



Audit Report



OIG-10-028

Management Letter for Fiscal Year 2009 Audit of the Exchange Stabilization Fund's Financial Statements

December 22, 2009

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 22, 2009

MEMORANDUM FOR MARK SOBEL
ACTING ASSISTANT SECRETARY FOR INTERNATIONAL
AFFAIRS

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2009 Audit of the
Exchange Stabilization Fund's Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Exchange Stabilization Fund's (ESF) Fiscal Year 2009 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the ESF's financial statements as of September 30, 2009, 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*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses a matter involving internal control over financial reporting that was identified during the audit, but was not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. 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 Catherine Yi, Manager, Financial Audits at (202) 927-5591.

Attachment

**EXCHANGE STABILIZATION FUND
FISCAL YEAR 2009**

Management Letter

December 11, 2009



KPMG LLP
2001 M Street, NW
Washington, DC 20036

December 11, 2009

Inspector General
U.S. Department of the Treasury
Washington D.C.

We have audited the statements of financial position of the Exchange Stabilization Fund (ESF) as of September 30, 2009, and the related statements of income and comprehensive income and retained earnings, and statements of cash flows (hereinafter referred to as financial statements) for the year then ended, and have issued our report thereon dated December 11, 2009. In planning and performing our audit of the financial statements of the ESF, in accordance with auditing standards generally accepted in the United States of America, we considered ESF's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of ESF's internal control. Accordingly, we do not express an opinion on the effectiveness of ESF's internal control.

During our audit, we noted a matter involving internal control that is presented for your consideration. This comment and the related recommendations which have been discussed with the appropriate members of management, are intended to improve internal controls and are summarized as follows.

Monitoring of Foreign Currency Transactions Activities

A designated fiscal agent conducts ESF's foreign currency operations on its behalf. Foreign currency functions conducted by the fiscal agent include management of ESF's foreign currency portfolio in accordance with treasury stipulated guidelines, execution of purchases/sales of foreign currency in the market, purchases and sales of foreign currency in non-market transactions, and other foreign currency transactions as directed by the Secretary of the Treasury. In addition, the fiscal agent is responsible for the monthly accounting and reporting to the ESF of foreign currency activities. The fiscal agent also provides the data that supports various ESF financial statement disclosures.

While there appears to be regular interaction between the fiscal agent's employees that manage the ESF investment funds and senior ESF management, we noted that there was no formal documentation in the form of minutes or summaries of these communications/meetings and on-site review visits that would specify the procedures conducted, items discussed, documentation inspected, follow up items, or issues identified, etc.

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires internal accounting and administrative controls of each executive agency to be established in accordance with standards prescribed by the Comptroller General. The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* defines internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Reliable financial reporting requires sufficient human resources, with the appropriate skills and abilities, coupled with an organizational structure with clearly defined responsibilities and effective internal controls. FMFIA further states that "transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."



Implementation of appropriate processes/procedures/controls over investment transactions/balances reported by the fiscal agent as well as documentation thereof is needed to enhance and formalize the control structures and to minimize the potential of any undetected errors, fraud, and mismanagement of funds, all of which could ultimately lead to financial statement misstatements.

Recommendations

We recommend that the ESF's Chief Executive Officer and Chief Financial Officer require: 1) documentation of key communications with the fiscal agent, along with a requirement to formally distribute such documentation to all applicable ESF accounting personnel so as to form a baseline of the accounting expectations and/or to early identify any accounting issues and 2) more robust documentation of the fiscal agent on-site review to include procedures conducted, items discussed, and documentation inspected to be clearly documented in the site visit report.

ESF's written response to our comment and recommendations is presented in Exhibit I and has not been subjected to the auditing procedures applied in the audit of the ESF financial statements, and accordingly, we express no opinion on it.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use the knowledge of the ESF gained during our work to make comments and suggestions that we believe will be useful to you.

We appreciate the courteous and professional assistance that ESF personnel extended to us during our audit. We would be pleased to discuss this comment and recommendations with you at any time.

This communication is intended solely for the information and use of the management of the ESF, the Department of the Treasury's Office of Inspector General, the Office of Management and Budget, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours

KPMG LLP

Exhibit I

Management's Response

Management concurs with the recommendation. The ESF program staff maintains complete and open communication with ESF accounting personnel through documented e-mails and notifications of any forthcoming events that will have an effect on ESF's financial reporting. Additionally, ESF will plan its annual site visit of the fiscal agent in advance and prepare a detailed agenda that ensures all topical issues are addressed. Afterwards, we will document topics of discussion and maintain minutes of the site visit that will become part of ESF's official record. In addition to documentation, this effort will assist in focusing our efforts on opportunities for improvement in the current or future years.