



# Audit Report



OIG-13-014

Audit of the Financial Management Service's Fiscal Years 2012  
and 2011 Schedules of Non-Entity Government-Wide Cash

November 16, 2012

Office of  
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 16, 2012

**MEMORANDUM FOR DAVID A. LEBRYK, COMMISSIONER  
BUREAU OF THE FISCAL SERVICE**

**FROM:** Michael Fitzgerald  
Director, Financial Audits

**SUBJECT:** Audit of the Financial Management Service's  
Fiscal Years 2012 and 2011 Schedules of Non-Entity  
Government-Wide Cash

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years 2012 and 2011 Schedules of Non-Entity Government-Wide Cash (Schedules). Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the Schedules. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

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

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control Over Financial Reporting; and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit, KPMG LLP found:

- the Schedules present fairly, in all material respects, the balance of FMS' Non-Entity Government-Wide Cash as of September 30, 2012 and 2011, in conformity with U.S. generally accepted accounting principles,
- certain deficiencies in internal control over financial reporting that were considered collectively to be a significant deficiency<sup>1</sup> (described below), and

---

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

- no instances of reportable noncompliance with laws and regulations tested.

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

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Schedules or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 14, 2012, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Mark S. Levitt, Manager, Financial Audits at (202) 927-5076.

Attachment

cc: Richard L. Gregg  
Fiscal Assistant Secretary



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

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

September 30, 2012 and 2011

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

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Independent Auditors' Report on Internal Control Over Financial Reporting	2
Independent Auditors' Report on Compliance and Other Matters	6
Schedules of Non-Entity Government-wide Cash	7
Notes to the Schedules of Non-Entity Government-wide Cash	8
Attachment – Management's Response	10



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Inspector General, U.S. Department of the Treasury  
Commissioner, Bureau of the Fiscal Service (formerly Financial Management Service):

We have audited the accompanying Schedules of Non-Entity Government-Wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2012 and 2011 (hereinafter referred to as the Schedules). These Schedules are the responsibility of FMS management. Our responsibility is to express an opinion on these Schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the Schedules are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FMS' internal control over financial reporting related to GWC. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Schedules referred to above present fairly, in all material respects, the balance of FMS' Non-Entity Government-Wide Cash as of September 30, 2012 and 2011 in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 14, 2012, on our consideration of FMS' internal control over financial reporting related to GWC and our tests of its compliance with certain provisions of laws and regulations related to GWC. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

**KPMG LLP**

November 14, 2012



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## **Independent Auditors' Report on Internal Control Over Financial Reporting**

Inspector General, U.S. Department of the Treasury  
Commissioner, Bureau of the Fiscal Service (formerly Financial Management Service):

We have audited the Schedules of Non-Entity Government-Wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2012 and 2011 (hereinafter referred to as the Schedules), and have issued our report thereon dated November 14, 2012.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the Schedules are free of material misstatement.

The management of FMS is responsible for establishing and maintaining effective internal control over financial reporting related to GWC. In planning and performing our fiscal year 2012 audit, we considered FMS' internal control over financial reporting related to GWC by obtaining an understanding of the design effectiveness of FMS' internal control related to GWC, determining whether internal controls related to GWC had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of FMS' internal control over financial reporting related to GWC. Accordingly, we do not express an opinion on the effectiveness of the FMS' internal control over financial reporting related to GWC. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting related to GWC was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting related to GWC that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting related to GWC that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting related to GWC described in Exhibit I that we consider collectively to be a significant deficiency in internal control over financial reporting related to GWC. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



FMS' written response to the significant deficiency identified in our audit is presented in a separate Attachment to this report. FMS' response was not subjected to auditing procedures applied in the audit of the Schedules and, accordingly, we express no opinion on it.

Exhibit II presents the status of the prior year significant deficiency.

This report is intended solely for the information and use of Bureau of the Fiscal Service management, the U.S. Department of the Treasury Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2012

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

**Information Technology Controls Over Systems Managed by FMS and Third Parties (Repeat Condition)**

FMS relies on an extensive array of information technology (IT) systems to manage the Non-Entity Government-wide Cash (GWC). Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts.

Our review of IT controls covered general and selected application controls over key systems related to GWC. General controls are the structure, policies, and procedures that apply to an entity's overall computer systems. They include security management, access controls, configuration management, segregation of duties, and contingency planning. Business process application controls involve input, processing, and output controls related to specific IT applications.

In fiscal year 2012, we noted that FMS made progress in several areas in its efforts to address this finding. Despite these improvements, our tests revealed that the necessary policies and procedures to detect and correct control and functionality weaknesses have not been consistently documented, implemented, or enforced. FMS' IT general controls do not provide reasonable assurance that:

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

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

Because of the sensitivity of the information, we will issue a separate sensitive but unclassified report to the Commissioner of the Bureau of the Fiscal Service detailing the conditions identified and our recommendations for corrective action.

**Management's Response:**

Management has prepared an official response presented as a separate attachment to this report. Management agreed with our finding and their comments were responsive to our recommendations.

**U.S. Department of the Treasury**  
**Financial Management Service**  
**Schedules of Non-Entity Government-wide Cash (GWC)**  
**Status of Prior Year Significant Deficiency**

<b><u>Finding</u></b>	<b><u>Action Complete</u></b>	<b><u>Action in Progress</u></b>
Information Technology Controls Over Systems Managed by FMS and Third Parties (Repeat Condition)		Partially resolved and repeated as a significant deficiency for FY 2012



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury  
Commissioner, Bureau of the Fiscal Service (formerly Financial Management Service):

We have audited the Schedules of Non-Entity Government-Wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2012 and 2011 (hereinafter referred to as the Schedules), and have issued our report thereon dated November 14, 2012.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free of material misstatement.

The management of FMS is responsible for complying with laws and regulations applicable to the amounts reflected in the Schedules. As part of obtaining reasonable assurance about whether the Schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations related to GWC, noncompliance with which could have a direct and material effect on the determination of the amounts reflected in the Schedules, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to FMS. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance discussed in the previous paragraph, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of Bureau of the Fiscal Service management, the U.S. Department of the Treasury Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

November 14, 2012

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

**Schedules of Non-Entity Government-Wide Cash  
September 30, 2012 and 2011**

**(In Thousands)**

	<u>2012</u>	<u>2011</u>
Non-entity government-wide cash (Notes 1 and 2)	\$ <u>79,386,988</u>	\$ <u>50,115,217</u>

The accompanying notes are an integral part of these Schedules.

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

**Notes to the Schedules of Non-Entity Government-Wide Cash  
September 30, 2012 and 2011**

**(In Thousands)**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Financial Management Service (FMS) is a bureau of the U. S. Department of the Treasury (Treasury). FMS' mission is to improve the quality of the Federal Government's financial management. FMS' commitment and responsibility is to help its customers achieve success. FMS does this by linking program and financial management objectives and by providing financial services, information, advice, and assistance to its customers. FMS serves taxpayers, Treasury, federal program agencies, and government policy makers.

The financial activities of FMS are affected by, and are dependent upon, those of the Treasury and the Federal Government as a whole. Thus, the accompanying schedules do not reflect the results of all financial decisions and activities applicable to FMS as if it were a stand-alone entity.

Non-Entity accounts are those accounts that FMS holds but are not available to FMS in its operations. For example, FMS accounts for certain cash that the Federal Government collects and holds on behalf of the U.S. Government or other entities. These schedules include the Non-Entity government-wide cash accounts.

On October 7, 2012, the Department of the Treasury bureaus formerly known as the Financial Management Service and the Bureau of the Public Debt were redesignated as the Bureau of the Fiscal Service.

**B. Basis of Accounting**

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

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

**C. Non-entity Government-wide Cash**

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

This information is an integral part of the accompanying Schedules.

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

**Notes to the Schedules of Non-Entity Government-Wide Cash  
September 30, 2012 and 2011**

(In Thousands)

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

Federal agencies can deposit funds that are submitted to them directly into either a Federal Reserve Treasury General Account (TGA) or a local TGA depository. The TGA is maintained at the Federal Reserve Bank of New York (FRBNY) and functions as the government's checking account for deposits and disbursements of public funds. Tax payments are collected through the Electronic Federal Tax Payment System (EFTPS). In 2011, there were a few retainer Treasury Tax and Loan (TT&L) depositories that held Non-entity Government-wide Cash in interest bearing accounts. In January 2012, Treasury eliminated retainer or investor depositories from the TT&L program. Cash in the TGA is restricted for Government-wide operations. The balances in local TGA accounts are transferred to the FRBNY's TGA at the end of each day.

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

**NOTE 2. NON-ENTITY GOVERNMENT-WIDE CASH**

Non-Entity Government-wide Cash includes the Operating Cash of the U.S. Government, managed by Treasury, and foreign currency maintained by various U.S. disbursing offices, at September 30, 2012 and 2011, as follows:

	2012	2011
Operating Cash of the U.S. Government:		
Held in Depository Institutions	\$ -	\$ 1,805,478
Held in the Federal Reserve Account	85,445,838	56,284,268
<b>Subtotal</b>	<b>85,445,838</b>	<b>58,089,746</b>
Outstanding Checks	(6,250,698)	(8,277,444)
<b>Subtotal</b>	<b>79,195,140</b>	<b>49,812,302</b>
Other Cash	127,849	230,061
<b>Subtotal</b>	<b>79,322,989</b>	<b>50,042,363</b>
Foreign Currency	63,999	72,854
<b>Total</b>	<b>\$ 79,386,988</b>	<b>\$ 50,115,217</b>

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

This information is an integral part of the accompanying Schedules.



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

November 14, 2012

Mr. Andrew Lewis, Partner  
KPMG, LLP  
2001 M Street, NW  
Washington, DC 20036

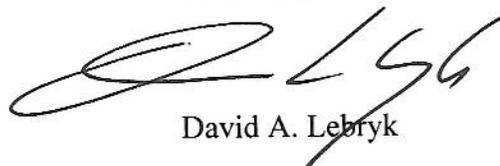
Dear Mr. Lewis:

This letter is in response to your reports on the Financial Management Service (FMS)  
(1) Schedules of Non-Entity Government-wide Cash as of September 30, 2012 and 2011, and  
(2) Schedules of Non-Entity Assets as of September 30, 2012 and 2011, and Non-Entity Costs  
and Custodial Revenue for the years then ended.

We are pleased to receive an unqualified opinion on the Schedules and that no material weaknesses related to internal control over financial reporting were noted in your report. FMS appreciates the feedback resulting from the audit on the implementation of our security controls, including credit given for the completion of various corrective actions this fiscal year. Although KPMG's report cites a Significant Deficiency in Internal Control over Financial Reporting, we continue to make progress in addressing this deficiency.

Security has been identified as one of our organization's overarching priorities. FMS senior management is committed to having effective internal controls for our information technology (IT) systems. Going forward, we will continue to look for efficient and effective ways to improve our controls and will give careful consideration to the specific recommendations you have provided. Our goal is to ensure consistent application of agency-wide security controls over all systems.

Sincerely,



David A. Lebryk