and existing systems and platforms in use. Our current year audit identified that while weaknesses were corrected in some systems and platforms, they still continue to exist in other areas. This is evidenced by the continued existence of previously identified problems in newly reviewed areas.

**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. Although prior access control findings have been substantially addressed, additional access control weaknesses were identified this year. A comprehensive access control security program, including increased management oversight, is needed to fully address the administration of access controls in order to increase the reliability of computerized data and decrease the risk of destruction or inappropriate disclosure of data.

**Service Continuity** – Contingency planning should address critical services to system resources to ensure that operations will continue in the event of a disaster or other service interruptions. Such plans and procedures should be a key part of business continuity plans. We noted issues with connectivity during a disaster and system failover exercise as well as system unavailability and downtime issues related to the TCIS application.

Management Response and Our Comments

Management has responded to our report and the full response is included in the attachment to this report. Management disagreed with the characterization of our findings as a reportable condition but recognized that the deficiencies in general controls must be corrected and will establish the corrective actions as soon as possible.

We have carefully reviewed management’s response, however we have not changed our conclusion that general controls weaknesses existed in access controls and service continuity, and the continued existence of previously identified problems in newly reviewed areas is evident of the lack of fully effective entity-wide security management. Further, we continue to conclude that these weaknesses are a reportable condition.

\*\*\*\*\*

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, the Government Accountability Office 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 31, 2006



## Independent Auditor's Report On Compliance and Other Matters

To the Office of Inspector General  
of the U. S. 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, 2006, and have issued our report thereon dated October 31, 2006. 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. 06-03, *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. 06-03. 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 or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

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, the Government Accountability Office 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 31, 2006

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

	<u>September 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash, Foreign Currency and Other Monetary Assets (Notes 1 and 2)	<u>\$ 44,243,218</u>	<u>\$ 28,433,173</u>

The accompanying notes are an integral part of these schedules.

**U. S. DEPARTMENT OF THE TREASURY,  
FINANCIAL MANAGEMENT SERVICE  
NOTES TO SCHEDULES OF NON-ENTITY GOVERNMENT-WIDE CASH  
September 30, 2006 and 2005**

**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.

**U. S. DEPARTMENT OF THE TREASURY,  
FINANCIAL MANAGEMENT SERVICE  
NOTES TO SCHEDULES OF NON-ENTITY GOVERNMENT-WIDE CASH  
September 30, 2006 and 2005**

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

Operating Cash of the Federal Government represents balances, net of outstanding checks, from tax collections, customs duties, other revenue, federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments.

Operating Cash of the Federal Government is held in the Federal Reserve Banks (FRBs), foreign and domestic financial institutions, and in U. S. Treasury Tax and loan accounts. U. S. Treasury Tax and Loan Accounts include funds invested through the Term Investment Option program and the Repo Pilot program. Under the Term Investment Option program Treasury agrees that funds will remain in the account for the specified period of time. Under the Repo Pilot program Treasury “guarantees” that invested funds will remain in the account for the predetermined term of each investment. However, under both programs Treasury reserves the right to call the funds prior to maturity under special circumstances.

Operating Cash of the Federal Government held by depository institutions is either insured (for balances up to \$100,000) by the Federal Deposit Insurance Corporation or collateralized by securities pledged by the depository institution, or through securities held under reverse repurchase agreements.

This information is an integral part of the accompanying schedules.

**ATTACHMENT**



COMMISSIONER

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

November 7, 2006

Mr. Bill Oliver, Partner  
Clifton Gunderson, LLP  
4041 Powder Mill Road, Suite 410  
Calverton, MD 20715-3106

Dear Mr. Oliver:

This letter is in response to your reports to the Office of Inspector General of the U.S. Department of the Treasury and the Commissioner of the Financial Management Service (FMS) on the Schedules of Non-Entity Government-wide Cash as of September 30, 2006 and 2005.

Once again, we are pleased to receive an unqualified audit opinion on the Schedules and that no material weaknesses related to internal controls over financial reporting were noted on your report. We also appreciate your statement that FMS continues to make progress and is to be commended for the effort and improvement in the information technology (IT) controls environment. While we agree that there are areas in which we can make improvements, we disagree with your assessment that there are matters involving the internal control and its operation that are considered to be a reportable condition for the reasons outlined below.

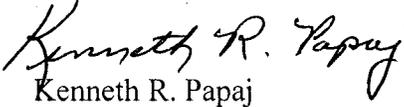
FMS has an Entity-wide IT Security Program in place that meets FISMA requirements for systems security certifications and accreditations, annual security reviews, and contingency plan testing. Security testing includes tests and evaluations based on NIST Special Publication 800-53, "*Recommended Security Controls for Federal Information Systems*", for all 17 security controls families. As part of its entity-wide program, FMS also requires the annual recertification of users for all systems as well as the semi-annual recertification of individuals with powerful system access and physical access to data centers. Any exceptions noted during reviews of documents and testing of controls have been documented in FMS' Plan of Action and Milestones (POA&M). The POA&M is updated quarterly and submitted to the Treasury Department for reporting to the Office of Management and Budget. It should also be noted that several of the findings identified during the audit had already been identified by FMS, documented in its POA&M, and in the process of being corrected. Therefore, FMS recommends removing the detailed finding related to security programs from the final audit report.

In the area of access controls, we noticed that exceptions identified during the audit were minor and did not fail to protect our IT assets from unauthorized modification, disclosure, loss or impairment. This conclusion is supported by our review and analysis of significant incidents reported during Fiscal Year 2006.

FMS has concluded that one of the exceptions noted for service continuity was misstated. The actual issue, concerning lack of synchronization between servers, was corrected after FMS identified the issue during its internal testing. The second exception for service continuity has also been corrected by implementing a technical solution provided by a commercial vendor for one of the products used by the system.

We recognize that regardless of how the deficiencies in general controls are characterized for reporting purposes, FMS must take action to correct them and fully intends to do so as soon as possible. FMS plans to give careful consideration to recommendations included in your limited official use management letter and will continually improve in the areas related to entity-wide security management, access controls, and service continuity. Specific corrective action plans and timetables will be formulated as soon as management determines the appropriate course of action.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth R. Papaj". The signature is written in black ink and is positioned above the printed name.

Kenneth R. Papaj