



Audit Report



OIG-06-038

Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Trust Fund Management Branch for the Period August 1, 2005 to July 31, 2006

September 13, 2006

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

September 13, 2006

**MEMORANDUM FOR VAN ZECK, COMMISSIONER
BUREAU OF THE PUBLIC DEBT**

FROM:

Louis C. King,

Acting Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT:

Report on Controls Placed in Operation and Tests
of Operating Effectiveness for the Bureau of the
Public Debt's Trust Fund Management Branch for the
Period August 1, 2005 to July 31, 2006

I am pleased to transmit the attached Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's (BPD) Trust Fund Management Branch for the period August 1, 2005 to July 31, 2006. We contracted with the independent certified public accounting firm KPMG LLP to perform an examination of the general computer and trust fund management processing controls related to BPD's transactions processing of investment accounts of various Federal and State Government agencies (Program Entities) for the period August 1, 2005 to July 31, 2006. The contract required that the examination be performed in accordance with generally accepted government auditing standards and the American Institute of Certified Public Accountants' Statement on Auditing Standards Number 70, *Reports on the Processing of Transactions by Service Organizations*, as amended.

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

- Independent Service Auditors' Report; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

In its examination of BPD's controls, KPMG LLP found:

- the *Description of Controls Provided by the BPD* presents fairly, in all material respects, the relevant aspects of BPD's controls that had been placed in operation as of July 31, 2006,
- that these controls are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and Program Entities and sub-service organizations applied the controls contemplated in the design of BPD's controls,
- that the controls tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives were achieved during the period from August 1, 2005 to July 31, 2006, and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on BPD's description of controls, the suitability of the design of these controls and the operating effectiveness of controls tested or a conclusion on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated August 11, 2006 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) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

**U.S. Department of the Treasury
Bureau of the Public Debt**

**Trust Fund Management Branch
General Computer and
Trust Fund Management Processing Controls**

**Report on Controls Placed in Operation and
Tests of Operating Effectiveness
For the Period August 1, 2005 to July 31, 2006**

**U.S. DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
TRUST FUND MANAGEMENT BRANCH**

**REPORT ON CONTROLS PLACED IN OPERATION AND
TESTS OF OPERATING EFFECTIVENESS**

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**I. INDEPENDENT SERVICE AUDITORS' REPORT
PROVIDED BY KPMG LLP**



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Service Auditors' Report

Inspector General, U.S. Department of the Treasury
Commissioner, Bureau of the Public Debt and the
Assistant Commissioner, Office of Public Debt Accounting

We have examined the accompanying description of the general computer and trust fund management processing controls related to the Trust Fund Management Branch (TFMB) of the Bureau of the Public Debt (BPD). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of BPD's controls that may be relevant to a Program Entities' internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and Program Entities and sub-service organizations applied the controls contemplated in the design of BPD's controls; and (3) such controls had been placed in operation as of July 31, 2006. BPD uses services provided by other organizations external to BPD ("sub-service organizations"). A list of sub-service organizations is provided in Section II of this report. Our examination did not extend to controls of sub-service organizations. Therefore, the accompanying description includes only those controls and related control objectives of BPD, and does not include control objectives and related controls of sub-service organizations. The control objectives were specified by the management of BPD. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and applicable *Government Auditing Standards* issued by the Comptroller General of the United States and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls presents fairly, in all material respects, the relevant aspects of BPD's controls that had been placed in operation as of July 31, 2006. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and Program Entities and sub-service organizations applied the controls contemplated in the design of BPD's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in Section III, to obtain evidence about their effectiveness in meeting the control objectives, described in Section III, during the period from August 1, 2005 to July 31, 2006. The specific controls and the nature, timing, extent, and results of the tests are listed in Section III. This information is being provided to Program Entities of BPD and to their auditors to be taken into consideration, along with information about the internal control of Program Entities, when making assessments of control risk for Program Entities. In our opinion, the controls that were tested, as described in Section III, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section III were achieved during the period from August 1, 2005 to July 31, 2006.



The relative effectiveness and significance of specific controls at BPD and their effect on assessments of control risk at Program Entities are dependent on their interaction with the controls, and other factors present at individual Program Entities. We have performed no procedures to evaluate the effectiveness of controls at individual Program Entities.

The description of controls at BPD is as of July 31, 2006, and the information about tests of the operating effectiveness of specific controls covers the period from August 1, 2005 to July 31, 2006. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at BPD is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such conclusions.

The information in Section IV of this report is presented by BPD to provide additional information and is not a part of BPD's description of controls placed in operation. The information in Section IV has not been subjected to the procedures applied in the examination of the description of the controls applicable to the processing of transactions for Program Entities and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of BPD, its Program Entities, the independent auditors of its Program Entities, the U.S. Department of the Treasury Office of Inspector General, the Office of Management and Budget, the 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

August 11, 2006

**II. DESCRIPTION OF CONTROLS PROVIDED BY THE
BUREAU OF THE PUBLIC DEBT**

OVERVIEW OF OPERATIONS

Treasury Directive 27-02, Organization and Functions of the Fiscal Services, dated May 23, 1997, established the Bureau of the Public Debt's (BPD) responsibility to invest, approve schedules for withdrawals, and maintain accounts for the Federal Trust and Deposit Programs as directed by statute, and certify interest rates determined by the Secretary of the Treasury.

BPD has assigned these responsibilities to the Division of Federal Investments (DFI), with the exception of interest certification, which is assigned to the Debt Accounting Branch. DFI manages two functional areas: Trust Fund Management Branch (TFMB) and Federal Investments Branch (FIB). TFMB is the service organization responsible for processing certain receipt, investment, investment servicing, disbursement, and redemption transactions for eighteen trust funds. In addition, TFMB reports the results of the transactions processed to the Financial Management Service (FMS) and the Program Agencies and States (Program Entities) whose programs are funded by the trust funds. TFMB employs eleven personnel and reports on nearly \$2.2 trillion of trust fund assets. TFMB more specifically:

- Analyzes provisions and limitations of public laws relating to authorized trust fund transactions
- Processes receipt, investment, investment income, and disbursement activity
- Establishes and controls the record keeping of the trust fund activity processed by BPD
- Provides monthly reports to Program Entities reflecting trust fund activities and balances

Transaction support is maintained in paper and electronic format. The supporting documentation is maintained in monthly work folders that include at least the following key documents:

- Receipt notification documents, such as Office of Tax Analysis (OTA) tax estimate /adjustment letters, Internal Revenue Service (IRS) tax refund/credit letters, Program Entity receipt letters/reports, Deposit Summary Form (SF-215), and CASHLINK reports
- Intragovernmental Payment and Collection (IPAC) System transaction reports
- Statement of Transactions Report (SF-224)
- Statement of Differences (SF-6652)
- FMS-issued warrants (SF-1017)
- Investment and Redemption Requests
- FIB-issued Investment and Redemption Confirmations
- FIB-issued Monthly Statements of Account (investment report)
- Redemption request reports
- Amortization reports
- Cash forecasting reports
- Disbursement request letters from Program Entities
- Non-Expenditure Transfer Authorization (SF-1151)
- FMS-Issued Transaction by Account ID reports
- ASAP disbursement and transfer request files and reports
- Reconciliations from the TFS-6653 Undisbursed Appropriation Account Ledgers (*August 1, 2005 through May 31, 2006*) or Government-wide Accounting and Reporting modernization project (GWA) system Account Statement (*June 1, 2006 through July 31, 2006*) to the trust fund trial balance reports

- Trial balance reports
- Schedules of assets and liabilities and schedules of activity
- Federal Accounting Centralized Trial Balance System Adjusted Trial Balance Reports
- Unemployment Trust Fund Account Statement, Activity Statement, and Transaction Statement
- Reed Act Administrative Account Statement and Transaction Statement
- Reed Act Benefits Account Statement and Transaction Statement
- Borrowing Reports
- TFS-2108 Year-End Closing Statements

TFMB processes receipt transactions based on warrants provided by FMS or amounts received from Program Entities and other organizations using the IPAC or CA\$HLINK systems. The OTA and IRS are responsible for determining the amount of tax receipts. The Program Entities and other organizations are responsible for determining the amount of the non-tax receipts.

TFMB invests the receipts in Treasury securities. TFMB summarizes the daily receipts, prepares an Investment Request, and enters the request into FedInvest, which purchases the requested security and posts an Investment Confirmation on the FedInvest website. TFMB primarily purchases non-marketable Treasury securities that are held in the name of the Secretary of the Treasury for the trust funds, such as:

Non-marketable, market-based securities

- Bills
- Bonds
- Notes
- One-day securities

Non-marketable par value securities

- Special issue bonds
- Certificates of indebtedness

The interest on securities held for the trust funds is credited to the trust funds in accordance with legislation. FIB assigns interest rates for the securities issued to the trust funds. The interest rate for a non-marketable par value security is based on specific legislation or the average monthly rate of all outstanding Treasury debt instruments. The interest rate for a non-marketable market-based security is based on the daily rate established by the Office of Debt Management within the Department of the Treasury (Treasury) for an equivalent marketable security.

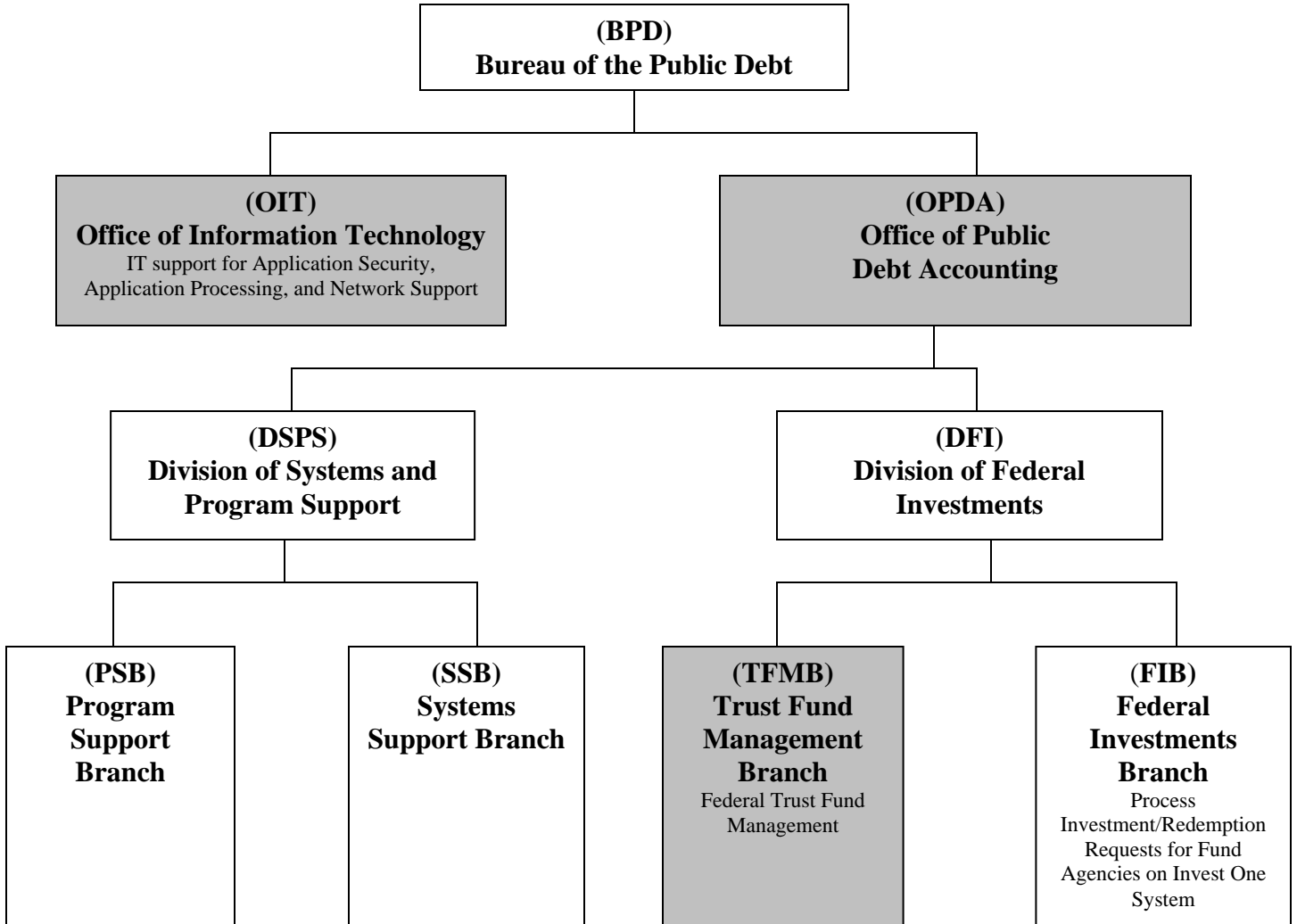
FIB issues non-marketable market based bills, bonds, and notes at a discount or premium. TFMB amortizes the discounts for bills (i.e., short-term securities) using the straight-line method and the discounts and premiums for bonds and notes (i.e., long-term securities) using the level yield method, which approximates the effective interest method.

Interest income is a receipt to the trust fund and is either used to meet Program Entity disbursement requests or is reinvested according to the trust funds' investment policy. The trust fund managers record interest income as either received or accrued each month. Also if a gain or loss is sustained when a security is redeemed prior to maturity to meet the cash needs of a Program Entity, the related gain or loss is also recorded.

The Program Entities that are authorized to use trust fund assets as program resources request disbursements from TFMB. TFMB prepares an Investment/Redemption Request form and enters the request into FedInvest, which redeems the requested amount of securities and posts a Redemption Confirmation on the FedInvest website. TFMB enters a non-expenditure transfer authorization into FMS's GWA System to transfer the requested funds to the Program Entities. The Program Entities have responsibility for the ultimate disposition of the trust fund assets.

The receipt, investment, investment income, and disbursement activity provide the basis for reporting financial information to the Program Entities that use the trust fund resources, as well as other interested parties such as the Office of Management and Budget (OMB) and Treasury offices. TFMB provides monthly financial reports including the activity and balances to the Program Entities.

ORGANIZATIONAL CHART



RELEVANT ASPECTS OF THE CONTROL ENVIRONMENT, RISK ASSESSMENT, AND MONITORING

Control Environment

Operations are primarily under the direction of the Office of the Director of the DFI and the Director of the Division of Systems and Programs Support (DSPS), which represent the functional areas listed below:

- *Administrative development.* Coordinates various aspects of the operations. Identifies areas requiring internal controls and implements those controls. Performs systems planning, development, and implementation. Reviews network operations and telecommunications and performs disaster-recovery planning and database administration.
- *Program support.* Supports Program Entities in all aspects of their use of the application system including research and resolution of identified problems.
- *Operations.* Manages daily computer operations, production processing, report production and distribution, and system utilization and capacity.

DFI and DSPS hold weekly management meetings to discuss special processing requests, operational performance, and the development and maintenance of projects in process. Written position descriptions for employees are maintained. The descriptions are inspected annually and revised as necessary.

References are sought and background, credit, and security checks are conducted for all BPD personnel when they are hired. Additional background, credit, and security checks are performed every three to five years. The confidentiality of user-organization information is stressed during the new employee orientation program and is emphasized in the personnel manual issued to each employee. BPD provides a mandatory orientation program to all full time employees and encourages employees to attend other formal outside training.

All BPD employees receive an annual written performance evaluation and salary review. These reviews are based on goals and objectives that are established and reviewed during meetings between the employee and the employee's supervisor. Completed appraisals are reviewed by senior management and become a permanent part of the employee's personnel file.

Risk Assessment

BPD has placed into operation a risk assessment process to identify and manage risks that could affect TFMB's ability to provide reliable transaction processing for Program Entities. This process requires management to identify significant risks in their areas of responsibility and to implement appropriate measures and controls to manage these risks.

Monitoring

BPD management and supervisory personnel monitor the quality of internal control performance as a normal part of their activities. Management and supervisory personnel inquire and ensure the trust fund managers process transactions and perform internal controls. In addition, management

reviews financial reports that summarize the trust fund transaction processing. One key control is that each month the trust fund managers reconcile the trial balance reports from the Invest One accounting system to the FMS generated Undisbursed Appropriation Account Ledgers (TFS-6653) (*August 1, 2005 through May 31, 2006*) or GWA Account Statement (*June 1, 2006 through July 31, 2006*). In addition, TFMB prepares and reconciles the Federal Agencies Centralized Trial-Balanced System (FACTS II) submission reports to the trial balance reports each quarter.

INFORMATION AND COMMUNICATION

Information Systems

Invest One System Description

The Invest One accounting system is a vendor supplied accounting package used to record and report trust fund activity processed by TFMB. Invest One is licensed by SunGard Investment Systems, Inc. Invest One resides on BPD's mainframe, which uses a z/OS operating platform. The Office of Information Technology (OIT) provides the primary support for maintaining the Invest One accounting system. This includes mainframe operations (batch processing and reporting), custom report writing, application change management, data management, tape backup and recovery, user access security, remote access and continuity management. Invest One is accessed through the network using a terminal emulator application called Extra, a PC-based software product that enables communication with OIT mainframe applications. Invest One also provides a report writer package called SPECTRA, that provides users with the ability to create their own reports. BPD uses SPECTRA to create reports, which provide functionality not included in the standard Invest One reports.

The trust fund managers receive supporting documentation on a daily basis for recording trust fund activity. The trust fund managers record the activity as the supporting documentation is received into the Invest One accounting system. This process provides the trust fund managers with information on daily cash balances that helps them ensure that the activity was processed and invested correctly. Invest One provides monthly trial balance reports and financial reports.

FedInvest System Description

FedInvest is the web-based application designed and developed by BPD to be used by federal agencies with investment authority in GAS securities. FedInvest allows Federal Agency Fund Managers to manage their portfolios by allowing Fund Managers to buy and sell securities, view account holdings, view transactions, view various reports, and download data. FedInvest interfaces with Invest One to transfer investment and redemption requests.

Communication

BPD has implemented various methods of communication to ensure that all employees understand their individual roles and responsibilities over transaction processing and controls. These methods include orientation and training programs for newly hired employees, and use of electronic mail messages to communicate time sensitive messages and information. Managers also hold periodic staff meetings as appropriate. Every employee has a written position description that includes the responsibility to communicate significant issues and exceptions to an appropriate higher level within the organization in a timely manner.

PROGRAM ENTITY CONTROL CONSIDERATIONS

BPD's general computer and trust fund management processing controls related to TFMB were designed with the expectation that certain internal controls would be implemented by Program Entities. The application of such controls by the Program Entities is necessary to achieve all control objectives identified in this report, since TFMB is a servicing organization that processes transactions that directly affect Program Entities.

This section describes certain controls that Program Entities should consider for achievement of control objectives identified in this report. The Program Entity control considerations presented below should not be regarded as a comprehensive list of all controls that should be employed by Program Entities. Program Entities should establish controls to:

- Ensure that access to the FedInvest system is restricted to properly authorized individuals
- Verify that only authorized receipts are deposited into the trust funds.
- Determine and approve receipt amounts.
- Provide receipt information to TFMB within the required time frames.
- Review the monthly financial reports provided by TFMB to ensure that receipts are posted accurately.
- Verify that the type and term of the investments purchased are appropriate in relation to expected cash flow needs.
- Verify that the type and term of the investments purchased and related investment income are appropriate in relation to expected cash flow needs.
- Verify that only authorized disbursement requests are used for withdrawals from the trust funds.
- Determine and approve the disbursement requests.
- Provide disbursement requests to TFMB within the required time frame.
- Ensure that the systems they use to support on-line access to the Automated Standard Application for Payments System (ASAP) are approved, tested, and properly monitored.
- Restrict access to the ASAP system to authorized individuals.
- Verify that disbursement requests are accurately entered into the ASAP system.
- Review the monthly trust fund financial reports provided by TFMB to ensure that disbursements are posted accurately.
- Reconcile fund balance with Treasury from their records to FMS records to ensure that they receive the proper trust fund disbursements.

- Reconcile their records to their bank's records to ensure that they receive the proper trust fund disbursements.
- Review the monthly trust fund financial reports to ensure that transactions are recorded accurately.
- Review their UTF account statements, transaction statements, and Federal activity reports to ensure that transactions are recorded accurately.
- Verify that transactions are recorded accurately into Federal Agencies' Centralized Trial Balance System (FACTS).
- Verify that borrowing requests are accurately entered into the ASAP system.
- Verify that borrowing amounts are not in excess of the amount approved by the U.S. Department of Labor.
- Review the reports provided by TFMB to ensure that borrowing, interest, and repayment transactions are recorded accurately.

Specific Program Entity control considerations are provided for Control Objectives 5, 9, 10, 11, 13, 15, and 16 in the Control Objectives, Related Controls, and Tests of Operating Effectiveness section of this report.

SUB-SERVICE ORGANIZATIONS

In order to provide trust fund management processing services, TFMB relies on systems and services provided by other organizations external to BPD (“sub-service organizations”). The following describes the sub-service organizations used by TFMB that are included in this report. KPMG LLP’s examination did not extend to controls of these sub-service organizations and associated systems.

Name of Sub-service Organization	Name of system	Function/Responsibilities
Internal Revenue Service (IRS)	N/A	<p>At the end of each calendar quarter the IRS certifies the excise taxes actually collected and sends the certification to FMS. The IRS generally certifies excise taxes two quarters after the taxes are estimated (i.e., 1st quarter estimate is certified in the 3rd quarter).</p> <p>The IRS determines the amount of excise tax refunds/credits and sends the adjustment to TFMB to be processed.</p>
Treasury - Office of Tax Analysis (OTA)	N/A	<p>Treasury’s OTA estimates the monthly excise taxes based on projected excise tax receipts and sends the estimate to FMS.</p> <p>Treasury’s OTA estimates the monthly taxes, determines the amounts to be transferred to the appropriate trust funds, and sends the estimate to FMS.</p>

Name of Sub-service Organization	Name of system	Function/Responsibilities
Treasury Financial Management Service (FMS)		<p>FMS issues a warrant (SF-1017) to increase the respective trust fund's account, with each warrant containing exactly half of the OTA estimated monthly excise taxes. FMS sends the warrant and excise tax estimate to TFMB.</p> <p>FMS calculates the excise tax adjustment as the difference between the excise taxes estimated by OTA and excise taxes certified by the IRS. FMS issues TFMB a warrant for the excise tax adjustment to increase or decrease the respective trust fund's account.</p> <p>FMS sends TFMB the daily Federal Insurance Contribution Act (FICA) and Self-Employment Contribution Act (SECA) tax deposit information. TFMB allocates the deposits to the appropriate trust funds based on the monthly OTA estimates and provides the investment amounts to FMS. FMS confirms the investment totals back to TFMB and prepares the tax warrant.</p>
Treasury Financial Management Service (FMS)	Government On-line Accounting System (GOALS) and Intragovernmental Payment and Collection (IPAC) System	<p>The Program Entities generate a file in the Intragovernmental Payment and Collection (IPAC) System to allocate the funds to the proper trust funds. TFMB receives the IPAC transaction report from the FMS GOALS system.</p> <p>TFMB receives the daily receipt reports from the Program Entities and the IPAC transaction report from the FMS GOALS system.</p> <p>Federal agencies make payments to the Department of Labor using the IPAC System. The Department of Labor receives IPAC transactions, maintains the FECA accounts receivable, and deposits collections in the UTF via SF-224.</p> <p>For each redemption transaction, the trust fund manager obtains the related IPAC report from the IPAC system.</p>

Name of Sub-service Organization	Name of system	Function/Responsibilities
	CASHLINK	The Budget Reports Division of FMS prepares warrants based on collections reported to FMS through CASHLINK. The warrants are forwarded to TFMB.
	Government-wide Accounting and Reporting modernization project (GWA) system	<p>TFMB uses the automated GWA system, maintained by FMS, to process transfers.</p> <p>FMS configured the GWA system to authorize TFMB to transfer funds from the trust fund accounts to program agencies' accounts but not to transfer funds from program agencies' accounts to the trust fund accounts.</p> <p>FMS authorizes the GWA system to send the disbursement request to the STAR system using an automated interface. The GWA system changes the status of the transfer request to "STAR POSTED" on the GWA system.</p>
Treasury Financial Management Service (FMS)	FACTS I and II	The trust fund activity is reported in FACTS. FACTS is used to consolidate all Federal financial reporting at the agency level for the purposes of generating the annual consolidated financial statements for the Federal Government as a whole. FACTS I includes only the non-budgetary accounts and FACTS II reports both selected non-budgetary accounts and the budgetary accounts.
Treasury	STAR	<p>For disbursement processing, the STAR system transfers the funds from the trust fund account to the agency account.</p> <p>TFMB submits, via GOALS, a SF-224 Statement of Transaction report (SF-224), which posts to the central accounting system (STAR), and the appropriate Trust Fund accounts are adjusted for the refunds/credits.</p>

Name of Sub-service Organization	Name of system	Function/Responsibilities
	ASAP System	<p>Program Entities must submit all disbursement requests using the ASAP system. Each day, Program Entities must enter their disbursement requests into the ASAP system by 6:00 pm EST if requesting a wire transfer and by 11:59 pm EST if requesting an Automated Clearing House payment.</p> <p>During the morning of the next business day, the ASAP system transmits a file to the Invest One accounting system that contains all of the disbursement and transfer requests.</p>
Federal Reserve Bank of New York	N/A	<p>The Federal Reserve Bank in New York accesses CA\$HLINK, a Treasury on-line system in which deposit and withdrawal information is maintained at the detail and summary level, and uploads the deposit information into the Unemployment Trust Fund activity location code.</p>

**III. CONTROL OBJECTIVES, RELATED CONTROLS, AND
TESTS OF OPERATING EFFECTIVENESS**

GENERAL COMPUTER CONTROLS

Control Objective 1 – System Software

Controls provide reasonable assurance that implementation and changes to system software are authorized, tested, approved, properly implemented, and documented.

Description of Controls

BPD has documented procedures for the authorization, testing, approval, implementation, and documentation of system software changes.

Invest One operates within a mainframe environment which consists of the following system software products:

- z/OS Operating System
- Customer Information Control System (CICS)
- ACF2 Security
- Endeavor Change Control
- Tape Management System (TMS)
- Control M and D (Production and Print scheduling)
- ETF/A (Emergency Change Control)
- APPLIX

The FedInvest system can be broken down into its two main components, FedInvest and the FedInvest Maintenance Facility. These components operate within a client-server environment, but have different software architecture products. FedInvest is composed of the following:

- Host Access Transformation Services (HATS)
- DB2
- FedInvest Gateway Servlet
- HTTP Request Handler
- JSP
- JDBC
- XML
- Control M
- ACF2 Security
- MQSeries
- CICS

In addition to the above products, the FedInvest Maintenance Facility has the following system software products:

- BPD Java Framework and Java Architecture
- Simple Mail Transfer Protocol (SMTP)

These mainframe products are under vendor control for maintenance and support. Upgrades to these products are obtained from the vendors and installed by the Office of Information Technology. BPD has maintenance support contracts for Invest One and for system software running on the BPD mainframe.

For system software changes on the mainframe, BPD uses the APPLIX product for change management. All system software changes (i.e., new product installations, maintenance upgrades, etc.) require a change record to be opened in APPLIX. A record can be opened by any system programmer in OIT's Technical Services group (System Programming) or the change control coordinator. The record includes a description of the change, implementation date of the change, a justification, a back-up/back-out plan, and a status for changes that take several weeks/months to implement.

Changes are initially discussed at the "Weekly Change Control Meeting" held every Tuesday morning at 9:30 am EST. Attendees include representatives from all divisions within OIT as well as all users impacted by the proposed change. Depending on the type of change, notification is sent to the assistant commissioner, division directors, branch managers and/or staff personnel.

Following the meeting, the change control coordinator prepares and distributes the "Weekly Change Control Memorandum" on Thursday afternoon with information on changes for the upcoming week. This memorandum describes the system changes, effective dates, reasons for changes or problems the changes will resolve. There is also a reference to the APPLIX change control number. Each Monday, the Division of Systems and Program Support (DSPS) receives and reviews an APPLIX report of all upcoming changes.

Before changes can be moved to production, they are tested in accordance with the Bureau of the Public Debt's (BPD) system software change control procedures. These procedures document the authorization, testing, approval, implementation and documentation requirements for system software changes. Changes progress through three separate environments: Test, Acceptance, and Production. Each environment is a logical environment with its own software, datasets, and libraries. A change is first tested by the programmer in the Test environment. It is then migrated to the Acceptance environment where a user tests the change using example transactions and "Acceptance" environment files and libraries.

Changes are tested through the use of scripts and example transactions/files. Each change is reviewed by the user groups that are affected by the change, and each group provides user concurrence that they accept the change. Following user concurrence, a senior staff member reviews the testing materials and completes a checklist indicating that testing has been fulfilled. The package is provided to the Systems Support Branch Manager for final review and approval.

Once the Branch Manager approves the change, DSPS sends a Network Services Request to OIT to move the change into the Production environment. Upon notification of an accepted change, OIT creates an update package in Endeavor. Endeavor is a mainframe application through which users approve changes. Endeavor is also used to move changed system software files into the Production environment. Endeavor will not allow changes to be migrated from the Acceptance environment into the Production environment until the changes have been approved. Access to the Endeavor change control software is limited based on job responsibility.

For emergency changes, BPD has established a process that allows system programmers and DBAs to have temporary access to the Production environment through the use of a "fire-call" ID product called ETF/A. The operating system is configured to monitor and log such activity for review and approval by management the following day.

OIT reviews the use of sensitive system utilities included in the protected programs group on a weekly basis and limits access to these programs based on job responsibility.

Tests of Operating Effectiveness and Results of Testing

- Inspected written procedures for system software configuration management and determined that procedures were documented, including procedures to document, test, authorize, and approve changes.
- Inspected the emergency change procedures and determined that procedures for implementing emergency changes were documented, including approval by management on the business day following the emergency change.
- Inspected a selection of change records in APPLIX and determined that APPLIX was used throughout the audit period to log, track, and monitor system software changes.
- For a selection of dates, inspected Weekly Change Control Memorandums and determined that weekly change control meetings were held to discuss planned changes with the potential to impact the Invest One mainframe environment.
- For a selection of system software changes, inspected supporting documentation and determined that the changes were documented in APPLIX, tested, authorized, and approved, except as noted below:
 - Evidence of testing was not available for three out of ten selected system software changes.
- For a selection of emergency changes, inspected documented approval and determined that the changes were approved by management.
- Inspected a list of users with access to use ETF/A and inquired of management, and determined that the list was commensurate with job responsibilities.
- For a selection of dates, inspected ETF/A activity reports and evidence of review, and determined that ETF/A logs were reviewed.
- Inspected vendor maintenance support contracts for system software and determined that the contracts existed and were current.
- Inspected Endeavor access permissions and inquired of BPD management, and determined that access permissions to migrate changes to the production environment were restricted commensurate with job responsibilities.
- For a selection of weeks, inspected evidence of OIT's review of reports for sensitive system utilities in the protected programs group and determined that the reports were reviewed weekly.

No relevant exceptions noted, except as described above.

Control Objective 2 – Vendor Software

Controls provide reasonable assurance that implemented new releases of vendor supplied applications are authorized, tested, approved, properly implemented, and documented.

Description of Controls

BPD has documented procedures for the testing and authorization of new releases of vendor supplied applications. The change control process is under the control and direction of DSPS.

The Invest One accounting system is licensed by SunGard Investment Systems, Inc (SunGard). BPD has a maintenance and support contract for Invest One with SunGard. The Invest One accounting system was upgraded in May 2005 to version v. 04.210.

SunGard periodically provides new releases of Invest One, including documentation. Each new release requires comprehensive testing. DSPS tests new Invest One releases developed by SunGard consistent with BPD's System Software Change Control procedures. New Invest One releases are initially installed in the Test environment where they are subjected to integration testing. After successful completion of testing, the Invest One new release is migrated by the OIT Technical Group to the Acceptance environment, where it is subjected to acceptance testing by users. An Invest One new release will be installed in the Production environment only after all testing has been successfully completed and management has approved the new release for implementation in the Production environment.

In addition to new releases, SunGard will periodically provide fix tapes for Invest One. Fix tapes, which address certain Invest One issues, are narrower in scope than new releases. Based on what changes a particular fix tape includes, BPD management will decide whether or not to implement the fix tape. If BPD management decides to implement the fix tape, the fix tape is migrated through the Test and Acceptance environments. Fix tapes are installed in the Production environment only after successful completion of testing in the Test and Acceptance environments and management approval for migration into the Production environment.

DSPS also tests Invest One application reports, developed by SunGard Investment Systems, Inc. using the same change control procedures described above.

In addition, BPD uses the Endeavor change management software product to manage the upgrades and enhancements. Access to the Endeavor change control software is limited based on job responsibility. Changes are only migrated into the Production environment once all responsible parties approve the change in Endeavor.

Tests of Operating Effectiveness and Results of Testing

- Inspected vendor maintenance support contracts for vendor software and determined that the contracts existed and were current.
- Inspected procedures for the implementation of new releases of vendor supplied applications, and determined that they were documented.
- Inquired of DSPS personnel and observed the current version of Invest One in the Production environment, and determined that the current version of Invest One is 04.210. This version was implemented during May 2005, and as such there were no version upgrades during the

examination period. As such, the operating effectiveness of the vendor software change control process could not be tested.

- Inquired of DSPS personnel, and inspected a list of changes from the APPLIX system, and determined that no fix tapes were implemented during the period. As such, the operating effectiveness of fix tape change control process could not be tested.

No relevant exceptions noted.

Control Objective 3 – Program Change Control

Controls provide reasonable assurance that changes to customized reports are authorized, tested, approved, properly implemented, and documented.

Description of Controls

BPD has custom built additional application components for Invest One data entry and reporting. Included is the FedInvest application, which functions as a web-based user interface that customer agencies can use for entering transactions into Invest One. For reporting, BPD has built “In-House” developed programs that generate customized reports to provide information unavailable in the standard Invest One reporting package.

OIT uses Microsoft Visual Source Safe (VSS) to control access to source code for these “In-House” developed programs and to facilitate version control by requiring developers to check source code in and out using VSS. These programs were developed by members of DSPS on their individual PCs located in the Hintgen Building and then migrated to a server in the OIT data center. These programs read the data from the Invest One accounting system and create reports. Specifically, data is downloaded from Invest One to a data file located on the servers where the programs execute. Data is not sent from these programs to the Invest One accounting system. The reports are used by the trust fund managers, sent to Program Entities, or sent to Treasury.

DSPS also provides support for the design and testing of customized reports and any changes to FedInvest. DSPS creates the requirements documentation, which is then provided to OIT for development. DSPS manages the request, testing, and approval process, described below, using the Endeavor software change management product and a Change Control Checklist. Change Control Procedures for OPDA systems are documented and include procedures for using Endeavor.

Changes progress through three separate environments: Test, Acceptance, and Production. Each environment is a logical environment with its own software, datasets, and libraries. A change is first tested by the programmer in the Test environment. It is then migrated to the Acceptance environment where a user tests the change using example transactions and “Acceptance” environment files and libraries.

Changes are tested through the use of scripts and example transactions/files. Each change is reviewed by the user groups that are affected by the change, and each group provides user concurrence that they accept the change. Following user concurrence, a senior staff member reviews the testing materials and completes a checklist indicating that testing has been fulfilled. The package is provided to the Branch Manager for final review and approval.

Once the Branch Manager approves the change, DSPS sends a Network Services Request to OIT to move the change into the Production environment. Upon notification of an accepted change, OIT creates an update package in Endeavor. Endeavor is a mainframe application through which users approve changes. Endeavor is also used to move changed program files into the Production environment. Endeavor will not allow changes to be migrated from the Acceptance environment into production until the changes have been approved. Access to the Endeavor change control software is limited based on job responsibility.

For emergency changes to the customized reports developed by OIT or the Invest One application reports, BPD has established a process that allows system programmers to have temporary access to production through the use of a “fire-call” ID product called ETF/A. The operating system is configured to monitor and log such activity for review and approval by management the following day.

Tests of Operating Effectiveness and Results of Testing

- Inspected the access control lists for VSS and determined that access to the source code for “In-House” developed programs was appropriately restricted, except as noted below:
 - Twelve out of 44 OIT personnel with VSS access had been granted excessive access privileges. Specifically, these individuals had been granted excessive access privileges to the directories containing the VSS data files on the server that hosts VSS and the uncompiled source code. As a result, these individuals could access uncompiled source code that they did not have privileges to access through VSS by directly accessing the directories on the host server. Upon notification of this issue, the access privileges were removed. Inspected an updated access list and determined that the access privileges were removed.
 - Seven users shared the VSS administrator account used to perform administrative functions in VSS. Use of the administrator account did not provide individual accountability within VSS.
- Inspected change Control Procedures for OPDA systems and determined that the procedures for change control and for using Endeavor were documented.
- For a selection of program changes, inspected supporting documentation and determined that changes were authorized, approved, tested, and documented.
- For a selection of emergency changes, inspected documented approval and determined that the changes were approved by management.
- Inspected a list of users with access to use ETF/A and inquired of management, and determined that the list was commensurate with job responsibilities.
- For a selection of dates, inspected ETF/A activity reports and evidence of review, and determined that ETF/A logs were reviewed.

No relevant exceptions noted, except as described above.

Control Objective 4 – Physical Access

Controls provide reasonable assurance that physical access to computer equipment and storage media is restricted to properly authorized individuals.

Description of Controls

BPD has documented policies and procedures for controlling physical access to BPD buildings and to the data center. These include:

- Identification of sensitive/critical areas to which access needs to be restricted.
- Physical access controls designed to detect unauthorized access.
- Procedures for log reviews and investigation of violations.

Two armed security guards monitor the Bureau of the Public Debt H.J. Hintgen building daily from 5:45 am to 8:00 pm EST, and armed security guards monitor the north entrance to the Bureau of the Public Debt building at 200 Third Street, Parkersburg, West Virginia (the main building) 24 hours a day. Guard duty logs are completed by guards. A digital video camera system monitors all perimeter doors and records activity 24 hours a day. These digital images are stored for a minimum of 30 days.

Employees can only be granted After/Off hours access to the Hintgen building after a request is made by the Assistant Commissioner from the Office of Public Debt Accounting (OPDA) to the head of BPD security. The Division of Security and Emergency Preparedness (DSEP) Security Branch, located at the Avery Street building, issues the keys for after hours access and records these issuances on a Record of Keys Issued sheet. Employees must contact the Security Branch in order to have the alarm system armed or disarmed remotely from the Security Branch using a hot-line phone connection at the guard desk. Employees do not have the ability to arm or disarm the alarm system.

People entering each building are required to place any materials, packages, bundles, etc. onto an x-ray machine. Entrants are also required to pass through a Walkthrough Metal Detector. In addition, entrants must swipe their badges into a Hirsh Electronics Access Control System that grants access to authorized personnel. The Hirsh Electronics Access Control System is connected to the Security Branch located in the Avery Street building.

The Security Branch issues employee badges, after performing security background checks and fingerprinting. During the initial orientation process, new employees receive security training from security management personnel.

If an employee forgets his/her identification badge, the employees may receive a temporary employee identification badge. The security guard verifies the employee's access rights by reviewing the security database. After access rights are verified, the security guard provides the employee a temporary badge, the employee signs-in on the Employee Log, and the employee passes through both the x-ray and metal detector devices. Employees must return temporary employee identification badges to the security guard station upon departure on the day of issuance. The security guard completes an inventory of temporary employee identification badges at the beginning and end of each guard shift.

Employees are required to have badges available at all times upon request and must bring their badge to the main entrance if they are escorting a visitor into the building.

Visitors and short-term contractors are required to sign-in on the Visitor Log, pass through both the x-ray and metal detection devices, wear a visitor badge, and must be escorted at all times by an authorized employee. Visitor and short-term contractor access is limited to those areas of the building in which the employee is working. Visitors and short-term contractors are required to exit the Hintgen building before the guard leaves at 8:00 pm EST or when their escort leaves. The security guard completes an inventory of visitor badges at the beginning and end of each guard shift. Visitors and short-term contractors must return the badge when leaving the building for the day. Long-term contractors who will be working at the site for extended periods are issued a contractor badge with an expiration date after being fingerprinted and receiving security clearance. They are then added to the security database for the designated time period, after which access is terminated. Badges must be returned upon termination of the engagement.

Terminated employees are required to surrender identification badges and are removed from the database security system immediately.

An employee needing access to the data center in the main building must have his/her Branch Manager request access. The requests are made through APPLIX, a workflow system that is used to approve data center access. Only Branch Managers have access to APPLIX. After the Branch Manager completes and submits the APPLIX request form, APPLIX extracts information from the contact management database and sends the message to the Network Services Branch. The Network Services Branch reviews and approves, rejects or returns the request. Approved requests are forwarded to DSEP, where a DSEP administrator adds data center access rights to the employee's badge profile in Momentum, BPD's physical access control system. Access to change physical access profiles in Momentum is limited to physical security staff. Momentum is used to control all badge reader door locks in BPD facilities.

Access to the main computer areas and all sensitive areas require the use of the badge. Badges must be used for ingress and egress from each sensitive area. Badge access limits employees to only those areas within the data center for which they are authorized. This also provides an audit trail that is reviewed by management for access violations and appropriate follow-up. A monthly violation log review is performed to find any attempts by unauthorized badge holders to enter or exit the data center. Any unauthorized access attempts are followed-up on.

All employees without badge access to the data center, or other visitors, who need access to the data center must sign the computer room visitor register recording the visitor's name, section, date, time-in, time-out, and visitor badge number. This log is maintained at the main entrance to the data center.

No outside materials are delivered to the sites without being inventoried and inspected at the BPD warehousing facility. Authorized BPD employees deliver all materials, mail, and packages.

OIT performs a rolling annual review and recertification of individuals with access to the data center. A review is performed each month, and during the course of a year, each person who has had authorized data center access for at least one-year, will have their access reviewed and recertified. For any individuals that OIT determines have unnecessary data center access, OIT instructs Security to remove their data center access.

Tests of Operating Effectiveness and Results of Testing

- Inspected physical access policies and procedures for the data center and determined that they were documented and that they included the identification of sensitive/critical areas to which access needs to be restricted, physical access controls designed to detect unauthorized access, and procedures for log reviews and investigation of violations.
- Observed physical access controls of BPD buildings and determined that security guards, video cameras, badge readers, and locked doors were placed in operation to restrict access.
- For a selection of dates, inspected the daily guard duty logs and determined that the security guards provided coverage in accordance with BPD requirements.
- Inspected the storage of surveillance camera digital images and determined that the images were maintained for 30 days.
- For a selection of months, inspected the Off-Hour Records of Keys Issued sheet and determined that the logs were utilized to record key requests.
- For a selection of new hires, inspected supporting documentation and determined that access badges were issued after background checks were performed and fingerprinting was completed.
- For a selection of new hires, inspected evidence of attending the initial orientation process, and determined that the new hires received security training.
- Inspected permissions to access the Momentum badge system and inquired of BPD security management, and determined that access permissions to the physical access systems were commensurate with job responsibilities.
- For a selection of dates, inspected Temporary Entry Logs and determined that logs were used to record the issuance of temporary badges.
- For a selection of dates, inspected visitor logs and determined that visitor logs were used.
- Inspected the security database and a list of separated employees, and determined that separated employees were removed from the badge reader system.
- For a selection of employees and contractors granted access to the data center, inspected the APPLIX record for the access grant and determined that access was approved by a Branch Manager, by the Network Services Branch and by the Security Branch.
- For a selection of months, inspected evidence of the monthly review of violation logs and inquired of OIT staff tasked with reviewing the logs. Determined that a review to identify unauthorized access attempts was performed and violations were followed-up on.
- For a selection of months, inspected computer room visitor registers and determined that the registers were in place.

- For a selection of months, inspected documentation of the annual review of physical access privileges to the data center and determined that access privileges were reviewed, except as noted below.
 - The review of data center access privileges was performed using the workflow system that is utilized to approve data center access (i.e., APPLIX), and not a list of individuals generated from the physical access control system (i.e., Momentum). Inquired of BPD management and was informed that a reconciliation of the workflow system to the physical access control system was not performed.

No relevant exceptions noted, except as described above.

Control Objective 5 – Logical Access

Controls provide reasonable assurance that logical access to system and application software is restricted to properly authorized individuals.

Description of Controls

BPD has guidelines for the preparation of security plans for applications and systems that process Sensitive but Unclassified (SBU) information. All mission-critical systems and general support systems are subject to an internal risk-based review every three years. This review identifies assets and possible threats to these assets, provides a measure of vulnerability of the system to these threats, and confirms control or protective measures are in place. The Invest One accounting system is classified as a mission-critical system.

Invest One security along with the host mainframe's ACF2 security utility control access to the Invest One accounting system. Invest One restricts access to accounts within the system based on user IDs. ACF2 is also used to restrict OIT personnel's access to system software, database files, and program libraries.

FedInvest is a web-based user interface through which users have access to enter transactions into Invest One and view data. External users are limited to accessing Invest One data through FedInvest. External users that invest in Government Account Series (GAS) securities are able to connect to FedInvest over the Internet to input transactions into Invest One as well as to view account statements and transaction information.

Access permissions are assigned to FedInvest and Invest One users commensurate with their job responsibilities.

OPDA follows BPD system administration security password guidelines/procedures to establish and maintain passwords. These guidelines require passwords to be at least 8 characters in length, changed every 30 days, and unique for each individual. Passwords are not displayed when entered. The ACF2 reserved word feature is enabled to prevent the use of commonly used words in passwords.

Information System Security Representatives (ISSRs) manage access to the Invest One accounting system. Users must complete and submit an Access Request/Revoke Form to DSPS before access is granted. Both Division of Federal Investments (DFI) management and DSPS

must authorize the form. DSPS has documented procedures for granting access in the Production Operating Procedures (POP) manual.

External users must have their supervisor's approval along with DSPS ISSR approval documented on an Access Request/Revoke form before access is granted to FedInvest. When an external user accesses Invest One data, they enter a user ID and password into FedInvest. Their user ID is then authenticated by ACF2 and Invest One. The ACF2 and Invest One logins are transparent to external users, who only see the FedInvest login screen. However, if one of the required authentications failed (e.g., due to a user ID being suspended), the user would be prevented from accessing Invest One data through FedInvest.

ISSRs remove FedInvest and Invest One access from users at the request of their managers. Each access removal request is documented on an Access Request/Revoke Form.

Office of Public Debt Accounting (OPDA) staff is provided remote support access to the Invest One accounting system through a virtual private network (VPN) connection. To help ensure that OPDA staff can connect remotely when necessary, dial-in remote access is also available by using a modem and a SecureID token. The Security Branch logs each dial-in attempt. Once a successful VPN or dial-in connection is established, users are authenticated to Invest One by their designated ACF2 user ID and password.

To log into Invest One, internal (i.e., BPD) Invest One users must first login (either locally or remotely) to BPD's Windows network. An ISSR reviews a log of failed Windows domain network logins on a daily basis. Additionally, an ISSR also reviews a weekly Internal Violations Report which includes all failed Invest One login attempts, and a daily report of all failed FedInvest logins. The ISSR follows-up on violations by questioning the violator.

Additionally, on a weekly basis, an ISSR reviews a report of all system administrator actions taken for appropriateness. The reports are reviewed to detect any inappropriate activity, and follow-up is performed to investigate the activity.

Every month an ISSR reviews a report of all Invest One user IDs that have not been used to access Invest One for 45 days or more. The ISSR follows up with any affected users by email or by phone. If a user cannot justify their continued access, or does not respond, the ISSR suspends their access.

Additionally, every two years OPDA reviews access privileges for all Invest One users. DSPS ISSRs remove any user IDs or access privileges identified for deletion by management.

Program Entity Control Considerations

Program Entities should establish controls to ensure access to the FedInvest system is restricted to properly authorized individuals.

Tests of Operating Effectiveness and Results of Testing

- Inspected a documented risk assessment and determined that a risk assessment had been performed for Invest One and FedInvest.
- For a selection of Invest One users, compared access granted to an organization chart, and determined that access privileges were commensurate with job responsibilities.

- Observed a user log into the Invest One accounting system and noted that their access was restricted in accordance with the system configuration.
- Inspected security guidelines and procedures for Invest One and FedInvest and determined that logical access controls procedures were documented.
- Inspected password settings for Invest One and FedInvest and determined that password length, complexity, and expiration settings were configured in accordance with BPD requirements.
- Observed a user log into Invest One and FedInvest and noted that their password was masked as they entered it.
- For a selection of new Invest One and FedInvest users, inspected documented user access request forms and determined that access was authorized.
- Inspected a list of all separated and transferred BPD employees and lists of Invest One and FedInvest user IDs and determined that access to Invest One and FedInvest had been revoked for terminated and transferred BPD employees.
- Inquired of ISSRs and inspected evidence of review of inactive accounts, and determined that inactive user accounts were reviewed and removed on a monthly basis.
- Inspected documentation of the review and recertification of Invest One and FedInvest user access and determined that Invest One and FedInvest user access had been reviewed and recertified.
- For a selection of user account recertification reviews requesting removal of user access privileges, inspected Invest One and FedInvest user lists, and determined that requested modifications were made.
- Inspected a list of users with administrator access privileges to Invest One and FedInvest, inquired of management and inspected an organization chart, and determined that administrator access was limited commensurate with job responsibilities.
- For a selection of weeks, inspected ACF2 Invest One audit log reports and evidence of review, and determined that the reports were reviewed and any exceptions were followed-up.
- For a selection of weeks, inspected a selection of reports listing Invest One security administrator actions entered into the system and determined that the reports were reviewed and any exceptions were followed-up.
- For a selection of dates, inspected network security event logs and determined that they were reviewed.
- For a selection of dates, inspected FedInvest online security logs and determined that failed login attempts were logged and reviewed.

No relevant exceptions noted.

Control Objective 6 – Computer Operations

Controls provide reasonable assurance that computer processes are scheduled appropriately and deviations are identified and resolved.

Description of Controls

The Invest One accounting system is an interactive mainframe system with master data files that are updated when entries are posted. End-of-day processes perform maintenance to the data tables and data backups. OIT's Production Control Team completes the Production Control Daily Checklist to verify the successful completion of end-of-day processes. Data entry error checking and input screen designs help ensure that the data entered by the users is accurate and complete. The error checks include verification of entered data based on predetermined values and ranges. Errors detected by the system are rejected immediately and must be corrected before the transaction is permitted to update the master data tables.

Daily user operations procedures are posted for the Invest One accounting system to provide operators with the information necessary to sequentially complete daily processing. Additionally, a monthly calendar is posted that highlights the daily requirements. The Invest One accounting system configuration requires that daily reporting be performed in sequence before transaction processing can begin. OIT's Production Control Team completes the Production Control Monthly Checklist to verify the successful completion of end-of-month processes.

The mainframe operating production software, called Control M, controls the scheduling of batch jobs for the Invest One accounting system. Control M allows all programs for batch processing, printing and data backup to be scheduled and performed automatically. Access to Control M job schedules is limited to OIT's Mainframe Automation Branch (MAB), and privileges are commensurate with job responsibilities. Control M sends messages confirming successful completion of each day's scheduled jobs to OIT and DSPS. Any abends are also communicated to the appropriate OIT and OPDA personnel as they happen through automated messages.

Tests of Operating Effectiveness and Results of Testing

- Observed the entry of transactions into Invest One and noted that error checking edits prevented users from entering values of the wrong data type or values not on lookup lists.
- Inquired of management and inspected posted daily user operations for Invest One and FedInvest, the Daily Procedures, and the monthly requirements calendar and determined that these schedules and procedures were available.
- Inspected the Invest One/FedInvest Control M Job Schedule and determined that a job production schedule for Invest One and FedInvest had been documented.
- For a selection of dates, inspected Production Daily Checklists and determined that the checklists had been used during processing.
- For a selection of months, inspected Production Monthly Checklists and determined that the checklists had been used during month-end processing.

- Inspected privileges of individuals granted access to make modifications to schedules and JCL for production jobs in Control M and inquired of management regarding job responsibilities, and determined that access privileges were limited commensurate with job responsibilities.

No relevant exceptions noted.

Control Objective 7 – Network Monitoring

Controls provide reasonable assurance that network performance monitoring techniques are implemented appropriately.

Description of Controls

Users must be connected to the BPD Intranet to access the Invest One accounting system. Additionally they must run IBM terminal emulation software to connect to the mainframe CICS environments. Network performance and availability is monitored by OIT using the following utilities:

- HP OpenView is used to monitor networking equipment such as switches and firewalls. HP OpenView automatically reports any network equipment outages.
- Mercury Sitescope is used to monitor the availability of servers, including FedInvest application web servers.

The OIT Command Center is staffed 24 hours a day.

Tests of Operating Effectiveness and Results of Testing

- Observed and inquired of OIT Command Center staff and determined that HP OpenView was used to monitor the availability of BPD networking equipment, such as switches and firewalls.
- Observed and inquired of OIT Command Center staff and determined that Mercury Sitescope was used to monitor the performance of the FedInvest website.
- Inquired of management and was informed that the OIT Command Center was staffed 24 hours a day.

No relevant exceptions noted.

TRUST FUND MANAGEMENT PROCESSING CONTROLS

Control Objective 8 – Procedures

Controls provide reasonable assurance that management has defined, documented, and communicated procedures associated with operational areas within TFMB.

Description of Controls

The purpose of each trust fund is to account for assets for specific programs directed by the Program Entities, pursuant to specific enabling legislation that created and continues to authorize the operation of each specific trust fund. The Secretary of the Treasury, through the Fiscal Assistant Secretary, is responsible for processing certain trust fund activity and reporting this activity.

TFMB services the trust funds in accordance with established laws, fiscal and other Treasury policies that govern the trust funds. TFMB's responsibilities include establishing accounting records, processing transactions, determining the timing and condition of transactions, maintaining reference files, and recording adjustments. TFMB records transactions based on information provided by FMS, Program Entities, and other organizations.

TFMB has defined and communicated procedures regarding the trust fund operations in Standard Operating Procedures (SOP) manuals. The SOP manuals provide guidelines for processing transactions including receipts, investments, redemptions, investment income, and disbursements.

Additional reference materials including Federal Government accounting standards; U.S. Standard General Ledger accounting and reporting requirements; and Treasury-wide and BPD-wide accounting and reporting policies are readily available in electronic format on the Internet. In addition, the SOP manuals provide guidelines for records maintenance and periodic reporting. The SOP manuals are maintained electronically and include electronic links to the additional reference materials listed above. All SOP documents are password protected and update access is restricted to only those individuals approved by management.

Tests of Operating Effectiveness and Results of Testing

- Inspected SOP manuals and observed operational areas, and determined that operational areas were operating in accordance with procedures.
- Inquired of TFMB personnel and inspected the SOP manuals online and determined that the SOP manuals were available to TFMB accounting staff.
- Observed the SOP manuals online and noted that the SOP manuals were stored in a read-only format.

No relevant exceptions noted.

Control Objective 9 – Receipts and Investments

Controls provide reasonable assurance that receipt transactions are authorized, processed, and recorded accurately in the proper period.

Description of Controls

TFMB has documented policies and procedures for staff to follow for the processing of receipt transactions.

All Trust Funds Except the Unemployment Trust Fund

OTA, IRS, Customs and the Program Entities determine the trust fund receipts. The receipts primarily include:

- Excise taxes- Treasury's OTA estimates the monthly excise taxes based on projected excise tax receipts and sends the estimate to FMS and TFMB. On two specified work days of each month, FMS issues a warrant (SF-1017) to increase the respective trust fund's account, with each warrant containing exactly half of the OTA estimated monthly excise taxes. FMS sends TFMB email notification that the warrants have been processed in GWA. TFMB pulls the warrants from GWA and agrees the warrants to the estimates received from OTA. At the end of each calendar quarter the IRS certifies the excise taxes actually collected and sends the certification to FMS. The IRS generally certifies excise taxes two quarters after the taxes are estimated (i.e., 1st quarter estimate is certified in the 3rd quarter). FMS calculates the excise tax adjustment as the difference between the excise taxes estimated by OTA and excise taxes certified by the IRS. FMS enters a warrant in GWA to increase or decrease the respective trust fund's account and sends TFMB email notification that the warrants have been processed in GWA. FMS also faxes the adjustment documentation prepared by the IRS to TFMB. TFMB prints the warrants from GWA and agrees the warrants to the adjustment documentation prepared by the IRS. The IRS determines the amount of excise tax refunds/credits and sends the adjustment to TFMB to be processed.

TFMB submits, via GOALS, a SF-224 Statement of Transaction report (SF-224), which posts to the central accounting system (STAR), and the appropriate Trust Fund accounts are adjusted for the refunds/credits

Federal Insurance Contribution Act (FICA) and Self-Employment Contribution Act taxes (SECA)- Amounts equivalent to one hundred percent of FICA and SECA taxes are designated to be transferred to specified trust fund accounts. Treasury's OTA estimates the monthly taxes, determines the amounts to be transferred to the appropriate trust funds, and sends the estimate to FMS. FMS sends TFMB the daily FICA and SECA tax deposit information. TFMB allocates the deposits to the appropriate trust funds based on the monthly OTA estimates and provides the investment amounts to FMS. FMS confirms the investment totals back to TFMB and prepares the tax warrant. After each month-end, TFMB agrees the daily warrants to the amounts reported by FMS on the TFS-6653, Undisbursed Appropriation Account Ledgers for each trust fund. Estimated tax collections are adjusted in subsequent transfers to the amount of actual tax receipts certified by the IRS and the respective Program Entities.

- Customs Duties- The Department of Homeland Security's (DHS) Customs and Border Protection's Office of Border Patrol notifies TFMB monthly of actual receipts collected and deposited in the Sport Fish Restoration and Boating Trust Fund and Harbor Maintenance

Trust Fund. Customs notifies TFMB the first workday of the month the actual amounts for the previous month by sending TFMB a fax.

- Fines, penalties, and cost recoveries- Collected fines, cost recoveries, and penalties are transferred from the collecting agencies directly to the trust funds' accounts. The collecting agencies Fax notification of the receipts to TFMB. In most cases, the notification is also mailed by the collecting agency to TFMB.
- Civil penalties and damages- Agencies mandated to collect civil penalties and fines for deposit into a specific trust fund send TFMB a letter or IPAC transaction report. These documents list the civil penalties and damages that are collected and the 3% administrative cost to be reimbursed to the trust fund. TFMB prepares a separate letter requesting the collected penalties and damages, and the administrative fee withheld by the Federal agency and sends the letter to FMS. FMS issues a warrant to TFMB via GWA.
- Appropriations- Certain Program Entities receive annual appropriations to fund payments to the trust funds in accordance with legislation. The Program Entities generate a file in the IPAC system to allocate the funds to the proper trust funds. TFMB receives the IPAC transaction report from the FMS GOALS system.
- Donated revenue- Donated revenue represents gifts from individuals. TFMB receives receipt reports from Program Entities throughout the month.
- Transfers in from program agencies- Transfers are the result of IPAC or SF 1151 Non-Expenditure Transfers that TFMB receives from Program Entities.
- Collected premiums and Federal matching funds- Amounts withheld from Social Security beneficiary checks and the related Federal matching funds are transferred by the Program Entities to the appropriate trust funds using the SF-224 and the IPAC system. TFMB receives the daily receipt reports from the Program Entities and the IPAC transaction report from the FMS GOALS system.

TFMB processes receipt notifications received prior to 3:00 pm EST the day they are received and the next business day if the notifications are received after this deadline. Using the receipt documentation noted above, the trust fund manager: 1) enters the receipts into the Invest One accounting system; 2) prepares an IRR based on the daily activity; 3) enters the IRR into FedInvest system, which processes the investment purchase, records the investment in the Invest One accounting system, and generates a confirmation; 4) prints the investment confirmation; and 5) provides the receipt supporting documentation along with the IRR and investment confirmation to the reviewing trust fund manager.

The reviewing trust fund manager reviews the supporting documentation to ensure that the receipts are authorized by legislation, are received from the appropriate Program Entities, and do not contain any obvious errors. The reviewing trust fund manager also compares the receipt supporting documentation to the Invest One accounting system, the IRR, and investment confirmation to ensure that the receipt is properly recorded and approves the IRR. The reviewing trust fund manager returns the supporting documentation to the trust fund manager.

The Unemployment Trust Fund

The primary receipts for the UTF are as follows:

- Federal unemployment taxes- The Federal unemployment taxes fund the Employment Security Administration Account established pursuant to Title IX, section 901(a), of the Social Security Act. This account funds administrative expenses of the UTF and provides intra-fund transfers to the other Federal accounts within the UTF. The Budget Reports Division of FMS prepares warrants based on collections reported to FMS through CASHLINK. The warrants are forwarded to TFMB.
- Federal Employees Compensation Act (FECA) accounts receivable- Federal agencies make payments on FECA accounts receivable pursuant to Title IX, section 909, of the Social Security Act to fund unemployment benefits for former Federal civilian and military personnel. Federal agencies make payments to the Department of Labor using the IPAC System. The Department of Labor receives IPAC transactions, maintains the FECA accounts receivable, and deposits collections in the UTF via SF-224.
- State unemployment taxes- TFMB established 53 separate Unemployment Insurance (UI) book accounts for the States, the District of Columbia, Puerto Rico, and the Virgin Islands. Daily, these Program Entities use FEDWIRE to transfer deposits from local banks to the Federal Reserve Bank in New York to the UI book accounts. These deposits are summarized on a SF-215 Deposit Summary form (SF-215) by Pittsburgh National Corporation (PNC). The Federal Reserve Bank in New York accesses CASHLINK, a Treasury on-line system in which deposit and withdrawal information is maintained at the detail and summary level, and uploads the deposit information into the UTF activity location code. The trust fund manager retrieves the amount of the Program Entity unemployment tax receipts through read-only access to CASHLINK.
- Deposits by the Railroad Retirement Board- Each day TFMB checks for any Railroad Retirement Board receipt reports forwarded from the Railroad Retirement Board to be included in the Railroad Unemployment Insurance and Administration Accounts. TFMB agrees the receipts from the receipt report to the amounts reported by the Railroad Retirement Board on the SF-224.

The trust fund manager processes receipts received prior to 3:00 pm EST the day they are received and the next business day if the receipts are received after 3:00 pm EST. The trust fund manager: 1) enters the receipts into the Invest One accounting system; 2) prepares an IRR based on the daily activity; 3) enters the IRR into FedInvest system, which processes the investment purchase, records the investment in the Invest One accounting system, and generates a confirmation; 4) prints the investment confirmation; and 5) provides the receipt supporting documentation along with the IRR and investment confirmation to the reviewing trust fund manager.

The reviewing trust fund manager reviews the supporting documentation to ensure that the receipts are authorized by legislation, are received from the appropriate Program Entities, and do not contain any obvious errors. In addition, the reviewing trust fund manager compares the receipt supporting documentation to the Invest One accounting system, the IRR, and investment confirmation to ensure that the receipt is properly recorded and approves the IRR. The reviewing trust fund manager returns the supporting documentation to the trust fund manager.

All Trust Funds

Each month the trust fund manager reconciles the trial balance from the Invest One accounting system to the TFS-6653 *Undisbursed Appropriation Account Ledger* (August 1, 2005 through May 31, 2006) or GWA *Account Statement* (June 1, 2006 through July 31, 2006) and SF-6652 *Statement of Differences* (if applicable). The trust fund manager prepares a monthly reconciliation worksheet that compares the month-end Fund Balance with Treasury (FBWT) from the Invest One accounting system trial balance report and the Invest One Cash Forecasting Report to the TFS-6653 *Undisbursed Appropriation Account Ledger* or GWA *Account Statement* and SF-6652 *Statement of Differences* (if applicable). Any differences are investigated and resolved. The reviewing trust fund manager reviews these monthly reconciliations and approves the monthly reconciliation worksheets and documents review and approval on the review checklist.

Program Entity Control Considerations

Program Entities should establish controls to:

- Verify that only authorized receipts are deposited into the trust funds.
- Determine and approve receipt amounts.
- Provide receipt information to TFMB within the required time frames.
- Review the monthly financial reports provided by TFMB to ensure that receipts are posted accurately.

Tests of Operating Effectiveness and Results of Testing

- Inspected SOPs and observed trust fund managers process and record receipt transactions, and determined that receipt transactions were processed and recorded in accordance with the procedures.
- For a selection of receipts processed, inspected supporting receipt documentation and Investment/ Redemption Request and determined that the receipt transaction was documented and authorized.
- For a selection of receipts processed, inspected supporting receipt documentation, Investment/ Redemption Request, and the Invest One Accounting system and determined that the transaction was reviewed and approved by the trust fund manager and that the receipt was processed and recorded accurately in the proper period.
- For a selection of months, inspected the reconciliation of the TFS-6653 or GWA Account Statement to the trial balances from the Invest One accounting system, inspected the review checklist and determined that the trust fund manager completed the reconciliations and the reviewing trust fund manager reviewed and approved the reconciliations.

No relevant exceptions noted.

Control Objective 10 – Investment Requests

Controls provide reasonable assurance that investment requests are authorized, processed, and recorded accurately in the proper period.

Description of Controls

TFMB has documented policies and procedures for staff to follow for the processing of investment requests.

Pursuant to the trust funds' enabling legislation, TFMB invests the portions of the trust funds' assets that are not necessary to meet current withdrawals. In accordance with legislation, TFMB purchases non-marketable Treasury securities that are held in the name of the Secretary of the Treasury for the trust funds. The Treasury securities are purchased and redeemed through FIB. TFMB determines the type and term of the Treasury security to purchase based on the following factors:

- Type of security allowed by legislation
- Division of Federal Investment's guidelines for investing
- Discussions with Program Entities to determine their expected future cash flow needs
- Guidance issued by the Office of Fiscal Assistant Secretary

TFMB purchases securities using the Federal Investment Online system (FedInvest) that is maintained by FIB and OIT. To establish access to FedInvest, the trust fund manager completes an Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke Form and submits the form to FIB. Using the approved Access/Revoke Form, FIB establishes a user account and communicates the account information to TFMB. When an employee is terminated, TFMB prepares an Access/Revoke Form and submits an approved form to FIB. FIB removes access for the requested user.

The trust fund manager determines the amount to invest by inspecting the Cash Forecasting Report from the Invest One accounting system. The Cash Forecasting Report summarizes the daily receipts and disbursements that have been posted to Invest One.

To purchase an investment, the trust fund manager accesses Invest One through FedInvest using their user ID and password. To purchase an investment, the trust fund manager prepares and enters the investment request into FedInvest that automatically updates the Invest One accounting system. FIB approves the investment requests in the Invest One accounting system, which processes the investment and generates an on-line Investment Confirmation.

Certificate of Indebtedness (C of I) par value securities have a maturity date of June 30th. In accordance with Treasury fiscal policy, FIB automatically reinvests the par value securities upon maturity. On the maturity date, the Invest One system processes the maturity automatically and FIB manually processes the reinvestment, into the Invest One Accounting system. The corresponding confirmations are available in FedInvest.

For certain other selected investment requests, the trust fund manager manually prepares the IRR, and provides the IRR to FIB. FIB enters the investment into FedInvest, which processes the

investment, prepares an on-line Investment Confirmation, and automatically updates the Invest One accounting system.

Upon entry of the transaction into FedInvest, an on-screen confirmation of the transaction is presented to the purchaser. If the on-screen confirmation is not presented, purchasers are to call the Help Desk.

The trust fund manager prints the Investment Confirmation and compares the investment type, amount, purchase date, and maturity date from the IRR to the Investment Confirmation. After investigating and resolving any differences, the trust fund manager approves the IRR and the Investment Confirmation. The trust fund manager provides the IRR, Investment Confirmation, the Cash Forecasting Report, and the receipt/disbursement source documentation to the reviewing trust fund manager.

The reviewing trust fund manager inspects the IRR, the Investment Confirmation, the Cash Forecasting Report, and the receipt/disbursement source documentation to ensure that the proper amount was invested, to confirm that the trust fund manager purchased an authorized investment, and to ensure that the investment amount and timing is consistent throughout all of these documents. The reviewing trust fund manager documents their approval on the Investment Request Form.

At the end of the month, FIB provides TFMB a Monthly Statement of Account, which indicates the investment activity for the month. The trust fund manager reconciles investment activity from the Monthly Statement of Account to the Invest One accounting system. The reviewing trust fund manager reviews and approves the reconciliation. Any differences related to investment activity are investigated and resolved.

Program Entity Control Considerations

Program Entities should establish controls to:

- Verify that the type and term of the investments purchased are appropriate in relation to expected cash flow needs.

Tests of Operating Effectiveness and Results of Testing

- Inspected SOPs and observed trust fund managers and reviewing trust fund managers process and record investment requests, and determined that the investment requests were processed in accordance with the procedures.
- For a selection of investment purchases, inspected the Investment/Redemption Requests, the Investment Confirmation, supporting receipt/disbursement documentation, and the Invest One accounting system and determined that the investment transactions were documented, authorized in accordance with legislation, and processed and recorded accurately and in the proper period.
- For a selection of investment purchases, inspected the Investment/Redemption Requests and the Investment Confirmation and determined that the reviewing trust fund manager reviewed and approved the investment purchases.

- For a selection of months, inspected a selection of the monthly reconciliations from the Invest One trial balance to the FIB-provided Monthly Statement of Account and determined that the reconciliations were completed, were reviewed and approved by the reviewing trust fund manager, and that any differences were resolved.
- Observed TFMB personnel enter a selection of investment purchases into FedInvest, inspected on-screen confirmations received by TFMB and determined that on-screen confirmations confirmed the successful recording of the investment purchase in FedInvest and the Invest One accounting system.
- Inquired of TFMB personnel and was informed that personnel are trained to call the Help Desk if the on-screen confirmation message “Your Transaction has Been Processed” fails to appear.
- For a selection of new Invest One and FedInvest users, inspected documented user access request forms and determined that access was authorized.
- Inspected a list of all separated and transferred BPD employees and lists of Invest One and FedInvest user IDs and determined that access to Invest One and FedInvest had been revoked for terminated and transferred BPD employees.

No relevant exceptions noted.

Control Objective 11 – Investment Income

Controls provide reasonable assurance that investment income, amortization and gains or losses are processed and recorded accurately in the proper period.

Description of Controls

TFMB has documented policies and procedures for staff to follow for the processing of transactions related to investment income, amortization, and gains/losses.

Interest Payments Received

The trust funds receive interest daily for one-day securities, semi-annually on June 30 and December 31 for par value certificates of indebtedness (C of I's) and semi-annually at various dates for market-based bonds and notes. The market-based bills do not make periodic interest payments therefore interest income is equal to the purchased discount, which is received when the securities mature or are redeemed. Interest received is a receipt to the trust funds and is either used to meet a Program Entities' disbursement request or is reinvested.

At the time an investment purchase is recorded, the investment terms (i.e., cost, discount/premium, interest rate, issue date, maturity date, amortization/accretion method, payment frequency, payment month and day, and first coupon date) are established based on the security purchased. The Invest One accounting system automatically calculates and records interest income based on the investment terms in the system.

For each redemption transaction, the trust fund manager obtains the Redemption Confirmation from the Invest One accounting system and the related IPAC report from the IPAC system. The trust fund manager compares interest payments from the Redemption Confirmations to the IPAC reports. The trust fund manager investigates any differences identified, notifies FIB of any corrections needed, and ensures that corrections are processed.

At the end of the month, FIB provides TFMB a Monthly Statement of Account, which indicates the investment activity for the month. The trust fund manager reconciles the investment activity from the Monthly Statement of Account to the Invest One accounting system. The reviewing trust fund manager reviews and approves the reconciliation. Any differences related to investment activity are investigated and resolved.

Accrued Interest Receivable

Accrued interest receivable is recorded by TFMB for accounts that hold notes or bonds. One-day securities mature on the next business day and therefore generally do not accrue interest. If a one-day security is purchased on Friday, the security accrues interest over the weekend since it does not mature until the next business day. Bills are issued at a discount and therefore, do not earn accrued interest, rather their discount is amortized.

At the time an investment purchase is recorded, the investment terms (i.e., cost, discount/premium, interest rate, issue date, maturity date, amortization/accretion method, payment frequency, payment month and day, and first coupon date) are entered into the Invest One accounting system by FIB. The system automatically calculates and records interest accruals based on the investment terms in the system. The trust fund manager and reviewing trust fund manager review the interest balances on the monthly trial balance reports for reasonableness and to ensure that the interest balances are properly recorded and classified and documents approval on the review checklist.

Discount/Premium

TFMB purchases non-marketable market-based bills at a discount and non-marketable market-based bonds and notes at a discount or premium.

At the time an investment purchase is recorded, the investment terms (i.e., cost, discount/premium, interest rate, issue date, maturity date, amortization method, payment frequency, payment month and day, and first coupon date) are entered into the Invest One accounting system. The system automatically calculates and records amortization of discount/premium based on the investment terms in the system. The system calculates amortization for bills (i.e., short-term securities) using the straight-line method and for bond/notes (i.e., long-term securities) using the level yield method that approximates the interest method.

On a monthly basis, the trust fund manager and reviewing trust fund manager reviews the trial balance report which lists amortization of discounts and premiums and compares it to the financial report and documents approval on the review checklist.

Gains and Losses

Gains and losses can occur each time a market-based security is redeemed prior to maturity in order to meet a Program Entities' disbursement request. The trust funds invest in a certain

amount of one-day securities to help reduce the redemption of securities prior to the maturity dates and thereby, minimize the potential for realized gains or losses.

When a security is redeemed, FedInvest processes the redemption, including the proceeds of the redemption, into the Invest One accounting system. The Invest One accounting system calculates and records a gain or loss based on the difference between the redemption proceeds and book value (i.e., cost plus/minus amortized discount/premium). The trust fund manager and reviewing trust fund manager review the gains/losses on the monthly trial balance reports for reasonableness and to ensure that the gains/losses are properly recorded and classified and documents approval on the review checklist.

Program Entity Control Considerations

Program Entities should establish controls to:

- Verify that the type and term of the investments purchased and related investment income are appropriate in relation to expected cash flow needs.

Tests of Operating Effectiveness and Results of Testing

- Inspected SOPs and observed trust fund managers and reviewing trust fund managers process and record interest, gain/loss, and amortization transactions, and determined that the processing was performed in accordance with the procedures.
- For a selection of transactions, inspected the interest payment reconciliations from the Redemption Confirmations and IPAC reports to the trial balances and determined that the reconciliations were completed and any differences were resolved.
- For a selection of months, inspected a selection of the monthly reconciliations from the Invest One trial balance to the FIB-provided Monthly Statement of Account and determined that the reconciliations were completed, were reviewed and approved by the reviewing trust fund manager, and that any differences were resolved.
- For a selection of transactions, inspected interest, gain/loss, and amortization documentation, inspected the Invest One accounting system, and determined that transactions were documented, mathematically accurate, and processed and recorded accurately and in the proper period.
- For a selection of months, inspected the review checklist and the monthly trial balance report and determined that the trust fund managers reviewed the interest balances for reasonableness.
- For a selection of months, inspected the review checklist, Amortization Report, and trial balances and determined that the trust fund managers completed the reconciliations.
- For a selection of months, inspected the review checklist and the monthly trial balance and determined that the trust fund managers reviewed the gains/losses for reasonableness.

No relevant exceptions noted.

Control Objective 12 – Redemption Requests

Controls provide reasonable assurance that redemption requests are authorized, processed, and recorded accurately in the proper period.

Description of Controls

TFMB has documented policies and procedures for staff to follow for the processing of redemption requests.

Investments are redeemed primarily when the Program Entities request transfers from the trust funds. For trust funds that invest in market-based securities, the trust fund manager nets the receipts, investment maturities, and the disbursements. If the net result is a reduction, a redemption request is prepared. If the net results in an increase, an investment request is prepared. (See Control Objective 10) For trust funds that invest in par value securities, the trust fund manager generally invests receipts and redeems investments for disbursements as separate transactions.

When redeeming a market-based security, the trust fund manager selects the security with the earliest maturity date. When redeeming a par value security, Invest One selects the security in the following order: earliest maturity date, lowest prevailing interest rate, and first security in first security out.

TFMB redeems securities by completing the request in FedInvest, which is maintained by FIB and OIT. To establish access to FedInvest, the trust fund manager completes an Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke Form and submits the form to FIB. Using the approved Access/Revoke Form, FIB establishes a user account and communicates the account information to TFMB. When an employee is terminated, TFMB prepares an Access/Revoke Form and submits an approved form to FIB. FIB removes access for the requested user.

To redeem a security, the trust fund manager completes the following steps:

- The trust fund manager prepares the IRR.
- The trust fund manager accesses FedInvest using their user Id and password and enters the redemption request.
- The trust fund manager reviews and submits the redemption request in FedInvest, which redeems the investment, prepares an on-line Redemption Confirmation, and processes the redemption into the Invest One accounting system.

For redemptions on non-business days, June 30 rollovers, and other selected redemption requests, the trust fund manager manually prepares the IRR, and provides a copy of the IRR to FIB. FIB manually enters the IRR in Invest One.

Certificate of Indebtedness (C of I) par value securities have a maturity date of June 30th. In accordance with Treasury fiscal policy, FIB automatically reinvests the par value securities upon maturity. On the maturity date, the Invest One system processes the maturity automatically and FIB manually processes the reinvestment into the Invest One Accounting system. The corresponding confirmations are available in FedInvest.

Market-based securities have various maturity dates. On the maturity date, the Invest One system processes the maturity and creates a confirmation, which is made available in FedInvest detailing the maturity and related interest. The trust fund manager reviews the confirmations and uses the proceeds in the following order:

- To meet current disbursement requests.
- To invest remaining proceeds according to written investment policies.

The trust fund manager prints the Redemption Confirmation from FedInvest and provides the Redemption Confirmation and the IRR to the reviewing trust fund manager. The reviewing trust fund manager compares the investment type, amount, redemption date, and the maturity date from the Redemption Confirmation to the IRR to verify that the redemption was authorized and that the redemption amount and timing is consistent throughout these documents. Any differences are investigated and resolved.

At the end of the month, FIB provides TFMB a Monthly Statement of Account, which indicates the investment activity for the month. The trust fund manager reconciles investment activity from the Monthly Statement of Account to the Invest One accounting system. The reviewing trust fund manager reviews and approves the reconciliation. Any differences related to investment activity are investigated and resolved.

Tests of Operating Effectiveness and Results of Testing

- Inspected SOPs and observed the trust fund managers and reviewing trust fund managers process and record redemption transactions and determined that the processing was performed in accordance with the procedures.
- For a selection of redemption transactions, inspected the Redemption Confirmation, the IRR, and the Invest One accounting system and determined that the transactions were documented, reviewed and approved by the reviewing trust fund manager, and processed and recorded accurately in the proper period.
- For a selection of months, inspected a selection of the monthly reconciliations from the Invest One trial balance report to the FIB-provided Monthly Statement of Account and determined that the reconciliations were completed, were reviewed and approved by the reviewing trust fund manager, and that any differences were resolved.
- For a selection of new Invest One and FedInvest users, inspected documented user access request forms and determined that access was authorized.
- Inspected a list of all separated and transferred BPD employees and lists of Invest One and FedInvest user IDs and determined that access to Invest One and FedInvest had been revoked for terminated and transferred BPD employees.

No relevant exceptions noted.

Control Objective 13 – Disbursement Processing

Controls provide reasonable assurance that withdrawals/disbursements are authorized, processed, and recorded accurately in the proper period.

Description of Controls

TFMB has documented policies and procedures for staff to follow for the processing of disbursements.

All Trust Funds

Disbursements primarily consist of transfers to Program Entities, administrative expenses, and interest penalties under the Cash Management Improvement Act. The Program Entities are responsible for verifying that the disbursement is in compliance with legislation, determining the amount of the disbursements, and requesting the disbursements.

The Program Entities initiate disbursement requests via fax, IPAC reports, email, or telephone calls to the respective trust funds manager. Each telephone request is followed by a faxed disbursement confirmation citing the applicable legislation and signed by the appropriate Program Entity representative. The Program Entity may also mail the disbursement confirmation to TFMB.

TFMB processes disbursement requests received prior to 3:00 pm EST the day they are received or on the next business day if received after this deadline. The trust fund manager processes the disbursement based on the fax, IPAC report, email or telephone request. When the disbursement confirmation is received by fax/mail, the trust fund manager matches the confirmations to the telephone request. The trust fund manager reviews the request to ensure that it is received from the appropriate Program Entity and does not contain any obvious errors. The trust fund manager also reviews the account balances to ensure the trust fund has sufficient funds to cover the request.

TFMB uses the automated GWA system, maintained by FMS, to process transfers. To establish access to GWA system, the trust fund manager completes an Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke Form and submits the form to Treasury's FMS. Using the approved Access/Revoke Form, Treasury's FMS establishes a user account and communicates the account information to TFMB. When an employee is terminated, TFMB prepares an Access/Revoke Form and submits an approved form to FMS. FMS removes access for the requested user.

FMS configured the GWA system to authorize TFMB to transfer funds from the trust fund accounts to program agencies' accounts but not to transfer funds from program agencies' accounts to the trust fund accounts.

The trust fund manager accesses the GWA system with his/her user identification and password and enters the transfer into the GWA system, in accordance with the program agency's instruction. The GWA system reflects a transfer status of "SAVED" for a transfer, until the transfer is certified. The trust fund manager provides the transfer request documentation to the reviewing trust fund manager.

The reviewing trust fund manager accesses the GWA system with his/her user identification and password and compares the disbursement request to the GWA system, verifies that the transfer is designated to the proper agency in the GWA system, and certifies the transfer request in the GWA system. The GWA system changes the transfer status to “AGENCY CERTIFIED”.

After the transfer is certified by TFMB, FMS authorizes the GWA system to send the disbursement request to the STAR system using an automated interface. The STAR system transfers the funds from the trust fund account to the agency account, and the GWA system changes the status of the transfer request to “STAR POSTED” on the GWA system. The trust fund manager periodically accesses the GWA pending transaction file to monitor the transfer status and take a necessary action to correct errors in rejected transactions and resubmit the transfers to FMS.

Using the disbursement request documentation, the trust fund manager prepares an IRR based on daily activity and records the disbursement into the Invest One accounting system.

The trust fund manager provides the disbursement requests (i.e., faxes, SF-1081s (*Voucher and Schedule of Withdrawals and Credits form*), IPAC reports, or emails) to the reviewing trust fund manager. On a daily basis, the reviewing trust fund manager compares disbursements from the Invest One accounting system (i.e., the Cash Forecasting Report) to the disbursement requests to ensure the disbursement is properly recorded.

On a monthly basis, the trust fund manager prints the “STAR POSTED” Non-Expenditure Authorizations (SF-1151) from the GWA system, inspects the SF-1151s to verify that the forms includes the appropriate FMS electronic approvals, and agrees the transfers from the SF-1151s to the program agency letters.

The Unemployment Trust Fund-State Unemployment Benefit Disbursements

The Program Entities (i.e. State Employment Agencies) are responsible for verifying that the disbursements are in compliance with legislation, determining the amount of the disbursements, and requesting the disbursements. Program Entities must submit all disbursement requests using the ASAP system. Each day, Program Entities must enter their disbursement requests into the ASAP system by 6:00 pm EST if requesting a wire transfer and by 11:59 pm EST if requesting an Automated Clearing House payment. The Program Entities may request a disbursement from their account or a transfer from the Extended Unemployment Compensation Account (EUCA) or the Federal Employees Compensation Account (FECA). A written disbursement confirmation is not required from the Program Entities. FMS transfers funds from the trust fund account to the Program Entity account and sends the trust fund manager the Transaction by Account ID reports.

During the morning of the next business day, the ASAP system transmits a file to the Invest One accounting system that contains all of the disbursement and transfer requests. The trust fund manager signs on to the Invest One accounting system and reviews the pending disbursement and transfer requests file. The trust fund manager prints a report from the Invest One accounting system that summarizes the pending disbursement and transfer requests and compares this report to the ASAP transaction reports.

After the trust fund manager verifies and reconciles these reports, the trust fund manager posts the transaction to the Program Entities’ accounts within the Invest One accounting system and provides the reports to the reviewing trust fund manager. The reviewing trust fund manager reviews and approves the reports. Any differences are investigated and resolved.

All Trust Funds

Each month the trust fund manager reconciles the trial balance from the Invest One accounting system to the SF-6653 *Undisbursed Appropriation Account Ledger* (August 1, 2005 through May 31, 2006) or GWA *Account Statement* (June 1, 2006 through July 31, 2006) and TFS-6652 *Statement of Differences* (if applicable). The trust fund manager prepares a monthly reconciliation worksheet that compares the month-end FBWT from the Invest One accounting system trial balance report and the Invest One Cash Forecasting Report to the TSF-6653 *Undisbursed Appropriation Account Ledger* or GWA *Account Statement* and SF-6652 *Statement of Differences* (if applicable). Any differences are investigated and resolved. The reviewing trust fund manager reviews these monthly reconciliations and documents review and approval on the review checklist.

Program Entity Control Considerations

Program Entities should establish controls to:

- Verify that only authorized disbursement requests are used for withdrawals from the trust funds.
- Determine and approve the disbursement requests.
- Provide disbursement requests to TFMB within the required time frame.
- Ensure that the systems they use to support on-line access to the Automated Standard Application for Payments System (ASAP) are approved, tested, and properly monitored. (UTF only)
- Restrict access to the ASAP system to authorized individuals. (UTF only)
- Verify that disbursement requests are accurately entered into the ASAP system. (UTF only)
- Review the monthly trust fund financial reports provided by TFMB to ensure that disbursements are posted accurately.
- Reconcile fund balance with Treasury from their records to FMS records to ensure that they receive the proper trust fund disbursements.
- Reconcile their records to their bank's records to ensure that they receive the proper trust fund disbursements. (UTF only)

Tests of Operating Effectiveness and Results of Testing

- Inspected SOPs and observed the trust fund managers and the reviewing trust fund managers process and record disbursement transactions, and determined that the disbursement transactions were processed in accordance with the procedures.
- For a selection of disbursement transactions, inspected the Program Entity request letters, the SF-1151s, and the Invest One accounting system and determined that the transactions were

documented, reviewed and approved by the reviewing trust fund manager, and processed and recorded accurately in the proper period.

- For a selection of months, inspected evidence of trust fund manager review of SF-1151s and determined that the trust fund manager reviewed the SF-1151s for approvals and accuracy.
- For a selection of ASAP transaction reports, inspected the reconciliation from the ASAP transaction report to the pending transactions reports in the Invest One accounting system and determined that the reconciliations were completed, the transactions were processed and recorded accurately in the proper period, and the reviewing trust fund manager reviewed and approved the reconciliations. (UTF only)
- For a selection of months, inspected the reconciliation of the TFS-6653 or GWA Account Statement to the trial balances from the Invest One accounting system, inspected the review checklist and determined that the trust fund manager completed the reconciliations and the reviewing trust fund manager reviewed and approved the reconciliations.

No relevant exceptions noted.

Control Objective 14 – Records Maintenance

Controls provide reasonable assurance that the documentation exists to support all transactions and is filed in reference files, which are readily available.

Description of Controls

Transaction support is maintained in paper and, as applicable, electronic format. The supporting documentation is organized in separate work folders for each trust fund containing the daily and monthly workpapers. The trust fund manager documents the transaction number assigned by the Invest One accounting system on the supporting documentation to provide a cross-reference. The key transaction records and files are as follows:

- Transaction supporting documentation:
 - Receipt notification documents, such as OTA tax estimate/adjustment letters, IRS tax refund/credit letters, Program Entity receipt letters/reports, Deposit Summary Form (SF-215), and CASHLINK reports.
 - IPAC transaction reports
 - SF-224 worksheet generated from the Invest One accounting system
 - FMS-issued warrants (SF-1017)
 - Investment and Redemption Requests
 - Investment and Redemption Confirmations
 - Monthly Statement of Account (investment report)
 - Disbursement request letters from Program Entities
 - Non-Expenditure Transfer Authorization (SF-1151)
 - ASAP Transaction by Account ID reports (UTF Only)
 - ASAP disbursement and transfer request files and reports (UTF Only)
- Reconciliations from the TFS-6653 Undisbursed Appropriation Account Ledgers or GWA Account Statement to the trust fund trial balance reports
- Financial Statement Package:

- Trial Balance reports
- Balance Sheet
- Income Statements
- Budget Reconciliation
- FACTS II Trial Balance
- Schedules of Assets & Liabilities and Schedules of Activity (Attest Schedules)
- Account Monitoring Documentation
- UTF Internet Account Statements
- UTF Invest One Borrowing Reports
- TFS-2108 Year-End Closing Statement

Tests of Operating Effectiveness and Results of Testing

- For a selection of transactions, reconciliations, and reports, inspected supporting documentation and determined that documentation was maintained and available.

No relevant exceptions noted.

Control Objective 15 – Reporting

Controls provide reasonable assurance that reports provided to the Program Entities are accurate, prepared on a consistent basis, and fairly present the information they purport to display.

Description of Controls

TFMB has documented policies and procedures for staff to follow for the generation of reports.

All Trust Funds Except the Unemployment Trust Fund

At the end of the monthly processing cycle, the trust fund managers prepare trial balance reports, schedules of assets and liabilities, and schedules of activity for each trust fund. First, the trust fund manager initiates and prints a system-generated trial balance from the Invest One accounting system. Next, the trust fund manager imports the system-generated trial balance into an Excel spreadsheet and prepares the schedule of assets and liabilities, schedule of activity, and trial balance reports. The trust fund manager provides these reports to the reviewing trust fund manager.

The reviewing trust fund manager reviews the reports to ensure accuracy and approves the reports. After receiving approval from the reviewing trust fund manager, the trust fund manager downloads the schedule of assets and liabilities, the schedule of activity, and the trial balance reports into Portable Document Format (PDF) electronic files. A second reviewer then reviews the PDF electronic file for presentation and format.

TFMB publishes statements in PDF format on BPD's website in accordance to OIT's web procedures. In addition, the trust fund manager sends the PDF electronic files by electronic email to the Electronic Commerce and Systems Development Team (ECSDT). OIT obtains the files from ECSDT and posts them to BPD's website.

Unemployment Trust Fund

At the end of the monthly processing cycle, the trust fund manager provides the Department of Labor with two files, one contains the activity for the month, the other contains the account balances at the end of the month. TFMB creates electronic files of the individual UTF and Reed Act account statements, transaction statements, and Federal activity reports (EUCA and FECA activity). The text reports are reviewed to ensure that the correct number of files are included and then posted to BPD's website.

All Trust Funds

The trust fund activity is also reported in FACTS I and FACTS II. FACTS II is used to consolidate all Federal financial reporting at the agency level for the purposes of generating the annual consolidated financial statements for the Federal Government as a whole. FACTS I includes only the non-budgetary accounts. The Program Entities are responsible for entering the information into FACTS I using the reports they receive from TFMB.

TFMB enters the information into FACTS II by completing the following steps:

- The trust fund manager prints and forwards the FACTS II adjusted trial balance report to the reviewing trust fund manager who approves the report.
- The trust fund manager enters the account balances into FACTS II.
- When reporting the FACTS II for the final quarter of the fiscal year, the final FACTS II adjusted trial balance report is reviewed by the approving official and certified in the FACTS II System.
- In addition, the trust fund manager and reviewing trust fund manager compares the TFS-2108 Year-End Closing Statement to the September 30th trial balance report from the Invest One accounting system after the end of the year.

At the end of the month, the SF-224 worksheet is generated utilizing data from the Invest One accounting system. The trust fund manager reconciles the total transactions from IPAC reports to the total from the SF-224 worksheet utilizing data from the Invest One accounting system. The reviewing trust fund manager reviews the reconciliation and approves the SF-224 worksheet. Any differences are investigated and resolved.

Program Entity Control Considerations

Program Entities should establish controls to:

- Review the monthly trust fund financial reports to ensure that transactions are recorded accurately.
- Review their UTF account statements, transaction statements, and Federal activity reports to ensure that transactions are recorded accurately.
- Verify that transactions are recorded accurately into Federal Agencies' Centralized Trial Balance System (FACTS).

Tests of Operating Effectiveness and Results of Testing

- Inspected SOPs and observed the trust fund manager and reviewing trust fund manager generate reports, and determined that reports were generated in accordance with the procedures.
- For a selection of months, inspected evidence of the review of the trust fund reports, trial balances, and schedules by the reviewing trust fund manager, and determined that the reviewing trust fund manager reviewed the reports for accuracy.
- For a selection of months, inspected the Invest One and FACTS II trial balance reports for non-budgetary accounts, and determined that the reports were reviewed for accuracy and consistency, and any differences were resolved.
- For a selection of trust funds, inspected evidence of the review of the TFS-2108 reports to the trial balance reports from the Invest One accounting system, and determined that the reports were reviewed for accuracy and consistency.
- For a selection of months, inspected the monthly reconciliations from the IPAC reports to the SF-224 worksheet and determined that the reconciliations were completed, were reviewed and approved by the reviewing trust fund manager, and that any differences were resolved.

No relevant exceptions noted.

Control Objective 16 – Unemployment Trust Fund Title XII of the Social Security Act Advances Program

Controls provide reasonable assurance that state borrowing transactions are authorized, processed, and recorded accurately in the proper period.

Description of Controls

TFMB has documented policies and procedures for staff to follow for the processing of the Title XII Advance transactions.

Pursuant to Title XII of the Social Security Act, certain Program Entities may borrow funds from the Federal Unemployment Account (FUA) when they have exhausted all available funding in their account. The following summarizes the related borrowing, repayment, and interest processes.

Borrowing Activity

The U.S. Department of Labor (DOL) authorizes and coordinates the amounts that certain states may borrow. Each quarter, DOL sends an authorization letter to TFMB indicating the amount that the program entity may borrow. During the twelve month period ended July 31, 2006, five states were authorized to borrow. The states request funds from FUA, UI, FECA, EUCA, and Reed Act through the ASAP system.

Each day, program entities determine the amount they want to borrow by reviewing their account in the ASAP system. Program Entities must enter their borrowing requests into the ASAP system by 6:00 pm EST.

During the morning of the next business day, the ASAP system transmits a file to the Invest One accounting system that contains all of the borrowing transactions. The trust fund manager prints the Borrowing Report from the Invest One accounting system that summarizes the pending borrowing requests and compares this report to the ASAP transaction report.

After the trust fund manager verifies that the requested borrowing is within the authority established by the DOL and reconciles these reports, the trust fund manager posts the transactions to the states' accounts within the Invest One accounting system and provides the reports to the reviewing trust fund manager. The reviewing trust fund manager reviews and approves the reports. Any differences are investigated and resolved.

Repayment Activity

As discussed in Control Objective 9, the Program Entities deposit unemployment tax receipts into their UTF accounts. Each day, TFMB sweeps the accounts of the borrowing Program Entities that agreed to TFMB's standard sweep process and transfers any available funds from the Program Entities' accounts to the federal account from which they were borrowed. This serves to maintain a zero balance in the Program Entity accounts to ensure that a Program Entity in borrowing status does not earn daily income when it is allocated. The trust fund manager reviews the account to ensure receipts are applied as repayments. For borrowing Program Entities that request an alternative repayment process, TFMB inspects the account and processes repayments as directed by the borrowing Program Entities.

Interest Terms

If a Program Entity has an outstanding loan balance at the end of the fiscal year, the Program Entity is liable for payment of interest on the funds it borrowed during the fiscal year. Interest is calculated in a spreadsheet that is populated from the Invest One borrowing and repayment balances. The trust fund manager reviews the borrowing Program Entity account balances at year-end to ensure that interest is appropriately calculated for any state still in borrowing status.

Program Entity Control Considerations

Program Entities should establish controls to:

- Ensure that the systems they use to support on-line access to ASAP are approved, tested, and properly monitored.
- Restrict access to the ASAP system to authorized individuals.
- Verify that borrowing requests are accurately entered into the ASAP system.
- Verify that borrowing amounts are not in excess of the amount approved by the U.S. Department of Labor.

- Review the reports provided by TFMB to ensure that borrowing, interest, and repayment transactions are recorded accurately.

Tests of Operating Effectiveness and Results of Testing

- Inspected SOPs and observed the trust fund managers and reviewing trust fund managers process and record state borrowing transactions, and determined that the transactions were processed in accordance with the procedures.
- For a selection of days, inspected the Borrowing Report, ASAP transaction report, and authorized borrowing limit letters provided by DOL, and determined that the trust fund manager verified that the borrowing was within the authority established by DOL.
- For a selection of days, inspected the reconciliation of the Borrowing Report to the ASAP transaction report and determined that the reviewing trust fund manager reviewed and approved the reconciliations.
- For a selection of ASAP transaction reports, inspected a selection of ASAP transaction reports, Borrowing Reports, and the Invest One accounting system and determined that the borrowings were processed and recorded accurately and in the proper period.
- For a selection of states authorized to borrow, inspected Invest One reports and determined that the program entity did not earn any daily income.
- For a selection of days, inspected the sign-off on the ASAP reports evidencing the trust fund manager's review of accounts to ensure receipts were applied as repayments and determined that these reviews were documented.
- Inspected documentation of the trust fund manager's review of the borrowing Program Entity account balances at year-end, and determined that the trust fund manager reviewed the accounts for the accurate calculation of interest for any state still in borrowing status.

No relevant exceptions noted.

**IV. OTHER INFORMATION PROVIDED BY THE
BUREAU OF THE PUBLIC DEBT**

CONTINGENCY PLANNING

System Back Up

The Invest One accounting system has a contingency plan managed by the DSPS. There is a formal DFI Continuity Of Operations (COOP) Plan, which is part of a larger COOP Plan for OPDA and BPD. The TFMB performs monthly tests on all daily Invest One functions at OPDA's contingency site with the support of two TFMB employees. The focus of these tests is to provide assurances that connectivity can be made, and these functions will continue with minimum interruption during any emergency that may occur with or without warning.

OIT uses the Tape Management System (TMS) from IBM to perform backups. OIT performs two backups of the Invest One accounting system each night, the first before running the nightly batch jobs and the second after completion. OIT retains the first backup tape for two weeks and retains the second back up tape for two months. OIT stores the tapes in the production tape library until they are rotated offsite. Short-term storage of Invest One tapes is maintained at the CAPS facility located in Mineral Wells, West Virginia. Long-term storage of tapes is at the Iron Mountain facility located in Boyers, PA.

If a backup tape needs to be restored, the request will be made from the DSPS. OIT will then load the backup tape.

Continuity of Operations

A fire alarm and sprinkler system that is managed, maintained, and tested by the facilities management department at BPD protects the Hintgen Building and the main building. Alarms are active 24 hours a day, 7 days a week, and are tied-in to the local fire department over phone lines for spontaneous notification. Sprinkler heads are located in the ceiling of each room of the buildings. This is a "wet pipe" (always charged with water) system with individual heads that discharge water.

In the event the main building, where the Invest One accounting system is run, becomes inoperable, mainframe operations would be relocated to the BPD contingency facility in Kansas City, MO in accordance with the OIT data center recovery plan. This facility employs a "warm site" strategy for recovery of mainframe operations. OIT has contracted with FMS Kansas City to provide mainframe equipment for this site. The DFI Business Continuity Plan calls for resumption of operations and critical applications of essential functions within 12 hours. The Invest One accounting system has been classified as a critical application.

As part of the DFI COOP Plan, should the Hintgen Building become unavailable, two of TFMB's personnel will relocate to the CAPS facility to reestablish their daily operations. BPD will revert to manual procedures until the mainframe and Invest One accounting system are fully recovered.

**V. INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General, U.S. Department of the Treasury
Commissioner, Bureau of the Public Debt and the
Assistant Commissioner, Office of Public Debt Accounting

We have examined the accompanying description of the general computer and trust fund management processing controls related to the Trust Fund Management Branch (TFMB) of the Bureau of the Public Debt (BPD) as of July 31, 2006, and have issued our report thereon dated August 11, 2006. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants, and applicable *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of BPD's controls that may be relevant to a Program Entities' internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and Program Entities and sub-service organizations applied the controls contemplated in the design of BPD's controls; and (3) such controls had been placed in operation as of July 31, 2006. The control objectives were specified by BPD. Our examination included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

Compliance with laws and regulations applicable to TFMB of BPD is the responsibility of BPD management. As part of obtaining reasonable assurance about whether control structure policies and procedures tested were operating with sufficient effectiveness to achieve the related control objectives during the period from August 1, 2005 to July 31, 2006, we performed tests of BPD's compliance with certain provisions of applicable laws and regulations directly and materially affecting the general computer and trust fund management processing controls. We limited our tests of compliance to these provisions and we did not test compliance with all applicable laws and regulations. The objective of our examination was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of BPD, its Program Entities, the independent auditors of its Program Entities, the U.S. Department of the Treasury Office of Inspector General, the Office of Management and Budget, the 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

August 11, 2006