



Audit Report



OIG-09-020

Management Letter for Fiscal Year 2008

Audit of the Office of Thrift Supervision's Financial Statements

December 18, 2008

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 18, 2008

**MEMORANDUM FOR JOHN M. REICH, DIRECTOR
OFFICE OF THRIFT SUPERVISION**

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2008
Audit of the Office of Thrift Supervision's
Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Office of Thrift Supervision's (OTS) Fiscal Year (FY) 2008 financial statements. Under a contract monitored by the Office of Inspector General, Lani Eko & Company, CPAs, PLLC (Lani Eko), an independent certified public accounting firm, performed an audit of the financial statements of OTS as of September 30, 2008, and for the year 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*; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, Lani Eko issued and is responsible for the accompanying management letter that discusses certain matters involving internal control and its operation that were identified during the audit but were not required to be included in the auditor's reports.

In connection with the contract, we reviewed Lani Eko's letter and related documentation and inquired of its representatives. Our review disclosed no instances where Lani Eko 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



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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

To the Inspector General
U.S. Department of the Treasury

We have audited the financial statements of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the year ended September 30, 2008. In planning and performing our audit, we considered the OTS' internal control over financial reporting as a basis for designing our auditing procedures, obtained an understanding of the design effectiveness of internal controls, determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of the OTS' internal controls for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OTS' internal control over financial reporting.

We noted certain matters involving internal control that are presented in the attachment to this letter for your consideration. We believe these matters warrant management's attention. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the OTS' internal controls or result in other operating efficiencies.

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

Lani Eko & Company, CPAs, PLLC

October 31, 2008
Alexandria, VA

**Office of Thrift Supervision
FY 2008 Financial Statement Audit
Comment and Recommendations - #1**

**Oversight of Bureau of the Public Debt Administrative
Resource Center Accounting Services**

CONDITION

OTS management did not provide adequate oversight and monitoring of accounting estimates prepared by OTS personnel and accounting services provided by the Bureau of the Public Debt (BPD), Administrative Resource Center (ARC). ARC provides accounting services to OTS. During our interim and year-end testing, we noted the following weaknesses in OTS management's oversight and monitoring of accruals prepared by OTS personnel and ARC accounting services:

- Reconciliations of OTS cash accounts performed by ARC lacked evidence of review and approval by OTS Financial Operations staff.
- OTS transitioned to a new payroll process in August 2008, transferring the payroll processing from an internal payroll system to the National Finance Center's payroll system. Based on our year-end audit fieldwork, we noted that OTS is not provided with payroll reconciliations from ARC to ensure that payroll data is being recorded accurately.
- Lack of OTS management review of accounts payable accruals prior to submission to ARC for processing.
- Inconsistent methodology in the estimation of the year-end accruals. In some instances accruals were estimated based on the outstanding balance of the executed contracts, and in other instances accruals were estimated based on the OTS staff knowledge of the contract progress.

CAUSE

OTS places significant reliance on ARC to accurately perform accounting services and does not provide the appropriate level of oversight and monitoring of ARC activities related to OTS transactions. In addition, OTS does not have a written procedure for estimating accruals.

CRITERIA

Standards for Internal Control in the Federal Government issued by the Government Accountability Office state that 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.

Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities* requires that when an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid

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Comment and Recommendations - #1**

amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

Office of Management & Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* requires that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations.

EFFECT

OTS financial statements are susceptible to misstatements.

RECOMMENDATION

We recommend OTS management, (1) review and strengthen its policies and procedures to ensure proper oversight and monitoring of ARC, and (2) develop and implement written procedures for estimating year-end accruals.

MANAGEMENT RESPONSE

OTS management concurs with the findings and recommendations.

**Office of Thrift Supervision
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Comment and Recommendation - #2**

Monitoring of Mileage Reimbursement

CONDITION

We noted that expense reports for mileage reimbursements submitted for travel by privately owned vehicles by OTS staff and consultants are not reviewed to ensure that the mileage claims are accurate and valid to adequately support the expenses.

CAUSE

OTS supervisors are not required to verify the mileage as part of the review of expense reports for travel.

CRITERIA

OTS travel policies and procedures require that travel reimbursements are subject to supervisory review and approval.

EFFECT

Without proper support of mileage expenses, OTS is susceptible to fraud, waste and/or abuse. In fiscal year 2008, OTS reported approximately \$2 million for travel mileage expense.

RECOMMENDATION

We recommend that OTS revise its travel policies and procedures to require the verification of the mileage as part of the review and approval of the claim for reimbursement.

MANAGEMENT RESPONSE

OTS concurs with the finding and recommendation.

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FY 2008 Financial Statement Audit
Comment and Recommendations - #3**

Access Controls Over Computer Resources

CONDITION

Access controls limit or detect access to computer resources (data, programs, equipment, and facilities), thereby protecting these resources against unauthorized modification, loss, and disclosure. OTS access controls for the General Support System (GSS), National Application Tracking System, Assessment Billing System and Furniture, Fixtures and Equipment System (Inventory Tracking System) need improvement. We noted the following weaknesses in OTS access controls:

- Access authorizations are not documented on standard forms and maintained on file, approved by senior managers, and securely transferred to security managers.
- Security managers do not review access authorizations and discuss questionable authorizations with resource owners.
- System owners do not periodically review access authorization listings to determine whether they remain appropriate.
- Inactive user accounts are not monitored and removed when not needed.
- Controls are not adequate to ensure that prior to sharing data or programs with other entities, agreements are documented regarding how those files are to be protected.
- Facilities housing sensitive and critical resources have not been identified.
- All significant threats to the physical well being of sensitive and critical resources have not been identified and related risks determined.
- Access to sensitive areas is not limited to those individuals who routinely need access through the use of guards, identification badges, or entry devices, such as key cards.
- Management does not regularly review the list of persons with physical access to sensitive facilities.
- Keys or other access devices are not used to enter the computer room and tape/media library.
- The entry codes for the computer room are not changed quarterly or when key personnel leave.
- Visitors to sensitive areas, such as the main computer room and tape/media library, are not formally signed in and escorted.
- Visitors, contractors, and maintenance personnel are not authenticated through the use of preplanned appointments and identification checks.
- Database management systems (DBMS) and data dictionary (DD) controls have not been implemented to: restrict access to data files at the logical data view, field, or field-value level; control access to the data dictionary using security profiles and passwords; maintain audit trails that allow monitoring of changes to the data dictionary; provide inquiry and update capabilities from application program functions, interfacing DBMS or the data dictionary.
- The use of DBMS utilities is not limited to administrators.

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Comment and Recommendations - #3**

- Access and changes to DBMS software are not controlled.
- Access to security profiles in the data dictionary and security tables in the DBMS is not limited.

CAUSE

OTS does not document logical access control policies and procedures for the significant financial applications. OTS does not document physical access control policies and procedures for the data centers that support the significant financial applications.

CRITERIA

NIST Special Publication 800-53 (Revision 2), *Recommended Security Controls for Federal Information Systems*

ACCESS CONTROL POLICY AND PROCEDURES:

The organization develops, disseminates, and periodically reviews/updates: (i) a formal, documented, access control policy that addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance; and (ii) formal, documented procedures to facilitate the implementation of the access control policy and associated access controls.

EFFECT

By not maintaining sufficient logical and physical access controls, the OTS exposed the General Support System (GSS), National Application Tracking System, Assessment Billing System and Furniture, Fixtures and Equipment System (Inventory Tracking System) to the risk that unauthorized individuals could gain access to sensitive information. Additionally, OTS' ability to protect sensitive data or equipment from theft or inadvertent disclosure would be compromised if an unauthorized person entered a restricted facility containing sensitive OTS equipment and data.

RECOMMENDATION

We recommend OTS review and strengthen its physical and logical access control policies and procedures to ensure only authorized individuals have access to sensitive information.

MANAGEMENT RESPONSE

OTS management concurs with the findings and recommendation.