



Audit Report



OIG-10-019

Audit of the Financial Management Service's Fiscal Years 2009
and 2008 Schedules of Non-Entity Assets, Non-Entity Costs and
Custodial Revenue

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 Assets,
Non-Entity Costs and Custodial Revenue

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years (FY) 2009 and 2008 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 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue 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 Non-Entity Assets as of September 30, 2009 and 2008, and Non-Entity Costs and Custodial Revenue for the years then ended, 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 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 Non-Entity Assets, Non-Entity Costs and Custodial Revenue 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.

Attachment

cc: Richard L. Gregg
Acting Fiscal Assistant Secretary

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.



**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, 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 Assets as of September 30, 2009 and 2008, and Non-Entity Costs and Custodial Revenue for the years then ended (collectively, Treasury Managed Accounts (TMA)) (hereinafter referred to as the Schedules) of the U.S. Department of the Treasury's Financial Management Service (FMS). 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 TMA. 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 Non-Entity Assets as of September 30, 2009 and 2008, and Non-Entity Costs and Custodial Revenue for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 6, FMS changed its method of accounting for and reporting fiduciary funds related to TMA in fiscal year 2009 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 31, *Accounting for Fiduciary Activities*.

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 TMA and our tests of its compliance with certain provisions of applicable 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 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 Assets as of September 30, 2009 and 2008, and Non-Entity Costs and Custodial Revenue for the years then ended (collectively, Treasury Managed Accounts (TMA)) (hereinafter referred to as the Schedules) of the U.S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated December 7, 2009. As discussed in Notes 1 and 6, FMS changed its method of accounting for and reporting fiduciary funds related to TMA in fiscal year 2009 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 31, *Accounting for Fiduciary Activities*.

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 TMA. In planning and performing our fiscal year 2009 audit, we considered FMS' internal control over financial reporting relating to TMA by obtaining an understanding of the design effectiveness of FMS' 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 Schedules. 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' internal control over financial reporting relating to TMA. Accordingly, we do not express an opinion on the effectiveness of FMS' internal control over financial reporting relating to TMA.

Our consideration of internal control over financial reporting relating to TMA 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 TMA 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 TMA that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting relating to TMA that collectively we consider to be a significant deficiency and that is described in Exhibit I. Exhibit II presents the status of the prior year significant deficiency.

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.

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 Assets, Non-Entity Costs and Custodial Revenue

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 the Non-Entity Assets, Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA)). 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 related to TMA.

Our testing revealed 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 TMA 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.

U.S. Department of the Treasury

Financial Management Service

Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

Status of Prior Year Significant Deficiency

<u>Finding</u>	<u>Action Complete</u>	<u>Action in Progress</u>
Overstatement of Receivable on Deposit of Earnings, Federal Reserve System	X	



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 Assets as of September 30, 2009 and 2008, and Non-Entity Costs and Custodial Revenue for the years then ended (collectively, Treasury Managed Accounts (TMA)) (hereinafter referred to as the Schedules) of the U.S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated December 7, 2009. As discussed in Notes 1 and 6, FMS changed its method of accounting for and reporting fiduciary funds related to TMA in fiscal year 2009 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 31, *Accounting for Fiduciary Activities*.

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 TMA, 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 TREASURY
FINANCIAL MANAGEMENT SERVICE**

**Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue
September 30, 2009 and 2008**

(In Thousands)

	<u>2009</u>	<u>2008</u>
Non-Entity Assets (Note 6)		
Intra-governmental:		
Fund Balance with Treasury (Note 2)	\$ 368,167	\$ 630,553
Accounts Receivable, Net (Note 3)	285,315	372,574
Other	-	440
Total Intra-governmental	<u>653,482</u>	<u>1,003,567</u>
With the Public:		
Receivable on Deposit of Earnings, Federal Reserve System	1,253,984	1,465,632
Accounts Receivable, Net (Note 3)	573	10,488
Other	-	14,168
Total With the Public	<u>1,254,557</u>	<u>1,490,288</u>
Total Non-Entity Assets	<u>\$ 1,908,039</u>	<u>\$ 2,493,855</u>
Commitments and Contingencies (Note 7)		
Non-Entity Costs (Note 4)		
Credit Reform: Interest Paid on Uninvested Funds	\$ 12,632,930	\$ 5,378,162
Judgments	2,304,834	785,724
Resolution Funding Corporation	2,120,124	1,392,990
Public Broadcasting Fund, Corporation for Public Broadcasting	461,233	448,476
Legal Services Corporation	388,010	346,716
District of Columbia	211,616	121,457
Presidential Election Campaign Fund	465	106,297
Moneys Erroneously Received and Covered	71,299	47,070
Other	40,072	39,782
Total Non-Entity Costs	<u>\$ 18,230,583</u>	<u>\$ 8,666,674</u>
Custodial Revenue (Note 5)		
Deposit of Earnings, Federal Reserve System	\$ 34,318,322	\$ 33,598,011
Interest Received from Tax and Loan Depositories	39,527	604,029
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	91,840	73,599
General Fund Proprietary Receipts, Not Otherwise Classified	101,134	73,163
Fines, Penalties, and Forfeitures, Not Otherwise Classified	3,348	546
Interest Payments from States, Cash Management Improvement	36,324	56,977
Other	22,711	23,387
Total Cash Collections	<u>34,613,206</u>	<u>34,429,712</u>
Accrual Adjustment	(307,378)	90,475
Total Custodial Revenue	<u>\$ 34,305,828</u>	<u>\$ 34,520,187</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 Assets, Non-Entity Costs and Custodial Revenue

September 30, 2009 and 2008

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'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 Treasury Account Symbols (TAS) 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 activity of Non-Entity TAS managed by FMS. 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).

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 Treasury and the Federal Government as a whole. Thus, the accompanying schedules do not reflect the results of financial decisions and activities applicable to FMS as if it was 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

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

September 30, 2009 and 2008

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 U.S. generally accepted accounting principles for Federal government entities.

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' use of budgetary resources.

C. Use of Estimates in Preparing the 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. For example, estimates can be based on prior year disbursements. 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.

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

September 30, 2009 and 2008

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 an analysis of individual accounts, a group based methodology, and a percentage of total receivables and historical collections at September 30.

F. Receivable on Deposit of Earnings, Federal Reserve System

Federal 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 Federal 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 to Treasury as of September 30, but not collected by 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 of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

September 30, 2009 and 2008

H. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the U.S. Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the U.S. Government must uphold. Fiduciary cash and other assets are not assets of the U.S. Government. Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting for Fiduciary Activities*, which is effective for periods beginning after September 30, 2008, prescribes that fiduciary type activities no longer be reported in proprietary financial statements. Therefore, these activities are not reported on the Schedules for the fiscal year ended September 30, 2009. They are reported in Note 6 to the Schedules. They are included on the Schedules for the fiscal year ended September 30, 2008.

I. 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.

NOTE 2. FUND BALANCE WITH TREASURY (FBWT)

FBWT 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. FBWT as of September 30, 2009 and 2008 consisted of the following (amounts in thousands):

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

September 30, 2009 and 2008

2009

Account Type	Obligated	Unobligated Available	Unobligated Unavailable	Total
Appropriated Funds	\$ 111,916	\$ 155,188	\$ 2	\$ 267,106
Revolving Funds	199	4,173	-	4,372
Other Fund Types	-	-	96,689	96,689
Total	\$ 112,115	\$ 159,361	\$ 96,691	\$ 368,167

2008

Account Type	Obligated	Unobligated Available	Unobligated Unavailable	Total
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
Total	\$ 97,959	\$ 120,785	\$ 411,809	\$ 630,553

The fund balance, unobligated available supports the budgetary resources available except for \$310 thousand in 2008, 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 that do not have a budgetary impact.

NOTE 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 of 1978* (CDA) and the *Notification and Federal Employee Anti-discrimination and Retaliation Act of 2002* (No FEAR). While the CDA and

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

September 30, 2009 and 2008

No FEAR require Federal agencies reimburse the Judgment Fund for payments, CDA and No FEAR do not authorize FMS to initiate collection action against those agencies. Accordingly, FMS has historically had difficulty in collecting amounts owed under the CDA. An allowance for uncollectible accounts has been established to recognize losses on receivables that may not be collected under this program. As a result of the annual review of the uncollectible estimate for CDA, the allowance amount was increased by \$140 million from 2008 to 2009, and \$30 million from 2007 to 2008. During the individual account analysis, it was determined that four of the non-reimbursing agencies made up 82% of the intra-governmental accounts receivable balance. An allowance for uncollectible accounts has not been established for No FEAR Act receivables because an agency will be deemed non-compliant if it fails to reimburse or make timely arrangements for reimbursement; therefore, amounts owed are being collected. The activity in the allowance account each year is reflected in the "Accrual Adjustment" line in the custodial revenue section of the Schedules.

Intra-governmental accounts receivable as of September 30, 2009 and 2008 consist of the following (amounts in thousands):

	2009	2008
Claims for CDA and Fire Fighting	\$ 1,183,751	\$ 1,128,138
Claims for No FEAR	1,564	4,436
Less: Allowance for Uncollectable Accounts	(900,000)	(760,000)
Accounts Receivable, Net	\$ 285,315	\$ 372,574

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

September 30, 2009 and 2008

B. Accounts Receivable with the Public, Net

Accounts Receivable with the Public, exclusive of amounts due from the Federal Reserve System, as of September 30, 2009 and 2008, consist of the following (amounts in thousands):

	2009	2008
U.S. Treasury Check Forgery Insurance Fund Receivables	\$ 1,089	\$ 2,731
General Fund Proprietary Receipts	127	-
Interest Received from Tax and Loan Depositories	-	8,715
Interest Payments from States	-	25
Gross Accounts Receivable	1,216	11,471
Less: Allowance for Uncollectable Accounts	(643)	(983)
Accounts Receivable, Net	<u>\$ 573</u>	<u>\$ 10,488</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 allowance for uncollectible accounts for Check Forgery is calculated by comparing losses to accounts receivable with the public. The percentage represents a portion of the current outstanding accounts receivable that are deemed uncollectible.

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 (TT&L) funds. The 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.

NOTE 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, 2009 and 2008.

This information is an integral part of the accompanying Schedules.

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

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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 collected by each federal agency from FMS.

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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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.

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NOTE 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, 2009 and 2008, cash collections were as follows (amounts in thousands):

	2009		Total
	October to December 2008	January to September 2009	
Deposit of Earnings, Federal Reserve System	\$ 9,766,602	\$24,551,720	\$34,318,322
Interest Received from Tax and Loan Depositories	29,299	10,228	39,527
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	8,110	83,730	91,840
General Fund Proprietary Receipts	5,435	95,699	101,134
Fines, Penalties, and Forfeitures	1,008	2,340	3,348
Interest Payments from States	-	36,324	36,324
Other	5,064	17,647	22,711
Total	\$ 9,815,518	\$24,797,688	\$34,613,206

	2008		Total
	October to December 2007	January to September 2008	
Deposit of Earnings, Federal Reserve System	\$ 7,719,201	\$25,878,810	\$33,598,011
Interest Received from Tax and Loan Depositories	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
Total	\$ 8,006,917	\$26,422,795	\$34,429,712

This information is an integral part of the accompanying Schedules.

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NOTE 6. SCHEDULE OF FIDUCIARY ACTIVITY

FMS accounts for certain cash that the Federal Government collects and holds on behalf of other entities. FMS collects funds from foreign governments to make payments to US nationals. Also, FMS maintains an account – Unclaimed Moneys – whose sole purpose, as originally established, was to hold moneys in trust for rightful owners (as received by Government agencies from sources outside the Government). While these activities are not reported on the Schedules for the fiscal year ended September 30, 2009, they are required to be reported in the notes to financial statements. They were included on the Schedules for the fiscal year ended September 30, 2008.

The following are the funds identified by FMS as fiduciary activities along with activity for the year ended September 30, 2009.

Proceeds and Payment of Certain Unpaid Checks

The authority for this deposit fund is cited in 31 U.S.C. 3328. Specifically, the Secretary of the Treasury shall not be required to pay a Treasury check issued on or after the effective date of 31 U.S.C. 3328 unless it is negotiated to a financial institution within 12 months after the date on which the check was issued; and the Secretary shall not be required to pay a Treasury check issued before the effective date of 31 U.S.C. 3328 unless it is negotiated to a financial institution within 12 months after such effective date. If a check issued by a disbursing official and drawn on a designated depository is not paid by the last day of the fiscal year after the fiscal year in which the check was issued, the amount of the check is withdrawn from the account with the depository; and deposited in the Treasury. A claim for the proceeds of an unpaid check under this code may be paid from a consolidated account by this fund symbol.

This deposit fund holds non-federal funds not paid to the public due to failure of cashing or depositing a check.

Proceeds of Withheld Foreign Checks

The authority for this deposit fund is cited in 31 U.S.C. 3329, 3330. Specifically, the Secretary of the Treasury shall prohibit a check or warrant drawn on public money from being sent to a foreign country from the United States or from a territory or possession of the United States when the Secretary decides that postal, transportation, or banking facilities generally, or local conditions in the foreign country, do not reasonably ensure that the payee will receive the check or warrant and will be able to negotiate it for full value. The account is maintained to receive and hold the proceeds of these checks.

This deposit fund holds non-federal funds not paid to the public due to failure of cashing or depositing a check.

War Claims Fund (Foreign Claims Settlement Commission)

The War Claims Act of 1948, as amended, was designed to compensate individual American citizens and corporations for certain losses incurred by them in specific foreign countries during World War II. In order to compensate them, funds were to be made available by the proceeds from the sale of enemy assets that were seized under the Trading with the Enemy Act rather than through the appropriation process by the Congress.

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Debt Management Operations

The authority for this deposit fund is cited in 31 U.S.C. 1321. The purpose of this deposit fund is to account for non-federal collections and the disbursements of fees due to private collection agencies and individuals.

Albanian Claims Fund

The Albanian Claims program is authorized under the Foreign Claims Settlement Act of 1949 (22 U.S.C. 1627). The statute authorizes special funds to be set up, authorizes investment of funds, and gives directions on how claims are to be paid. On March 10, 1995, the United States and Albania signed an agreement providing for the settlement of the United States national's property claims against Albania in exchange for a lump-sum payment by Albania to the United States of \$2 million. The \$2 million was received by the United States on October 29, 1996, and was invested.

Payment of Unclaimed Moneys

The authority for this deposit fund is cited in 31 U.S.C. 1322. The balance of this account should represent only moneys which, when claimed, are unequivocally refundable. The sole purpose of the account, as originally established, was to hold such moneys in trust for rightful owners (as received by Government agencies from sources outside the Government). Accordingly, items cleared from agency uninvested trust, revolving and deposit fund accounts for transfer to account 20X6133 must meet all four of the following criteria: (1) amount is \$25.00 or more, (2) a refund, upon claim, would be absolutely justified, (3) there is no doubt as to legal ownership of the funds, and (4) a named individual, business, or other entity can be identified with the item.

Libyan Claims Settlement Fund

On August 14, 2008, the United States and Libya signed a comprehensive claims settlement agreement in Tripoli. The agreement is designed to provide rapid recovery of fair compensation for American nationals with terrorism-related claim against Libya. The U.S. Congress has supported this initiative by passing the Libya Claims Resolution Act (Public Law 110-301), which was signed into law by the President on August 4, 2008.

Kennedy Center Revenue Bond Sinking Fund

The authority for this deposit fund is cited in 98 Stat 1876. The Kennedy Center Revenue Bond Sinking Fund is a fund set up to retire obligations of the Board of Trustees of the John F. Kennedy Center for the Performing Arts. Annual deposits are received from the Kennedy Center by the first day of January and deposited into the fund. Interest is received and reinvested on the Fund every May and November. The fund matures in the year 2016.

Iranian Claims Settlement Fund

This claims fund is authorized under 22 U.S.C. 1627. The U.S. made an agreement with the Government of Iran providing for the lump-sum settlement of claims of United States nationals against Iran of under \$250,000 per claim which had been pending against Iran at the Iran-U.S. Claims Tribunal at the Hague, Netherlands. The claimants had filed these claims through the Department of State following the signing of the Algiers Accords by the United States and Iran on January 19, 1981. In addition to the unresolved

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small claims, the agreement included other claims. Under the terms of the agreement, Iran assented to the transfer of \$105 million to the United States. The United States and Iran submitted the Settlement Agreement to the Tribunal for approval. It was approved and became effective on June 22, 1990.

German Democratic Republic Settlement Fund

Title VI of the Act [Public Law 94-542, approved October 18, 1976, 90 Stat. 2509 (22 U.S.C. 1644)] authorized the Commission to receive and determine claims against the German Democratic Republic for losses which arose from the nationalization, expropriation, or other taking by that government of property interests of nationals of the United States. When the program was authorized, no funds were available for payment of the awards issued by the Commission. The program was completed on May 16, 1981. The Department of State subsequently conducted negotiations with the German Democratic Republic--and, after unification, with the Federal Republic of Germany--to obtain a claims settlement to provide funds for the payment of awards. Those negotiations culminated in the signing of a settlement agreement on May 13, 1992.

Vietnam Claims Fund

On February 25, 1986, the Foreign Claims Settlement Commission completed a program to determine the validity and amount of claims of United States' nationals against the Socialist Republic of Vietnam arising from the nationalization or other taking of property on or after April 29, 1975, when the Government of the Republic of Vietnam (South Vietnam) was overthrown. The program had been authorized by Public Law 96-606, approved December 28, 1980 [94 Stat. 3534 922 U.S.C. 1645)], which added Title VII to the Act. The Commission made determinations on 534 claims, granting awards to 192 claimants in the total principal amount of \$99,471,983.51.

Small Escrow Amounts

The authority for this deposit fund is cited in 31 U.S.C. 3513. FMS uses this account to record the following transactions: unresolved ACH (Automated Clearing House) issues and unidentified remittances. Therefore, this deposit fund temporarily holds non-federal funds due to the public.

Small Differences Account for Deposit and Check Adjustments

The authority for this deposit fund is cited in 31 U.S.C. 3513. This account was established in 1959 as a deposit suspense account for adjusting small differences, all small differences \$1.00 or less for deposits and checks only. This account is used to adjust small differences relating to receipt and payment transactions processed by depositaries, agencies, and disbursing offices.

Suspense, Net Interest Payments to States

The authority for this deposit fund is cited in 104 Stat 1061. The purpose of the account as stated in the Cash Management Improvement Act of 1990 is to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the Federal government and the States. The funds in this deposit fund are non-federal funds owed to the states.

Accounts Payable, Check Issue Underdrafts

The authority for this deposit fund is cited in 31 U.S.C. 3513. This account is used by FMS for refunds

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and adjustments due the public.

Esther Cattell Schmitt Gift Fund

This trust fund was established pursuant to Public Law 87-467 which authorized acceptance of a conditional gift to the United States from the late Esther Cattell Schmitt in the amount of \$414,010. The Will/Public Law stipulates that certain conditions be met before the United States can acquire title to the gift. FMS is responsible for administering the trust fund account and investing the principal amount and disbursing the earnings to the beneficiaries as well as depositing any earnings in excess of the amount due to the beneficiaries into a miscellaneous receipt account.

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**Fiduciary Net Assets
For the Year Ended September 30, 2009
(Amounts in Thousands)**

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of Year	\$ 365,818	\$ 31,330	\$ 397,148
Increases			
Contributions to Fiduciary Net Assets	28,436	282,429	310,865
Investment Earnings	-	775	775
Total Increases	28,436	283,204	311,640
Decreases			
Withdrawals or Distributions of Fiduciary Net Assets	(4,601)	(133,980)	(138,581)
Distribution of Income	-	(17)	(17)
Total Decreases	(4,601)	(133,997)	(138,598)
Net Increase (Decrease) in Fiduciary Net Assets	23,835	149,207	173,042
Fiduciary Net Assets, End of Year	\$ 389,653	\$ 180,537	\$ 570,190

This information is an integral part of the accompanying Schedules.

**U.S. DEPARTMENT OF THE TREASURY
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September 30, 2009 and 2008

**Fiduciary Net Assets
As of September 30, 2009
(Amounts in Thousands)**

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Assets			
Fund Balance With Treasury	\$ 389,653	\$ 165,571	\$ 555,224
Investments	-	14,703	14,703
Other Assets	-	431	431
Total Fiduciary Assets	389,653	180,705	570,358
Liabilities			
Less: Fiduciary Liabilities	-	(168)	(168)
Total Fiduciary Net Assets	\$ 389,653	\$ 180,537	\$ 570,190

NOTE 7. COMMITMENTS AND CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible payment to 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, 2009 or 2008.

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, 2009 and 2008,

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such claims are in various stages of settlement.

Pursuant to the provisions of 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, 2009 and 2008, \$52 million and \$40 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.



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