



Audit Report



OIG-13-023

Management Letter for the Audit of the Department of the Treasury's Fiscal Years 2012 and 2011 Financial Statements

December 10, 2012

Office of
Inspector General
Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 10, 2012

**MEMORANDUM FOR NANI A.COLORETTI
ACTING ASSISTANT SECRETARY FOR MANAGEMENT**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for the Audit of the Department of the Treasury's Fiscal Years 2012 and 2011 Financial Statements

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

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

In connection with the contract, we reviewed KPMG's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG 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 Ade Bankole, Manager, Financial Audits at (202) 927-5329.

Attachment



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

December 7, 2012

Inspector General
U.S. Department of the Treasury:

We have audited the financial statements of the U.S. Department of the Treasury (Department) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 15, 2012. We did not audit the amounts included in the consolidated financial statements related to the Internal Revenue Service (IRS) and the Office of Financial Stability (OFS), component entities of the Department. The financial statements of IRS and OFS were audited by another auditor whose reports have been provided to us. Our opinion, insofar as it relates to the amounts included for IRS and OFS, is based solely on the reports of the other auditor.

In planning and performing our audit of the financial statements of the Department, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our audit of the Department's financial statements as of and for the year ended September 30, 2012 disclosed the following material weakness, significant deficiency, noncompliance, and other matter that are described in our Independent Auditors' Report dated November 15, 2012.

- A. Material Weakness in Internal Control Over Financial Reporting at the IRS (Repeat condition)
- B. Significant Deficiency in Internal Control in Information Systems Controls at the Bureau of the Fiscal Service (Repeat Condition)
- C. Noncompliance with *Federal Financial Management Improvement Act of 1996* (Repeat Condition)
- D. Other Matter of Potential Violation of the *Anti-Deficiency Act* (Repeat Condition)

During our audit we noted a matter involving internal control that is summarized below for your consideration. In addition, we and the other auditors noted additional matters that were reported separately to component management. This comment and related recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies.



1. Accounting for International Assistance Transactions

The Department needs effective internal controls over the accounting and reporting of Multilateral Development Banks (MDBs) and debt restructuring transactions to ensure that transactions are accurately recorded and properly classified. The Department did not fully establish internal controls over such transactions as follows:

a. Multilateral Development Banks

The Department, on behalf of the United States, provides funding and letters of credit to the Multilateral Development Banks (MDBs) and various funds administered by the MDBs. In fiscal year 2012, the Department prepared and issued an accounting policy manual that covers the accounting of the MDBs; however, the Department did not fully analyze and properly determine the accounting policy for letters of credit. Specifically, the Department's accounting policy indicated that the Department should record the letters of credit related to funds administered by the MDBs as costs at the time of request by the MDBs rather than as liabilities at the time the letter of credit is issued. In addition, the Department's policy did not require disclosure of all outstanding letters of credit related to MDBs, as required by accounting standards.

b. Debt Restructuring Transactions

The Department periodically receives appropriations from Congress to fund debt restructuring transactions for the reduction in principal and/or interest of loans due to the U.S. Government from a foreign government. After Congress appropriates funds, the Department apportions funds to specific loans, and the creditor agency submits a request for funds, the Department disburses the funds to the federal agency that holds the loan due from the foreign country. In fiscal year 2012, the Department prepared and issued an accounting policy manual that covers the accounting of debt restructuring transactions; however, the Department did not fully analyze and properly determine the accounting for debt restructuring transactions. Specifically, the Department's accounting policy indicated that the Department should record debt restructuring transactions as a liability when the funding is requested by the federal agency rather than after the agreement is approved by the Department and funding is authorized by Congress.

As a result of our observations, the Department analyzed and adjusted its accounting and reporting for MDBs and debt restructuring transactions.

Recommendations

We recommend that the Department's Deputy Chief Financial Officer work with the Bureau of the Fiscal Service to implement the following recommendations to improve internal controls over MDBs and debt restructuring transactions:

1. Update its accounting policy related to letters of credit and debt restructuring to be in accordance with accounting standards, and
2. Remind those preparing accounting policies to fully research and consider the accounting standards.



Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit the Department's response and, accordingly, we express no opinion on it.

* * * * *

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

We would be pleased to discuss this comment and related recommendations with you at any time.

This report is intended solely for the information and use of the Department's management, the Department's 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.

Very truly yours,

KPMG LLP

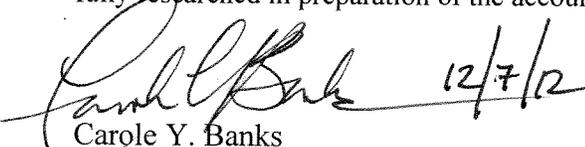


DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Attachment A - Fiscal Year 2012 Management Response to Comments

Accounting for International Assistance Transactions

The Department agrees with the findings and recommendations. The prepared accounting policy for related letters of credit and debt restructuring transactions will be updated in accordance with applicable generally accepted accounting principles. In addition, accounting standards will be fully researched in preparation of the accounting policies.

 12/7/12
Carole Y. Banks
Director of Financial Reporting and Policy