



# Audit Report



OIG-09-012

Audit of the Financial Management Service's Fiscal Years 2008 and 2007 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

November 24, 2008

Office of  
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 24, 2008

**MEMORANDUM FOR JUDITH R. TILLMAN, COMMISSIONER  
FINANCIAL MANAGEMENT SERVICE**

**FROM:** Michael Fitzgerald /s/  
Director, Financial Audits

**SUBJECT:** Audit of the Financial Management Service's  
Fiscal Years 2008 and 2007 Schedules of Non-Entity Assets,  
Non-Entity Costs and Custodial Revenue

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years (FY) 2008 and 2007 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedules). Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue for Fiscal Year 2008. The Schedule for FY 2007 was audited by Clifton Gunderson LLP, another independent certified public accounting firm, whose report dated November 8, 2007, expressed an unqualified opinion. Both contracts 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. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

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

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control Over Financial Reporting;  
and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit of FMS's Schedules, KPMG LLP found:

- that the Schedule presents fairly, in all material respects, the Non-Entity Assets as of September 30, 2008, and Non-Entity Costs and Custodial Revenue for the year then ended, in conformity with U.S. generally accepted accounting principles,

- a significant deficiency<sup>1</sup> in internal control over financial reporting related to estimating Receivable on Deposit of Earnings, Federal Reserve, that was not considered a material weakness, and
- no instances of reportable noncompliance with laws and regulations tested.

KPMG LLP will also issue a management letter dated November 17, 2008, discussing 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 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's Schedules or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 17, 2008 and the conclusions expressed in the reports. However, 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 Mark S. Levitt, Manager, Financial Audits at (202) 927-5076.

Attachment

cc: Kenneth Carfine  
Fiscal Assistant Secretary

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<sup>1</sup> A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects FMS's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the schedule that is more than inconsequential will not be prevented or detected.

**U.S. DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE**

Independent Auditors' Reports and Schedules of Non-Entity  
Assets, Non-Entity Costs and Custodial Revenue

September 30, 2008 and 2007

**U.S. DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE**

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**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

Inspector General, U.S. Department of the Treasury and the  
Commissioner of the Financial Management Service:

We have audited the accompanying Schedule of Non-Entity Assets as of September 30, 2008 and Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA)) for the year then ended (hereinafter referred to as the "Schedule") of the U.S. Department of the Treasury's Financial Management Service (FMS). This Schedule is the responsibility of FMS management. Our responsibility is to express an opinion on this Schedule based on our audit. The accompanying Schedule as of and for the year ending September 30, 2007 was audited by other auditors whose reports thereon dated November 8, 2007, expressed an unqualified opinion on that Schedule.

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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FMS's internal control over financial reporting relating to TMA. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the Non-Entity Assets as of September 30, 2008, and Non-Entity Costs and Custodial Revenue for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 17, 2008, on our consideration of FMS's internal control over financial reporting relating to TMA and our tests of its compliance with certain provisions of laws and regulations relating to TMA. 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 opinions on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

**KPMG LLP**

November 17, 2008



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, U.S. Department of the Treasury and the  
Commissioner of the Financial Management Service:

We have audited the Schedule of Non-Entity Assets as of September 30, 2008 and Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA)) for the year then ended (hereinafter referred to as the "Schedule") of the U.S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated November 17, 2008. The Schedule as of and for the year ending September 30, 2007 was audited by other auditors whose report thereon dated November 8, 2007, expressed an unqualified opinion on that Schedule.

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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

The management of FMS is responsible for establishing and maintaining effective internal control relating to TMA. In planning and performing our fiscal year 2008 audit, we considered FMS's internal control over financial reporting relating to TMA by obtaining an understanding of the design effectiveness of FMS's internal control relating to TMA, determining whether internal controls relating to TMA had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule. To achieve this purpose, we did not test all internal controls relating to TMA relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of FMS's internal control over financial reporting relating to TMA. Accordingly, we do not express an opinion on the effectiveness of FMS's internal control over financial reporting relating to TMA.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting relating to TMA that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects FMS's ability to initiate, authorize, record, process, or report financial data relating to TMA reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Schedule that is more than inconsequential will not be prevented or detected by FMS's internal control relating to TMA. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Schedule will not be prevented or detected by FMS's internal control relating to TMA.

In our fiscal year 2008 audit, we consider the deficiency, described in Exhibit I, to be a significant deficiency in internal control over financial reporting relating to TMA. However, we believe the significant deficiency described in Exhibit I is not a material weakness.



We noted certain matters involving internal control and other operational matters relating to TMA that we will report to management of FMS in a separate letter dated November 17, 2008.

This report is intended solely for the information and use of FMS management, the U.S. Department of the Treasury 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.

KPMG LLP

November 17, 2008



**U.S. Department of the Treasury**  
**Financial Management Service**

**Significant Deficiency in Internal Control over Financial Reporting**

**Overstatement of Receivable on Deposit of Earnings, Federal Reserve System**

The Receivable on Deposit of Earnings, Federal Reserve System, represents the earnings due to but not collected by the U.S. Treasury as of September 30 2008. Each month, the receivable is calculated and entered into the general ledger on the last day of the month. During our testing over the collectibility of Accounts Receivable on Deposit Earnings, Federal Reserve System as of September 30, 2008, we noted that \$1,896,233,694 was recorded as of September 30, 2008. However, based on our testwork, we noted that FMS only received subsequent cash receipts related to this receivable balance of \$1,465,632,228, therefore, the receivable was overstated in the amount of \$430,601,466.

FMS does not have procedures in place to analyze the accuracy of its monthly estimates for Receivable on Deposit of Earnings, Federal Reserve System. FMS also did not take into consideration changes in market rates of interest that might affect their estimate of earnings to be received from the FRB when preparing its estimate.

Per GAO's *Standards for Internal Control in the Federal Government*, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation." Without an analysis comparing the actual receipts to the accrued receivable at September 30, 2008, there is an increased risk that the receivable may be misstated in the FMS TMA Schedule.

We recommend that FMS develop and implement a quarterly analysis of its estimated Receivable on Deposit of Earnings, Federal Reserve System, by comparing the estimated receivable to the actual subsequent cash receipts from the FRB to determine if the estimate is reasonable and posting an adjustment to the quarterly month end balance if necessary.

**MANAGEMENT RESPONSE:**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit FMS's response and, accordingly, we express no opinion on it.



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report on Compliance and Other Matters**

Inspector General, U.S. Department of the Treasury and the  
Commissioner of the Financial Management Service:

We have audited the Schedule of Non-Entity Assets as of September 30, 2008 and Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA)) for the year then ended (hereinafter referred to as the "Schedule") of the U.S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated November 17, 2008. The Schedule as of and for the year ending September 30, 2007 was audited by other auditors whose report thereon dated November 8, 2007, expressed an unqualified opinion on that Schedule.

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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

The management of FMS is responsible for complying with laws and regulations applicable to the amounts reflected in the Schedule. As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations relating to TMA, noncompliance with which could have a direct and material effect on the determination of the amounts reflected in the Schedule, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to FMS. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of FMS management, the U.S. Department of the Treasury 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.

**KPMG LLP**

November 17, 2008

**Department of the Treasury  
Financial Management Service  
Schedules of Non-Entity Assets  
As of September 30, 2008 and 2007  
And  
Non-Entity Costs and Custodial Revenue  
For the Years Ended September 30, 2008 and 2007  
(In Thousands)**

	<u>2008</u>	<u>2007</u>
<b>Non-Entity Assets</b>		
<b>Intra-governmental:</b>		
Fund Balance with Treasury (Note 2)	\$ 630,553	688,106
Accounts Receivable, Net (Note 3)	372,574	367,642
Other	440	325
<b>Total Intra-governmental</b>	<u>\$ 1,003,567</u>	<u>1,056,073</u>
<b>With the Public:</b>		
Receivable on Deposit Earnings, Federal Reserve System	1,465,632	1,290,823
Accounts Receivable, Net (Note 3)	10,488	98,459
Other	14,168	14,161
<b>Total With the Public</b>	<u>\$ 1,490,288</u>	<u>1,403,443</u>
<b>Total Non-Entity Assets</b>	<u>\$ 2,493,855</u>	<u>2,459,516</u>
<b>Non-Entity Costs (Note 4)</b>		
Credit Reform: Interest Paid on Uninvested Funds	\$ 5,378,162	4,632,281
Judgments	785,724	1,221,317
Resolution Funding Corporation	1,392,990	1,986,731
Public Broadcasting Fund, Corporation for Public Broadcasting	448,476	464,350
Legal Services Corporation	346,716	349,970
District of Columbia	121,457	117,094
Presidential Election Campaign Fund	106,297	32,462
Moneys Erroneously Received and Covered	47,070	26,242
Other	39,782	33,435
<b>Total Non-Entity Costs</b>	<u>\$ 8,666,674</u>	<u>8,863,882</u>
<b>Custodial Revenue (Note 5)</b>		
Deposit of Earnings, Federal Reserve System	\$ 33,598,011	32,042,738
Interest Received from Tax and Loan Depositories	604,029	1,173,927
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	73,599	145,201
General Fund Proprietary Receipts, Not Otherwise Classified	73,163	72,399
Fines, Penalties, and Forfeitures, Not Otherwise Classified	546	473
Interest Payments from States, Cash Management Improvement	56,977	51,556
Other	23,387	24,535
<b>Total Cash Collections</b>	<u>34,429,712</u>	<u>33,510,829</u>
Accrual Adjustment	90,475	571,100
<b>Total Custodial Revenue</b>	<u>\$ 34,520,187</u>	<u>34,081,929</u>

These schedules should be read only in connection with the accompanying notes to schedules.

**U.S. DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE**

Notes to Schedules

September 30, 2008 and 2007

**(1) Summary of Significant Accounting Policies**

**(a) Reporting Entity**

The Financial Management Service (FMS) is a bureau of the U. S. Department of the Treasury (Treasury). FMS's mission is to improve the quality of government financial management. FMS's 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. However, the Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedules) do not include Non-Entity Operating Cash of the Federal Government (commonly known as Government-wide Cash). These Schedules include the activity of Non-Entity account symbols managed by FMS.

Some Non-Entity accounts receive appropriations for specific Federal programs. Some of the appropriations are permanent, indefinite appropriations. They are not subject to budgetary ceilings established by Congress. Both types of appropriations are used for payments to Federal program agencies and others.

Some Non-Entity accounts receive cash collections. These types of accounts are miscellaneous receipt accounts. Examples of collections include interest payments, contributions, and collections of fines and penalties.

The financial activities of FMS are affected by, and are dependent upon, those of 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.

**(b) Basis of Preparation**

The Schedules have been prepared from the accounting records maintained by FMS and are meant to report Non-Entity Assets, Non-Entity Costs and Custodial Revenue of FMS in accordance with U.S. generally accepted accounting principles. Such principles require the use of the accrual method of accounting to record transactions. Under the accrual method, revenues are recognized when earned and costs are recognized when a cost is incurred, without regard to receipt or payment of cash. These Schedules were prepared following accrual accounting.

The standards used in the preparation of these Schedules are issued by the Federal Accounting Standards Advisory Board (FASAB), as the body authorized to establish generally accepted accounting principles for Federal government entities.

This information is an integral part of the accompanying schedules.

**U.S. DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE**

Notes to Schedules

September 30, 2008 and 2007

Balances reflected on these Schedules may differ from those on financial reports prepared by FMS pursuant to certain OMB directives that are primarily used to monitor and control FMS's use of budgetary resources.

**(c) *Use of Estimates in Preparing Schedules***

The preparation of these Schedules, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions. These estimates affect the reported amounts of non-entity assets at the date of the Schedules and the amounts of custodial revenues and non-entity costs during the reporting period for the Schedules. Actual results may differ from these estimates.

**(d) *Fund Balance with Treasury***

The Fund Balance with Treasury (FBWT) is an asset account that reflects the available budget spending authority of Federal agencies. Collections and disbursements by agencies will, correspondingly, increase or decrease the balance in the account.

**(e) *Accounts Receivable***

Accounts receivable is comprised of Intra-governmental accounts (i.e., amounts due from other Federal agencies) and accounts with the Public. Accounts with the Public include amounts due from the Federal Reserve System. FMS records an allowance for uncollectible accounts based on projections of future collections (based on prior year collection trends) and the aging of outstanding accounts receivable at September 30.

**(f) *Receivable on Deposit of Earnings, Federal Reserve System***

Reserve Banks are required by the Board of Governors of the Federal Reserve System to transfer to the U.S. Treasury excess earnings, after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid in. In the event of losses, or a substantial increase in capital, a Reserve Bank will suspend its payments to the U.S. Treasury until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U.S. Treasury may vary significantly. The Receivable on Deposit of Earnings, Federal Reserve System, represents the earnings due Treasury as of September 30, but not collected by the U.S. Treasury until after the end of the month.

**(g) *Custodial Revenue***

Custodial revenue is initially recorded on a cash basis when amounts are deposited into receipt accounts. However, an adjustment is reflected on the Schedules at September 30 to accrue for collections in a fiscal year relating to prior year's Non-Entity Accounts Receivable, and to account for other changes in the Non-Entity Accounts Receivable not resulting in a collection of cash in the current period (i.e., new reimbursements and changes in the allowance for uncollectible accounts).

This information is an integral part of the accompanying schedules.

**U.S. DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE**

Notes to Schedules

September 30, 2008 and 2007

**(h) Reclassifications**

Certain amounts in the prior year's presentation have been reclassified to conform with the current year's presentation. These reclassifications have no effect on previously reported total non-entity assets, total non-entity costs, or total custodial revenue.

**(2) Fund Balance with Treasury**

The Fund Balance with Treasury is funded through various sources depending on the specific legislative authority and purpose, and may be used only for specific purposes. Such amounts may be in escrow or other special accounts. These accounts are primarily funded through appropriations, collections, tax receipts, gifts to the Government, and settlements from foreign countries.

Obligated balances are funds against which budgetary obligations have been incurred, but disbursements have not been made. The Unobligated Available balance is the amount of funds available to FMS against which no claims have been recorded. The Unobligated Unavailable balance is the amount of unobligated funds remaining from appropriations that have expired, appropriations that have not been apportioned, authority that is not available pursuant to public law, and the amount of funds in deposit funds, clearing accounts and receipt accounts. Fund Balance with Treasury as of September 30, 2008 and 2007 consisted of the following (amounts in thousands):

<b>Account Type</b>	<b>2008</b>			<b>Total</b>
	<b>Obligated</b>	<b>Unobligated Available</b>	<b>Unobligated Unavailable</b>	
Appropriated Funds	\$97,505	\$116,801	\$ 2	\$214,308
Revolving Funds	411	3,988	-	4,399
Trust Funds	43	(4)	-	39
Other Fund Types	-	-	411,807	411,807
<b>Total</b>	<b>\$97,959</b>	<b>\$120,785</b>	<b>\$411,809</b>	<b>\$630,553</b>

This information is an integral part of the accompanying schedules.

**U.S. DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE**

Notes to Schedules  
September 30, 2008 and 2007

<b>Account Type</b>	<b>2007</b>			<b>Total</b>
	<b>Obligated</b>	<b>Unobligated Available</b>	<b>Unobligated Unavailable</b>	
Appropriated Funds	\$126,586	\$164,844	\$ 15,843	\$307,273
Revolving Funds	159	7,050	-	7,209
Trust Funds	39	45	16	100
Other Fund Types	-	-	373,524	373,524
<b>Total</b>	<b>\$126,784</b>	<b>\$171,939</b>	<b>\$389,383</b>	<b>\$688,106</b>

The fund balance, unobligated available supports the budgetary resources available except for \$310 thousand in 2008 and 2007, which is invested. The fund balance, unobligated unavailable for appropriated funds supports the budgetary resources not available. The fund balance, unobligated unavailable for other fund types, includes only deposit funds and suspense accounts which do not have a budgetary impact.

**(3) Accounts Receivable, Net**

**(a) Intra-governmental Accounts Receivable, Net**

Intra-governmental accounts receivable principally includes amounts for which Federal agencies are required to reimburse the Treasury's Judgment Fund for settlements paid or accrued on their behalf for contract disputes (pursuant to the Contract Disputes Act) and No FEAR Act. While the Contract Disputes Act (CDA) and No FEAR Act (No FEAR) require Federal Agencies to reimburse the Judgment Fund for payments, CDA and No FEAR do not authorize FMS collection action against those Agencies. FMS has historically had difficulty in collecting amounts owed to them under the CDA, so an allowance for uncollectible accounts has been established to recognize losses on receivables that may not be collected under this Program. The activity in the allowance account each year is reflected in the "Accrual Adjustment" line in the custodial revenue section of the Schedules.

This information is an integral part of the accompanying schedules.

**U.S. DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE**

Notes to Schedules

September 30, 2008 and 2007

Intra-governmental accounts receivable, net as of September 30, 2008 and 2007 consist of the following (amounts in thousands):

	<u>2008</u>	<u>2007</u>
Claims for Contract Disputes and Fire Fighting	\$1,128,138	\$1,094,038
Claims for No Fear Act	4,436	3,604
Less: Allowance for Uncollectible Accounts	<u>(760,000)</u>	<u>(730,000)</u>
Accounts Receivable, Net	<u>\$ 372,574</u>	<u>\$ 367,642</u>

**(b) Accounts Receivable with the Public, Net**

Accounts Receivable with the Public, net, exclusive of amounts due from the Federal Reserve System, as of September 30, 2008 and 2007 consist of the following (amounts in thousands):

	<u>2008</u>	<u>2007</u>
U.S. Treasury Check Forgery Insurance Fund Receivables	\$2,731	\$1,078
Interest Received from Tax and Loan Depositories	8,715	97,981
Interest Payments from States	<u>25</u>	<u>25</u>
Gross Accounts Receivable	11,471	99,084
Less: Allowance for Uncollectible Accounts	<u>(983)</u>	<u>(625)</u>
Accounts Receivable, Net	<u>\$10,488</u>	<u>\$98,459</u>

The U.S. Treasury Check Forgery Insurance Fund was established to expedite payments on claims and provide a dependable source of funds to meet the Federal Government's responsibility for the payment of settlement checks issued to replace checks paid over forged endorsements. The receivable represents the amount due from banks that cashed the forged checks.

The receivable for Interest Received from Tax and Loan Depositories represents interest accrued and owed to the Treasury, from the depositaries participating in the Investment Programs, for the interest earned on Treasury Tax and Loan funds. The Treasury Tax and Loan (TT&L) program invests funds collected by the Federal Government in short-term loans to commercial financial institutions. These funds can be withdrawn on demand to meet the Federal Government's immediate cash requirements.

This information is an integral part of the accompanying schedules.



**U.S. DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE**

Notes to Schedules

September 30, 2008 and 2007

**(4) Non-Entity Costs**

Non-Entity Costs represent payments made on behalf of the Federal Government through various Treasury Managed Accounts (TMA) described below. In addition, Non-Entity Costs also include accruals for which FMS has made a commitment to make a payment for claims existing as of September 30, 2008 and 2007.

*Credit Reform: Interest Paid on Uninvested Funds* – Direct loan and loan guarantee financing accounts receive various payments, repayments and fees, and make payments on defaults. When cash receipts exceed outlays or when an agency does not disburse all of its borrowings, these balances are held in the Treasury and earn interest. The interest earned on these balances is disbursed by FMS to the agency.

*Judgments* – FMS processes payments from the Judgment Fund for certain judicially and administratively ordered monetary awards against the United States, as well as amounts owed under compromise agreements negotiated by the United States Department of Justice in settlement of claims arising under actual or imminent litigation.

*Resolution Funding Corporation* – The Resolution Funding Corporation (REFCORP) account is maintained pursuant to the Federal Home Loan Bank Act. FMS provides payments to REFCORP to cover the interest expenses of REFCORP.

*Public Broadcasting Fund, Corporation for Public Broadcasting* – This account is used to make annual payments to the Corporation for Public Broadcasting pursuant to the enacted Public Law. The payment is used to assist and facilitate the full development of public telecommunications in which programs of high quality, diversity, creativity, excellence, and innovations will be made available to public telecommunications.

*Legal Services Corporation* – This account is used to pay the Legal Services Corporation through letter of credit drawdowns. The Legal Services Corporation distributes appropriated funds to local nonprofit organizations that provide free civil legal assistance, according to locally determined priorities, to people living in poverty. Congress chartered the corporation as a private, non-profit entity outside of the Federal Government.

*District of Columbia* – Payments to the District of Columbia cover certain operations of the District of Columbia. It includes payments for a program of management reform, for the administration and operation of correctional facilities, and for construction and repair of the District's infrastructure.

*Presidential Election Campaign Fund* – The Presidential Election Campaign Fund (PECF) is maintained in accordance with Internal Revenue Code. The purpose of the PECF is to defray the qualified campaign expenses which were incurred by eligible presidential candidates or nominating conventions. The PECF is a special fund financed through the collections of the \$3 check off option selected by taxpayers. These amounts are collected by the Internal Revenue Service and deposited into the PECF.

This information is an integral part of the accompanying schedules.

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September 30, 2008 and 2007

The PECF is broken down into the following accounts: Presidential Primary Matching Payment Account; Presidential Nominating Convention Account; and Presidential and Vice Presidential Nominee Account (General Election). Each account is funded in accordance with budget estimates provided by the Federal Election Commission (FEC). Payments from the PECF are made to qualified recipients upon certification from the FEC.

*Moneys Erroneously Received and Covered* – This account is used for expenditures made for collections or other receipts erroneously deposited into Treasury. Collections represent receipts that were not properly chargeable to any other appropriation.

*Other* – Other Non-Entity costs include the following payments: Payments to the States, Payments to Agencies for Interest on Uninvested Funds, Payment to the Institute of American Indian and Alaskan Native Culture and Arts Development, Payments from the U.S. Treasury Check Forgery Insurance Fund, Payments to Individuals under Private and Public Relief Laws, and Payments from Biomass Energy Development.

This information is an integral part of the accompanying schedules.

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September 30, 2008 and 2007

**(5) Collections of Custodial Revenue**

FMS collects Custodial Revenue that is not related to its mission and distributes the full amount collected to the Treasury General Fund. For the years ended September 30, 2008 and 2007, cash collections were as follows (amounts in thousands):

	<b>2008</b>		<b>Total</b>
	<b>October to December 2007</b>	<b>January to September 2008</b>	
Deposit of Earnings, Federal Reserve System	\$ 7,719,201	\$25,878,810	\$33,598,011
Interest Received from Tax and Loan Depositaries	256,268	347,761	604,029
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	6,673	66,926	73,599
General Fund Proprietary Receipts	21,879	51,284	73,163
Fines, Penalties, and Forfeitures	106	440	546
Interest Payments from States	-	56,977	56,977
Other	2,790	20,597	23,387
<b>Total</b>	<b>\$ 8,006,917</b>	<b>\$26,422,795</b>	<b>\$34,429,712</b>

	<b>2007</b>		<b>Total</b>
	<b>October to December 2006</b>	<b>January to September 2007</b>	
Deposit of Earnings, Federal Reserve System	\$ 5,787,507	\$ 26,255,231	\$ 32,042,738
Interest Received from Tax and Loan Depositaries	269,310	904,617	1,173,927
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	17,831	127,370	145,201
General Fund Proprietary Receipts	8,390	64,009	72,399
Fines, Penalties, and Forfeitures	119	354	473
Interest Payments from States	-	51,556	51,556
Other	5,920	18,615	24,535
<b>Total</b>	<b>\$ 6,089,077</b>	<b>\$27,421,752</b>	<b>\$33,510,829</b>

This information is an integral part of the accompanying schedules.

**U.S. DEPARTMENT OF THE TREASURY  
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Notes to Schedules

September 30, 2008 and 2007

**(6) Contingencies**

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible payment by FMS. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or unasserted litigation, a liability/cost is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources can be reasonably estimated.

There are numerous legal actions pending against the United States in Federal courts in which claims have been asserted that may be based on action taken by FMS. Management intends to vigorously contest all such claims. Management believes, based on information provided by legal counsel, that losses, if any, for the majority of these cases would not have a material impact on the Schedules. There are other cases that could result in significant payouts; however, legal counsel is unable to determine the probability of an unfavorable outcome, or determine an estimate or range of potential loss, for these matters, if any. No loss accrual has been made for these cases outstanding at September 30, 2008 or 2007. Below are examples of two such cases:

***Cobell et al. v. Kempthorne et al. (formerly Cobell v. Norton)***

Native Americans allege that the Department of Interior and the Treasury Department have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. On August 7, 2008, a Federal District Court issued an opinion awarding \$455 million to the plaintiffs. The opinion is not a final order, and both parties have petitioned for the right to appeal. The Department of the Interior is also a defendant in this case and has reported this case in their financial statements.

***Tribal Trust Fund Cases***

Numerous cases have been filed in which Native American Tribes seek a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the government to provide such an accounting. In addition, there are a number of other related cases for damages which do not name the Treasury Department as a defendant. It is not possible at this time to determine the likelihood of an unfavorable outcome or an estimate of the amount or range of any potential loss. The Department of the Interior is also a defendant in these cases and has reported these cases in their financial statements.

In addition, FMS manages several accounts that may be used for the payment of claims against other Federal Agencies. Such payments are reflected in the following Non-Entity cost accounts reflected in the Schedules: Judgments and Moneys Erroneously Received and Covered. At September 30, 2008 and 2007, such claims are in various stages of settlement.

This information is an integral part of the accompanying schedules.

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Pursuant to the provisions of the Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, "Accounting for Treasury Judgment Fund Transactions," claim amounts will be reflected in the Schedules upon completion of certain judicial procedures and the Federal agency's request for payment of these claims from the Judgment Fund. At September 30, 2008 and 2007, \$40 million and \$46 million, respectively, has been accrued and reflected in the appropriate line items in the Schedules for the estimated future expenditure expected to satisfy these claims.

This information is an integral part of the accompanying schedules.

## **ATTACHMENT**



COMMISSIONER

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

Ms. Elizabeth L. Hacquard, Partner NOV 17 2008  
KPMG, LLP  
2001 M Street, NW  
Washington, DC 20036

Dear Ms. Hacquard:

This letter is in response to the auditor's reports to the Office of Inspector General of U.S. Department of the Treasury and the Commissioner of the Financial Management Service (FMS) on the Schedules of Non-Entity Assets as of September 30, 2008 and 2007, and Non-Entity Costs and Custodial Revenue for the years then ended (the Schedules).

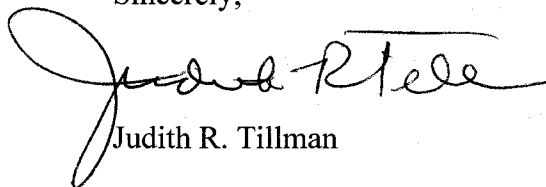
We are pleased to receive an unqualified audit opinion on the Schedules and that no material weaknesses related to internal controls over financial reporting were noted in your report.

FMS agrees with the significant deficiency in internal control over financial reporting that was the result of an overstatement of receivable on deposit of earnings for the Federal Reserve System. However, we would like to point out the accrual recorded for Receivable on Deposit of Earnings, Federal Reserve System was an estimate based upon FMS current procedures. Over the past four years, the accrual estimates continued on an upward trend. As a result FMS did not deem it necessary to changes its' procedure.

To rectify the situation, FMS will take into consideration the changes in the economy and earnings being reported by the Federal Reserve System. In addition, FMS will develop and implement a process to perform further analysis on a quarterly basis and at year-end make adjustments when appropriate.

Upon receipt of your limited official use management letter, FMS will give careful consideration to the recommendations for matters involving internal control and other operational matters relating to TMA. Specific corrective action plans and timetable will be formulated as soon as management determines the appropriate course of action.

Sincerely,



Judith R. Tillman