



# Audit Report



OIG-12-012

Audit of the Financial Management Service's Fiscal Years 2011  
and 2010 Schedules of Non-Entity Government-Wide Cash

November 15, 2011

Office of  
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 15, 2011

**MEMORANDUM FOR DAVID A. LEBRYK, COMMISSIONER  
FINANCIAL MANAGEMENT SERVICE**

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

**SUBJECT:** Audit of the Financial Management Service's  
Fiscal Years 2011 and 2010 Schedules of Non-Entity  
Government-Wide Cash

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years 2011 and 2010 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, 2011 and 2010, 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
- 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, 2011, 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

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<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.



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

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

September 30, 2011 and 2010

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

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KPMG LLP  
2001 M Street, NW  
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## Independent Auditors' Report

Inspector General, U.S. Department of the Treasury  
Commissioner of the 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, 2011 and 2010 (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, 2011 and 2010, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 14, 2011, 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 related to GWC 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, 2011



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

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

Inspector General, U.S. Department of the Treasury  
Commissioner of the 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, 2011 and 2010 (hereinafter referred to as the Schedules), and have issued our report thereon dated November 14, 2011.

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 related to GWC. In planning and performing our fiscal year 2011 audit, we considered FMS' internal control over financial reporting related to GWC by obtaining an understanding of 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 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 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 2011 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' response to the findings identified in our audit are presented in a separate Attachment to this report. We did not audit the FMS' response 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 FMS 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, 2011



**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 2011, 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 FMS 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		Partially resolved and repeated as a significant deficiency for FY 2011



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

## Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury  
Commissioner of the 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, 2011 and 2010 (hereinafter referred to as the Schedules), and have issued our report thereon dated November 14, 2011.

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 preceding 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 FMS 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, 2011

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

**Schedules of Non-Entity Government-Wide Cash  
September 30, 2011 and 2010**

**(In Thousands)**

	<u>2011</u>	<u>2010</u>
Non-entity government-wide cash (Notes 1 and 2)	\$ <u>50,115,217</u>	\$ <u>303,875,884</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, 2011 and 2010**

**(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.

**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 (OMB) 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, foreign and domestic financial institutions, and U. S. Treasury Tax and Loan (TT&L) accounts. 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, 2011 and 2010**

**(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 U.S. government's checking account for deposits and disbursements of public funds. Tax payments are collected through the Electronic Federal Tax Payment System (EFTPS). Certain TT&L depositories hold non-entity government-wide cash in interest bearing accounts. Cash in the TGA and the TT&L program 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.

U. S. TT&L accounts include funds invested through the Term Investment Option program and the Reverse Repurchase Agreement (Repo) program. Under the Term Investment Option program, Treasury auctions funds for a set term, usually in the range of 1 day to 3 weeks. Under the Repo program, Treasury invests funds through overnight reverse repurchase agreements. However, Treasury reserves the right to call the funds prior to maturity under special circumstances. These investment programs were suspended in fiscal year 2010 by Treasury due to market conditions.

The Supplementary Financing Program (SFP) account is maintained at FRBNY. SFP is a temporary program announced by Treasury and the Federal Reserve to provide emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. The program consists of a series of Treasury Bills separate from Treasury's current borrowing program. The Treasury announced on January 27, 2011 that the balance in the SFP account would be decreased from its level of \$200 billion. The SFP was subsequently suspended in July 2011 due to the debt crisis.

Other cash is mostly comprised of automated clearinghouse transfers, Fedwire transfers and U.S. Government currency held by the U.S. Department of State.

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

**Notes to the Schedules of Non-Entity Government-Wide Cash  
September 30, 2011 and 2010**

(In Thousands)

**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. and military disbursing offices, at September, 2011 and 2010, as follows:

	<b>2011</b>	<b>2010</b>
Operating Cash of the U.S. Government:		
Held in Depository Institutions	\$ 1,805,478	\$ 2,032,508
Held in the Federal Reserve Account	56,284,268	107,887,764
Held in the Supplementary Financing Program Account	-	199,961,582
<b>Subtotal</b>	<b>58,089,746</b>	<b>309,881,854</b>
Outstanding Checks	(8,277,444)	(6,305,730)
<b>Subtotal</b>	<b>49,812,302</b>	<b>303,576,124</b>
Other Cash	230,061	297,194
<b>Subtotal</b>	<b>50,042,363</b>	<b>303,873,318</b>
Foreign Currency	72,854	2,566
<b>Total</b>	<b>\$ 50,115,217</b>	<b>\$ 303,875,884</b>

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



COMMISSIONER

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

NOV 14 2011.

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

Dear Mr. Lewis:

This letter is in response to your reports to the Inspector General, U.S. Department of the Treasury, and the Commissioner, Financial Management Service (FMS) on (1) the Schedules of Non-Entity Government-wide Cash as of September 30, 2011 and 2010, and (2) the Schedules of Non-Entity Assets as of September 30, 2011 and 2010, 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, FMS has an aggressive plan in place to address the internal control issues and we are working diligently toward completion.

FMS senior management is committed to having effective internal controls for our IT systems. We will continue to look for innovative ways to improve our controls for efficiency and effectiveness for all IT systems. We are reviewing our entire Plan of Action and Milestone (POA&M) management process and will implement appropriate process improvements.

We currently are managing an ambitious project to review and eliminate unnecessary access to our IT mainframe resources. Many actions have already been completed and the overall project is on track for completion. We have conducted an extensive review of our recertification procedures and user access rights and are well into transforming our recertification and access processes. Our target processes investigate, remediate and document all access on FMS systems. We feel that the significant planned improvements will prove to effectively strengthen access controls.



We actively monitor the FMS network for internal and external threats. We ensure the appropriate patching, proactive scanning, and vulnerability assessment of our systems. We are constantly researching, developing, and engineering best practice security tools and techniques for the FMS enterprise and will continue to look for ways to improve our program to ensure internal controls are functioning as required. We believe we have a robust plan in progress that will result in more effective internal controls to protect our IT assets.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Lebryk', with a stylized flourish at the end.

David A. Lebryk