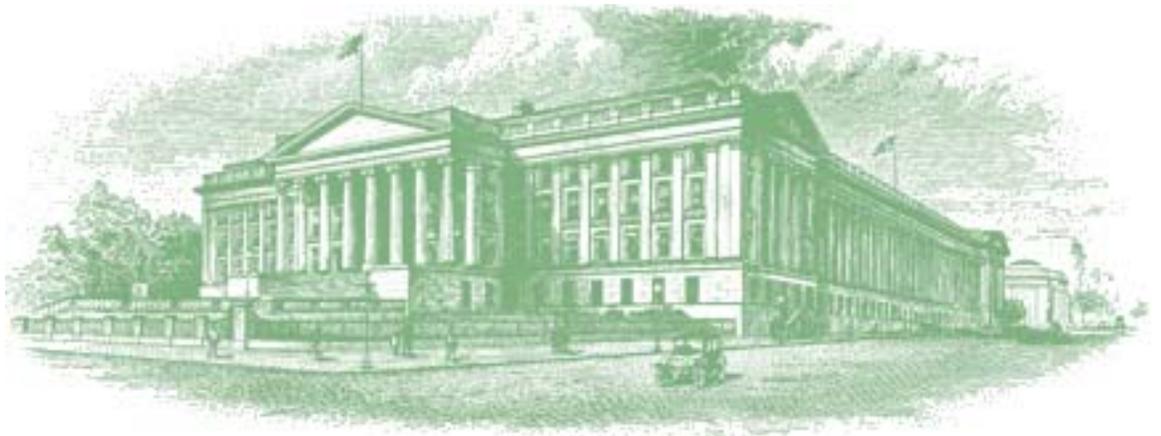




Audit Report



OIG-10-018

Audit of the Financial Management Service's Fiscal Years 2009
and 2008 Schedules of Non-Entity Government-Wide Cash

December 9, 2009

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 9, 2009

**MEMORANDUM FOR DAVID A. LEBRYK, COMMISSIONER
FINANCIAL MANAGEMENT SERVICE**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Financial Management Service's
Fiscal Years 2009 and 2008 Schedules of Non-Entity
Government-wide Cash

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years (FY) 2009 and 2008 Schedules of Non-Entity Government-wide Cash (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 Schedules of Non-Entity Government-wide Cash for FY 2009 and 2008. 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; 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' Schedules, KPMG LLP found:

- the Schedules present fairly, in all material respects, the balance of Non-Entity Government-wide Cash as of September 30, 2009 and 2008, in conformity with U.S. generally accepted accounting principles,

- certain deficiencies in internal control over financial reporting that were considered collectively to be a significant deficiency¹ (described below), and
- no instances of reportable noncompliance with laws and regulations tested.

KPMG LLP also issued a management letter dated December 7, 2009, discussing a matter relating to Government-wide Cash that was identified during the audit but was not required to be included in the auditors' reports.

KPMG LLP concluded that FMS' IT general controls do not provide reasonable assurance that: (1) an adequate security management program is in place; (2) access to computer resources (data, equipment, and facilities) is reasonable and restricted to authorized individuals; (3) changes to information system resources are authorized and systems are configured and operated securely and as intended; (4) incompatible duties are effectively segregated; and (5) contingency planning protects information resources and minimizes the risk of unplanned interruptions and provides for recovery of critical operations should an interruption occur. Individually or collectively, the conditions observed and reported on could compromise FMS' ability to ensure security over sensitive financial data related to Government-wide Cash and the reliability of key systems.

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 performed 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. KPMG LLP is responsible for the attached auditors' reports dated December 7, 2009 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.

¹ A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Attachment

cc: Richard L. Gregg
Acting Fiscal Assistant Secretary



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

Independent Auditors' Reports and Schedules of Non-Entity Government-Wide Cash

September 30, 2009 and 2008

**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 Schedules of Non-Entity Government-wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2009 and 2008 (hereinafter referred to as the Schedules). 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. 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 audits to obtain reasonable assurance about whether the Schedules are 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' internal control over financial reporting related to GWC. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules, 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 referred to above present fairly, in all material respects, the balance of Non-Entity Government-wide Cash as of September 30, 2009 and 2008, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 7, 2009, on our consideration of FMS' internal control over financial reporting relating to GWC and our tests of its compliance with certain provisions of applicable laws and regulations relating to GWC. 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 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 audits.

KPMG LLP

December 7, 2009



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 Schedules of Non-Entity Government-wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2009 and 2008 (hereinafter referred to as the Schedules), and have issued our report thereon dated December 7, 2009.

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. 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 audits to obtain reasonable assurance about whether the Schedules are free of material misstatement.

The management of FMS is responsible for establishing and maintaining effective internal control relating to GWC. In planning and performing our fiscal year 2009 audit, we considered FMS' internal control over financial reporting relating to GWC by obtaining an understanding of the design effectiveness of FMS' internal control relating to GWC, determining whether internal controls relating to GWC 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 Schedules. To achieve this purpose, we did not test all internal controls relating to GWC 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' internal control over financial reporting relating to GWC. Accordingly, we do not express an opinion on the effectiveness of FMS' internal control over financial reporting relating to GWC.

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Schedules will not be prevented, or detected and corrected on a timely basis.



In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting relating to GWC that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting relating to GWC that collectively we consider to be a significant deficiency and that is described in the Exhibit.

FMS' response to the finding identified in our audit is presented in the Attachment. We did not audit FMS' response and, accordingly, we express no opinion on it.

We noted a matter relating to GWC that we have reported to FMS management in a separate letter dated December 7, 2009.

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

December 7, 2009

**U.S. Department of the Treasury
Financial Management Service
Schedules of Non-Entity Government-wide Cash (GWC)
Significant Deficiency in Internal Control Over Financial Reporting**

Information Technology Controls Over Systems Managed by FMS and Third Parties

FMS relies on an extensive array of information technology (IT) systems to manage Non-Entity Government-wide Cash (GWC). 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 IT 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 security management, access controls, configuration management, segregation of duties, and contingency planning. Business process application controls involve input, processing, and output controls related to specific IT applications.

During our fiscal year 2009 audit, we performed a review of computer controls managed by FMS and third-party service providers, using the Government Accountability Office's (GAO's) Federal Information Systems Controls Audit Manual (FISCAM). Our review included general and selected application controls over key systems related to GWC.

Our testing revealed that the necessary policies and procedures to detect and correct control and functionality weaknesses have not been consistently documented, implemented, or enforced. FMS' IT general controls do not provide reasonable assurance that:

1. An adequate security management program is in place;
2. Access to computer resources (data, equipment, and facilities) is reasonable and restricted to authorized individuals;
3. Changes to information system resources are authorized and systems are configured and operated securely and as intended;
4. Incompatible duties are effectively segregated; and
5. Contingency planning protects information resources and minimizes the risk of unplanned interruptions and provides for recovery of critical operations should an interruption occur.

Individually or collectively, the conditions we observed and reported on could compromise the FMS' ability to ensure security over sensitive financial data related to GWC and the reliability of key systems.

Because of the sensitivity of the information, we issued a separate sensitive but unclassified report to the Commissioner of FMS detailing the conditions identified and our recommendations for corrective action.

Management's 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.



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 Schedules of Non-Entity Government-wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2009 and 2008 (hereinafter referred to as the Schedules), and have issued our report thereon dated December 7, 2009.

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. 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 Schedules are free of material misstatement.

The management of FMS is responsible for complying with laws and regulations applicable to the amounts reflected in the Schedules. As part of obtaining reasonable assurance about whether the Schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations relating to GWC, noncompliance with which could have a direct and material effect on the determination of the amounts reflected in the Schedules, and certain provisions of other applicable 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 certain of our tests of compliance described in the preceding paragraph 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

December 7, 2009

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

**Schedules of Non-Entity Government-Wide Cash
September 30, 2009 and 2008**

(In Thousands)

	<u>2009</u>	<u>2008</u>
Non-entity government-wide cash (Notes 1 and 2)	\$ <u>269,443,060</u>	<u>364,690,866</u>

The accompanying notes are an integral part of these Schedules.

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

**Notes to the Schedules of Non-Entity Government-Wide Cash
September 30, 2009 and 2008**

(In Thousands)

NOTE 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' 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.

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

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. These schedules include the Non-Entity government-wide cash accounts.

B. Basis of Accounting

The standards used in the preparation of the accompanying schedules are issued by the Federal Accounting Standards Advisory Board, as the body authorized to establish generally accepted accounting principles for Federal Government entities. Accordingly, the accompanying schedules are prepared in accordance with U.S. generally accepted accounting principles.

The accompanying schedules are different from the financial reports prepared by FMS pursuant to OMB directives that are used to monitor and control FMS' use of budgetary resources.

C. Non-entity Government-wide Cash

Non-entity government-wide cash is held in depository institutions or Federal Reserve accounts.

Operating Cash of the U.S. Government represents balances from tax collections, customs duties, other revenue, federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments held in the Federal Reserve Banks, foreign and domestic financial institutions, U. S. Treasury Tax and loan accounts. Outstanding checks are netted against operating cash until they are cleared by the Federal Reserve System.

This information is an integral part of the accompanying Schedules.

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

**Notes to the Schedules of Non-Entity Government-Wide Cash
September 30, 2009 and 2008**

(In Thousands)

C. Non-entity Government-wide Cash (Continued)

Agencies can deposit funds that are submitted to them directly into either a Federal Reserve Treasury General Account (TGA) or a local TGA depository. The TGA is maintained at the Federal Reserve Bank of New York (FRBNY) and functions as the government's checking account for deposits and disbursements of public funds. The Treasury Tax and Loan (TT&L) program includes about 9,000 depositories that accept tax payments and remit them the day after receipt to FRBNY's TGA. Certain TT&L depositories also hold Non-entity Government-wide Cash in interest bearing accounts. Cash in the TGA and the TT&L program is restricted for Government-wide operations. The balances in these TGA accounts are transferred to the FRBNY's TGA at the end of each day.

U. S. TT&L Accounts include funds invested through the Term Investment Option program and the Reverse Repurchase Agreement program (Repo) program. Under the Term Investment Option program, Treasury auctions funds for a set term, usually in the range of 1 day to 3 weeks. Under the Repo program, Treasury invests funds through overnight reverse repurchase agreements. However, Treasury reserves the right to call the funds prior to maturity under special circumstances.

The Supplementary Financing Program (SFP) Account is maintained at FRBNY. SFP is a temporary program announced by Treasury and the Federal Reserve to provide emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. The program consists of a series of Treasury bills, apart from Treasury's current borrowing program.

To promote stability in the mortgage market, a Federal Reserve account was established at JP Morgan Chase. Treasury uses this account to purchase Government Sponsored Enterprise (GSE) mortgage-backed securities in the open market. This account had a zero balance at September 30, 2009.

Other cash is mostly comprised of Automated Clearinghouse transfers and U.S. currency held by the Department of State.

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

**Notes to the Schedules of Non-Entity Government-Wide Cash
September 30, 2009 and 2008**

(In Thousands)

NOTE 2. NON-ENTITY GOVERNMENT-WIDE CASH

Non-Entity Government-wide Cash includes the Operating Cash of the U.S. Government, managed by Treasury, and foreign currency maintained by various U.S. and military disbursing offices, at September 30, 2009 and 2008, as follows:

	2009	2008
Operating Cash of the U.S. Government:		
Held in Depository Institutions	\$ 2,062,435	\$ 39,209,396
Held in the Federal Reserve Account	108,324,488	32,988,331
Held in the Supplementary Financing Program Account	164,944,579	299,491,411
Subtotal	275,331,502	371,689,138
Outstanding checks	(6,280,034)	(7,415,945)
Subtotal	269,051,468	364,273,193
Other Cash	366,074	386,036
Subtotal	269,417,542	364,659,229
Foreign Currency	25,518	31,637
Total	\$ 269,443,060	\$ 364,690,866

Operating Cash of the Federal Government held by depository institutions is either insured (for balances up to \$250,000) by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities pledged by the depository institution, or through securities held under reverse repurchase agreements.



COMMISSIONER

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

NOV 19 2009

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

Dear Ms. Hacquard:

This letter is in response to your reports to the Inspector General, U.S. Department of the Treasury, and the Commissioner, Financial Management Service (FMS) on (1) the Schedules of Non-Entity Government-wide Cash as of September 30, 2009 and 2008, and (2) the Schedules of Non-Entity Assets as of September 30, 2009 and 2008, and Non-Entity Costs and Custodial Revenue for the years then ended.

We are pleased to receive an unqualified opinion on the Schedules and that no material weaknesses related to internal control over financial reporting were noted in your report. FMS appreciates the feedback resulting from the audit on the implementation of our security controls. Although KPMG's report cites a Significant Deficiency in Internal Control over Financial Reporting, FMS takes Internal Controls very seriously. Internal Controls are a high priority for FMS senior management and significant resources are and will continue to be applied to Internal Control issues.

FMS has spent considerable resources having our security controls tested by independent consultants experienced and knowledgeable in testing Information Technology (IT) controls. We carefully plan this testing on an annual basis in accordance with the Federal Information Security Management Act (FISMA). All deficiencies identified from this testing are being tracked via the Trusted Agent FISMA (TAF) system. We use TAF as a management tool to readily identify any FISMA related deficiencies. In addition, all FMS systems are monitored for FISMA compliance via TAF. FMS believes we have met the intent of National Institute of Standards and Technology (NIST) guidance and have applied it to our business environment.

We require annual recertification of general users and semi-annual recertification of power users to prevent unauthorized access to programs and files and ensure separation of duties. We have a configuration management program in place to ensure that changes to information resources are authorized and systems are configured and operated securely, and as intended. Each of our systems completes contingency testing on an annual basis to minimize the risk of unplanned interruptions and provide for recovery of operations.

FMS has a robust threat management and intrusion detection program. FMS' strategy includes various mitigating and compensating management, operational, and technical security controls.

Page 2 – Ms. Elizabeth L. Hacquard, Partner

FMS senior management has authorized operation of each system after reviewing the security certification results which identify any residual risks. We have confidence that our IT systems are operating at minimal risk.

FMS is committed to having effective internal controls for our IT systems. We will implement the appropriate corrective actions to ensure the significant deficiency KPMG cited in this audit report is not repeated in future audits.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Lebryk', with a stylized flourish at the end.

David A. Lebryk