



Audit Report



OIG-14-016

Audit of the Bureau of the Fiscal Service's Fiscal Years 2013
and 2012 Schedules of Non-Entity Government-Wide Cash

January 14, 2014

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 14, 2014

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

FROM: Michael Fitzgerald
Director, Financial Audit

SUBJECT: Audit of the Bureau of the Fiscal Service's
Fiscal Years 2013 and 2012 Schedules of Non-Entity
Government-Wide Cash

I am pleased to transmit the attached audited Bureau of the Fiscal Service's (Fiscal Service) Fiscal Years 2013 and 2012 Schedules of Non-Entity Government-Wide Cash (Schedules). Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), 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 and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

The following reports, prepared by KPMG, 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 found:

- the Schedules present fairly, in all material respects, the balance of the Fiscal Service' Non-Entity Government-Wide Cash as of September 30, 2013 and 2012, in accordance with U.S. generally accepted accounting principles,
- certain deficiencies in internal control that were considered to be a significant deficiency¹ (described below), and

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

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

KPMG concluded that Fiscal Service's general information technology 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; and (4) incompatible duties are effectively segregated. Collectively the conditions observed and reported on could compromise the Fiscal Service's ability to prevent the possible disclosure of entity-sensitive information related to Government-Wide Cash to unauthorized individuals or entities and ensure the reliability of key systems.

In connection with the contract, we reviewed KPMG'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 is responsible for the attached auditors' reports dated December 20, 2013, and the conclusions expressed in the reports. However, 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 Mark S. Levitt, Manager, Financial Audit at (202) 927-5076.

Attachment

cc: Richard L. Gregg
Fiscal Assistant Secretary



**U.S. DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE**

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

September 30, 2013 and 2012

**U.S. DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE**

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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:

Report on the Schedules

We have audited the accompanying Schedules of Non-Entity Government-Wide Cash (GWC) of the U.S. Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) as of September 30, 2013 and 2012 (hereinafter referred to as the Schedules) and the related notes to the Schedules.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these Schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fiscal Service's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fiscal Service's internal control over financial reporting related to GWC. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion on the Schedules

In our opinion, the Schedules referred to above present fairly, in all material respects, the balance of the U.S. Department of Treasury's Bureau of the Fiscal Service's Non-Entity Government-Wide Cash as of September 30, 2013 and 2012 in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Fiscal Service's internal control over financial reporting related to GWC and our report dated December 20, 2013, on 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* in considering the Fiscal Service's internal control over financial reporting and compliance.

KPMG LLP

Washington, D.C.
December 20, 2013



KPMG LLP
Suite 12000
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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:

We have audited, in accordance with the 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. 14-02, *Audit Requirements for Federal Financial Statements*, the Schedules of the Non-Entity Government-Wide Cash (GWC) of the U.S. Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) as of September 30, 2013 and 2012 (hereinafter referred to as the Schedules) and the related notes to the Schedules, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedules as of September 30, 2013, we considered the Fiscal Service's internal control over financial reporting (internal control) related to GWC to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of the Fiscal Service's internal control related to GWC. Accordingly, we do not express an opinion on the effectiveness of the Fiscal Service's internal control 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. 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.

Our consideration of internal control related to GWC was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control related to GWC that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control related to GWC that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control related to GWC described in Exhibit I that we consider to be a significant deficiency in internal control related to GWC.



The Fiscal Service's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control related to GWC and the result of that testing, and not to provide an opinion on the effectiveness of the Fiscal Service's internal control related to GWC. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fiscal Service's internal control related to GWC. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
December 20, 2013

U.S. Department of the Treasury

Bureau of the Fiscal Service

Schedules of Non-Entity Government-Wide Cash (GWC)

Significant Deficiency in Internal Control over Financial Reporting

Information Technology Controls Over Systems Managed by the Fiscal Service (Repeat Condition)

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

In our audit, we evaluated general information technology controls over key systems related to GWC. General information technology 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.

In our fiscal year 2013 audit, we noted that the Fiscal Service made progress in resolving identified security weaknesses in its efforts to address this finding. Despite these improvements, our tests revealed that the necessary policies and procedures to detect and correct information system weaknesses have not been consistently documented, implemented, or enforced. The Fiscal Service's general information technology 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; and
4. Incompatible duties are effectively segregated.

Collectively the conditions we observed and reported on could compromise the Fiscal Service's ability to prevent the possible disclosure of entity-sensitive information related to GWC to unauthorized individuals or entities and ensure the reliability of key systems.

Because of the sensitivity of the information, we issued 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.



KPMG LLP
Suite 12000
1801 K Street, NW
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Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury
Commissioner, Bureau of the Fiscal Service:

We have audited, 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. 14-02, *Audit Requirements for Federal Financial Statements*, the Schedules of Non-Entity Government-Wide Cash (GWC) of the U.S. Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) as of September 30, 2013 and 2012 (hereinafter referred to as the Schedules), and the related notes to the Schedules, and have issued our report thereon dated December 20, 2013.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedules are free from material misstatement, we performed tests of its 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 amounts reflected in the Schedules, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on the Fiscal Service's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fiscal Service's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
December 20, 2013

**U. S. DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE**

**Schedules of Non-Entity Government-Wide Cash
September 30, 2013 and 2012**

(In Thousands)

	<u>2013</u>	<u>2012</u>
Non-entity government-wide cash (Notes 1 and 2)	\$ <u>82,994,049</u>	\$ <u>79,386,988</u>

The accompanying notes are an integral part of these Schedules.

**U. S. DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE**

**Notes to the Schedules of Non-Entity Government-Wide Cash
September 30, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The financial activities of the Fiscal Service 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 the Fiscal Service as if it were a stand-alone entity.

Non-Entity accounts are those accounts that the Fiscal Service holds but are not available to the Fiscal Service in its operations. For example, the Fiscal Service 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 the Fiscal Service pursuant to Office of Management and Budget directives that are used to monitor and control the Fiscal Service's 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
BUREAU OF THE FISCAL SERVICE**

**Notes to the Schedules of Non-Entity Government-Wide Cash
September 30, 2013 and 2012**

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 balances in local TGA accounts are transferred to the Federal Reserve Bank of New York's (FRBNY) TGA at the end of each day. The TGA is maintained at the FRBNY and functions as the government's checking account for deposits and disbursements of public funds. Tax payments are generally collected through the Electronic Federal Tax Payment System (EFTPS) or through a TGA Depository. Cash in the TGA is restricted for government-wide operations.

Other cash is mostly comprised of Automated Clearinghouse transfers, Electronic Fund transfers and U.S. currency held by U.S. disbursing offices.

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, 2013 and 2012, as follows (In Thousands):

	2013	2012
Operating Cash of the U.S. Government:		
Held in the Federal Reserve Account	\$ 88,385,906	\$ 85,445,838
Outstanding Checks	(5,644,040)	(6,250,698)
Subtotal	82,741,866	79,195,140
Other Cash	192,125	127,849
Subtotal	82,933,991	79,322,989
Foreign Currency	60,058	63,999
Total	\$ 82,994,049	\$ 79,386,988

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
BUREAU OF THE FISCAL SERVICE
WASHINGTON, DC 20227

December 20, 2013

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

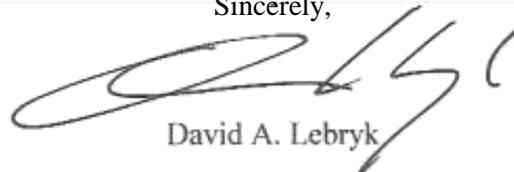
Dear Mr. Lewis:

This letter is in response to your reports on the Bureau of the Fiscal Service's (Fiscal Service's) (1) Schedules of Non-Entity Government-wide Cash as of September 30, 2013 and 2012, and (2) Schedules of Non-Entity Assets as of September 30, 2013 and 2012, 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. We acknowledge the significant deficiency and appreciate your feedback resulting from the audit of our security controls as we continue to move forward to address this deficiency.

Fiscal Service is committed to having effective internal controls for our information technology (IT) systems. Accordingly, we will continue to look for efficient and effective ways to improve and ensure the consistent application of agency-wide security controls over all systems.

Sincerely,



David A. Lebryk