



Audit Report



OIG-12-014

Audit of the Financial Management Service's Fiscal Years 2011
and 2010 Schedules of Non-Entity Assets, Non-Entity Costs and
Custodial Revenue

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 Assets, Non-Entity
Costs and Custodial Revenue

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years 2011 and 2010 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (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 FMS' Non-Entity Assets as of September 30, 2011 and 2010, and Non-Entity Costs and Custodial Revenue for the years then ended, 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 deficiency¹ (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 Non-Entity Assets, Non-Entity Costs and Custodial Revenue 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

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.

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

Independent Auditors' Reports and
Schedules of Non-Entity Assets,
Non-Entity Costs and Custodial Revenue

September 30, 2011 and 2010

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

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

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 Assets of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2011 and 2010, and the related Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA), hereinafter referred to as the Schedules) for the years then ended. 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 TMA. 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 FMS' Non-Entity Assets as of September 30, 2011 and 2010, and Non-Entity Costs and Custodial Revenue for the years then ended 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 TMA and our tests of its compliance with certain provisions of laws and regulations related to TMA. 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, 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 Non-Entity Assets of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2011 and 2010, and the related Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA), hereinafter referred to as the Schedules) for the years then ended, 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 TMA. In planning and performing our fiscal year 2011 audit, we considered FMS' internal control over financial reporting related to TMA by obtaining an understanding of the design effectiveness of FMS' internal control related to TMA, determining whether internal controls related to TMA 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 TMA. Accordingly, we do not express an opinion on the effectiveness of FMS' internal control over financial reporting related to TMA. 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 TMA 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 TMA 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 TMA that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting related to TMA described in Exhibit I that we consider collectively to be a significant deficiency in internal control over financial reporting related to TMA. 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 finding identified in our audit is 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 Assets, Non-Entity Costs, and Custodial Revenue****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 Assets, Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA)). 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 TMA. 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 TMA 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 Assets, Non-Entity Costs, and Custodial Revenue****Status of Prior Year Significant Deficiency**

<u>Finding</u>	<u>Action Complete</u>	<u>Action in Progress</u>
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 Assets of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2011 and 2010, and the related Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA), hereinafter referred to as the Schedules) for the years then ended, 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 TMA, 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 of this report 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 Assets, Non-Entity Costs, and Custodial Revenue
September 30, 2011 and 2010
(In Thousands)

	<u>2011</u>	<u>2010</u>
Non-Entity Assets (Note 6)		
Intra-governmental:		
Fund Balance with Treasury (Note 2)	\$ 1,003,280	\$ 397,473
Accounts Receivable, Net (Note 3)	387,766	350,211
Other	389	407
Total Intra-governmental	<u>\$ 1,391,435</u>	<u>\$ 748,091</u>
With the Public:		
Receivable on Deposit of Earnings, Federal Reserve System	1,599,177	1,910,493
Accounts Receivable, Net (Note 3)	871	1,737
Total With the Public	<u>\$ 1,600,048</u>	<u>\$ 1,912,230</u>
Total Non-Entity Assets	<u>\$ 2,991,483</u>	<u>\$ 2,660,321</u>
Commitments and Contingencies (Note 7)		
Non-Entity Costs (Note 4)		
Credit Reform: Interest Paid on Uninvested Funds	\$ 10,469,580	\$ 10,399,449
Judgments	2,290,289	1,118,786
Resolution Funding Corporation	2,238,716	2,275,962
Restitution of Foregone Interest	875,014	-
Public Broadcasting Fund, Corporation for Public Broadcasting	435,128	506,000
Legal Services Corporation	408,233	418,112
District of Columbia	151,670	186,225
Presidential Election Campaign Fund	35,327	-
Federal Railroad Administration for AMTRAK Debt Restructuring	51,526	-
Moneys Erroneously Received and Covered	63,387	25,381
Other	54,130	30,851
Total Non-Entity Costs	<u>\$ 17,073,000</u>	<u>\$ 14,960,766</u>
Custodial Revenue (Note 5)		
Deposit of Earnings, Federal Reserve System	\$ 82,545,980	\$ 75,844,675
Interest Received from Tax and Loan Depositories	29	410
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	85,448	140,093
General Fund Proprietary Receipts, Not Otherwise Classified	122,160	93,799
Fees, Travel Promotion Fund, Corporation for Travel Promotion	115,913	-
Fines, Penalties, and Forfeitures, Not Otherwise Classified	85,851	310
Interest Payments from States, Cash Management Improvement Act	2,656	8,431
Other	20,092	11,551
Total Cash Collections	<u>82,978,129</u>	<u>76,099,269</u>
Accrual Adjustment	(273,905)	721,431
Total Custodial Revenue	<u>\$ 82,704,224</u>	<u>\$ 76,820,700</u>

The accompanying notes are an integral part of these Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue

September 30, 2011 and 2010

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 government 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.

Non-Entity accounts are those Treasury Account Symbols (TAS) 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 activity of Non-Entity TAS managed by FMS. However, the Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedules) do not include Non-Entity Operating Cash of the Federal Government (commonly known as Government-wide Cash).

Some Non-Entity accounts receive appropriations for specific Federal programs. Some of the appropriations are permanent, indefinite appropriations. They are not subject to budgetary ceilings established by Congress. Both types of appropriations are used for payments to Federal program agencies and others.

Some Non-Entity accounts receive cash collections. These types of accounts are miscellaneous receipt accounts. Examples of collections include interest payments, contributions, and collections of fines and penalties.

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

B. Basis of Preparation

The Schedules have been prepared from the accounting records maintained by FMS and are meant to report Non-Entity Assets, Non-Entity Costs and Custodial Revenue of FMS in accordance with U.S. generally accepted accounting principles. Such principles require the use of the accrual method of accounting to record transactions. Under the accrual method, revenues are recognized when earned and costs are recognized when a cost is incurred, without regard to receipt or payment of cash. These Schedules were prepared following accrual accounting.

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue

September 30, 2011 and 2010

The standards used in the preparation of these Schedules are issued by the Federal Accounting Standards Advisory Board (FASAB), as the body authorized to establish U.S. generally accepted accounting principles for Federal government entities.

Balances reflected on these Schedules may differ from those on financial reports prepared by FMS pursuant to certain OMB directives that are primarily used to monitor and control FMS' use of budgetary resources.

C. Use of Estimates in Preparing the Schedules

The preparation of these Schedules, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions. These estimates affect the reported amounts of non-entity assets at the date of the Schedules. Actual results may differ from these estimates.

D. Fund Balance with Treasury

The Fund Balance with Treasury (FBWT) is an asset account that reflects the available budget spending authority of Federal agencies. Collections and disbursements by agencies will, correspondingly, increase or decrease the balance in the account.

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue

September 30, 2011 and 2010

E. Accounts Receivable

Accounts receivable is comprised of intra-governmental accounts (i.e., amounts due from other Federal agencies) and accounts with the public. Accounts with the public include amounts due from the Federal Reserve System. FMS records an allowance for uncollectible accounts based on an analysis of individual accounts, a group based methodology, and a percentage of total receivables and historical collections at September 30.

F. Receivable on Deposit of Earnings, Federal Reserve System

Federal Reserve Banks are required by the Board of Governors of the Federal Reserve System to transfer to the U.S. Treasury excess earnings, after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid in. In the event of losses, a Federal Reserve Bank will suspend its payments to the U.S. Treasury until such losses are recovered through subsequent earnings. Weekly payments to the U.S. Treasury may vary significantly. The Receivable on Deposit of Earnings, Federal Reserve System, represents the earnings due to Treasury as of September 30, but not collected by Treasury until after the end of the month.

G. Custodial Revenue

Custodial revenue is initially recorded on a cash basis when amounts are deposited into receipt accounts. However, an adjustment is reflected on the Schedules at September 30 to accrue for collections in a fiscal year relating to prior year's Non-Entity Accounts Receivable, and to account for other changes in the Non-Entity Accounts Receivable not resulting in a collection of cash in the current period (i.e., new reimbursements and changes in the allowance for uncollectible accounts).

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue

September 30, 2011 and 2010

H. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the U.S. Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the U.S. Government must uphold. These activities are not reported on the Schedules. They are reported in Note 6 to the Schedules.

NOTE 2. FUND BALANCE WITH TREASURY (FBWT)

FBWT is funded through various sources depending on the specific legislative authority and purpose, and may be used only for specific purposes. Such amounts may be in escrow or other special accounts. These accounts are primarily funded through appropriations, collections, tax receipts, gifts to the Government, and settlements from foreign countries.

Obligated balances are funds against which budgetary obligations have been incurred, but disbursements have not been made. The Unobligated Available balance is the amount of funds available to FMS against which no claims have been recorded. The Unobligated Unavailable balance is the amount of unobligated funds remaining from appropriations that have expired, appropriations that have not been apportioned, authority that is not available pursuant to public law, and the amount of funds in deposit funds, clearing accounts and receipt accounts. FBWT as of September 30, 2011 and 2010 consisted of the following (amounts in thousands):

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue

September 30, 2011 and 2010

2011

Account Type	Obligated	Unobligated Available	Unobligated Unavailable	Total
Appropriated Funds	\$ 586,841	\$ 197,746	\$ -	\$ 784,587
Revolving Funds	381	6,447	-	6,828
Trust Funds	55	47	-	102
Other Fund Types	-	-	211,763	211,763
Total	\$ 587,277	\$ 204,240	\$ 211,763	\$ 1,003,280

2010

Account Type	Obligated	Unobligated Available	Unobligated Unavailable	Total
Appropriated Funds	\$ 177,660	\$ 192,900	\$ -	\$ 370,560
Revolving Funds	585	1,801	-	2,386
Trust Funds	52	29	-	81
Other Fund Types	-	-	24,446	24,446
Total	\$ 178,297	\$ 194,730	\$ 24,446	\$ 397,473

The fund balance, unobligated available supports the budgetary resources available except for a \$310 thousand as of September 30, 2011 and 2010, which is invested. The fund balance, unobligated unavailable for appropriated funds supports the budgetary resources not available. The fund balance, unobligated unavailable for other fund types includes only deposit funds and suspense accounts that do not have a budgetary impact.

NOTE 3. ACCOUNTS RECEIVABLE, NET

A. Intra-governmental Accounts Receivable, Net

Intra-governmental accounts receivable principally includes amounts for which Federal agencies are required to reimburse the Treasury's Judgment Fund for settlements paid or accrued on their behalf for contract disputes pursuant to the *Contract Disputes Act of 1978* (CDA) and the *Notification and*

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue

September 30, 2011 and 2010

Federal Employee Anti-discrimination and Retaliation Act of 2002 (No FEAR). While the CDA and No FEAR require Federal agencies reimburse the Judgment Fund for payments, CDA and No FEAR do not authorize FMS to initiate collection action against those agencies. Accordingly, FMS has historically had difficulty in collecting amounts owed under the CDA. An allowance for uncollectible accounts has been established to recognize losses on receivables that may not be collected under this program. As a result of the annual review of the uncollectible estimate for CDA, the allowance amount of \$900 million did not change from 2010 to 2011. During the individual account analysis, it was determined that four of the non-reimbursing agencies made up 82% of the intra-governmental accounts receivable balance. An allowance for uncollectible accounts has not been established for No FEAR Act receivables because an agency will be deemed non-compliant if it fails to reimburse or make timely arrangements for reimbursement; therefore, amounts owed are being collected. The activity in the allowance account each year is reflected in the “Accrual Adjustment” line in the custodial revenue section of the Schedules.

Intra-governmental accounts receivable as of September 30, 2011 and 2010 consist of the following (amounts in thousands):

	2011	2010
Claims for CDA and Fire Fighting	\$ 1,282,368	\$ 1,249,057
Claims for No FEAR	5,398	1,154
Less: Allowance for Uncollectable Accounts – Claims for CDA	(900,000)	(900,000)
Accounts Receivable, Net	<u>\$ 387,766</u>	<u>\$ 350,211</u>

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue

September 30, 2011 and 2010

B. Accounts Receivable with the Public, Net

Accounts Receivable with the Public, exclusive of amounts due from the Federal Reserve System, as of September 30, 2011 and 2010, consist of the following (amounts in thousands):

	2011	2010
U.S. Treasury Check Forgery Insurance Fund Receivables	\$ 1,421	\$ 2,348
General Fund Proprietary Receipts	127	127
Gross Accounts Receivable	1,548	2,475
Less: Allowance for Uncollectable Accounts – U.S. Treasury Check Forgery Insurance Fund	(677)	(738)
Accounts Receivable, Net	\$ 871	\$ 1,737

The U.S. Treasury Check Forgery Insurance Fund was established to expedite payments on claims and provide a dependable source of funds to meet the Federal Government's responsibility for the payment of settlement checks issued to replace checks paid over forged endorsements. The receivable represents the amount due from banks that cashed the forged checks. The allowance for uncollectible accounts for Check Forgery is calculated by comparing losses to accounts receivable with the public. The percentage represents a portion of the current outstanding accounts receivable that are deemed uncollectible.

NOTE 4. NON-ENTITY COSTS

Non-Entity Costs represent payments made on behalf of the Federal Government through various Treasury Managed Accounts (TMA) described below. In addition, Non-Entity Costs also include accruals for which FMS has made a commitment to make a payment for claims existing as of September 30, 2011 and 2010.

Credit Reform: Interest Paid on Uninvested Funds - Direct loan and loan guarantee financing accounts receive various payments, repayments and fees, and make payments on defaults. When cash receipts exceed outlays or when an agency does not disburse all of its borrowings, these balances are held in the Treasury and earn interest. The interest earned on these balances is collected by each federal agency from FMS.

Judgments - FMS processes payments from the Judgment Fund for certain judicially and administratively ordered monetary awards against the United States, as well as amounts owed under compromise agreements negotiated by the United States Department of Justice in settlement of claims arising under actual or imminent litigation.

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs, and Custodial Revenue

September 30, 2011 and 2010

Resolution Funding Corporation - The Resolution Funding Corporation (REFCORP) account is maintained pursuant to the Federal Home Loan Bank Act. FMS provides payments to REFCORP to cover the interest expenses of REFCORP.

Restitution of Foregone Interest - This account is used to restore “lost” interest to investing program agencies such as the Civil Service Retirement and Disability Trust Fund, the Thrift Savings Fund, and the Postal Service Retiree Health Benefits Fund after a Debt Issuance Suspension Period (debt crisis) has ended. In certain situations the Secretary of the Treasury pays interest to the Government Securities Investment Fund from the general fund of the Treasury when funds could not be invested as a result of a debt issuance suspension.

Public Broadcasting Fund, Corporation for Public Broadcasting - This account is used to make annual payments to the Corporation for Public Broadcasting pursuant to the enacted Public Law. The payment is used to assist and facilitate the full development of public telecommunications in which programs of high quality, diversity, creativity, excellence, and innovations will be made available to public telecommunications.

Legal Services Corporation - This account is used to pay the Legal Services Corporation through letter of credit drawdowns. The Legal Services Corporation distributes appropriated funds to local nonprofit organizations that provide free civil legal assistance, according to locally determined priorities, to people living in poverty. Congress chartered the corporation as a private, non-profit entity outside of the Federal Government.

District of Columbia - Payments to the District of Columbia cover certain operations of the District of Columbia. It includes payments for a program of management reform, for the administration and operation of correctional facilities, and for construction and repair of the District’s infrastructure.

Presidential Election Campaign Fund - The Presidential Election Campaign Fund (PECF) is maintained in accordance with the Internal Revenue Code. The purpose of the PECF is to defray the qualified campaign expenses which were incurred by eligible presidential candidates or nominating conventions. The PECF is a special fund financed through the collections of the \$3 check-off option selected by taxpayers. These amounts are collected by the Internal Revenue Service and deposited into the PECF.

This information is an integral part of the accompanying Schedules.

**U.S. DEPARTMENT OF THE TREASURY
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Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

The PECF is broken down into the following accounts: Presidential Primary Matching Payment Account; Presidential Nominating Convention Account; and Presidential and Vice Presidential Nominee Account (General Election). Each account is funded in accordance with budget estimates provided by the Federal Election Commission (FEC). Payments from the PECF are made to qualified recipients upon certification from the FEC.

Federal Railroad Administration for AMTRAK Debt Restructuring - This current, indefinite appropriation was established pursuant to Public Law 110-432. *The Passenger Rail Investment and Improvement Act (PRIIA) of 2008*, which provides that the Secretary of the Treasury, in consultation with the Secretary of Transportation and the National Railroad Passenger Corporation (Amtrak), may make agreements to restructure (including repay) Amtrak's indebtedness, including leases, outstanding as of October 16, 2008. The Secretary of the Treasury and Secretary of Transportation, acting through the Federal Railroad Administration (FRA), in consultation with each other and Amtrak, will advance payments reflecting the early buy-out options (EBO's) on select leases entered into by Amtrak.

Moneys Erroneously Received and Covered - This account is used for expenditures made for collections or other receipts erroneously deposited into Treasury. Collections represent receipts that were not properly chargeable to any other appropriation.

Other - Other Non-Entity costs include the following payments: Payments to the States, Payments to Agencies for Interest on Uninvested Funds, Payment to the Institute of American Indian and Alaskan Native Culture and Arts Development, Payments from the U.S. Treasury Check Forgery Insurance Fund, Payments to Individuals under Private and Public Relief Laws, Payments from the Travel Promotion Fund, Payments from the Partnership Fund for Program Integrity Innovation, and Payments from Biomass Energy Development.

This information is an integral part of the accompanying Schedules.

**U.S. DEPARTMENT OF THE TREASURY
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Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

NOTE 5. COLLECTIONS OF CUSTODIAL REVENUE

FMS collects Custodial Revenue that is not related to its mission and distributes the full amount collected to the Treasury General Fund. For the years ended September 30, 2011 and 2010, cash collections were as follows (amounts in thousands):

	2011		Total
	October to December 2010	January to September 2011	
Deposit of Earnings, Federal Reserve System	\$18,753,460	\$63,792,520	\$82,545,980
Interest Received from Tax and Loan Depositories	20	9	29
Recoveries from Federal Agencies for Settlement of			
Claims from Contract Disputes	1,163	84,285	85,448
General Fund Proprietary Receipts	24,323	97,837	122,160
Fees, Travel Promotion Fund	25,659	90,254	115,913
Fines, Penalties, and Forfeitures	44	85,807	85,851
Interest Payments from States	150	2,506	2,656
Other	3,058	17,034	20,092
Total	\$18,807,877	\$64,170,252	\$82,978,129

	2010		Total
	October to December 2009	January to September 2010	
Deposit of Earnings, Federal Reserve System	\$19,262,909	\$56,581,766	\$75,844,675
Interest Received from Tax and Loan Depositories	17	393	410
Recoveries from Federal Agencies for Settlement of			
Claims from Contract Disputes	8,939	131,154	140,093
General Fund Proprietary Receipts	21,134	72,665	93,799
Fines, Penalties, and Forfeitures	47	263	310
Interest Payments from States	-	8,431	8,431
Other	1,732	9,819	11,551
Total	\$19,294,778	\$56,804,491	\$76,099,269

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

NOTE 6. SCHEDULE OF FIDUCIARY ACTIVITY

FMS accounts for certain cash that the Federal Government collects and holds on behalf of other entities. FMS collects funds from foreign governments to make payments to US nationals. Also, FMS maintains an account – Unclaimed Moneys – whose sole purpose, as originally established, was to hold moneys in trust for rightful owners (as received by Government agencies from sources outside the Government). While these activities are not reported on the Schedules, they are required to be reported in the notes to the Schedules.

The following are the funds identified by FMS as fiduciary activities along with activity for the years ended September 30, 2011 and 2010.

Proceeds and Payment of Certain Unpaid Checks

The authority for this deposit fund is cited in 31 U.S.C. 3328. Specifically, the Secretary of the Treasury shall not be required to pay a Treasury check issued on or after the effective date of 31 U.S.C. 3328 unless it is negotiated to a financial institution within 12 months after the date on which the check was issued; and the Secretary shall not be required to pay a Treasury check issued before the effective date of 31 U.S.C. 3328 unless it is negotiated to a financial institution within 12 months after such effective date. If a check issued by a disbursing official and drawn on a designated depository is not paid by the last day of the fiscal year after the fiscal year in which the check was issued, the amount of the check is withdrawn from the account with the depository; and deposited in the Treasury. A claim for the proceeds of an unpaid check under this code may be paid from a consolidated account by this fund symbol.

This deposit fund holds non-federal funds not paid to the public due to failure of cashing or depositing a check.

Proceeds of Withheld Foreign Checks

The authority for this deposit fund is cited in 31 U.S.C. 3329, 3330. Specifically, the Secretary of the Treasury shall prohibit a check or warrant drawn on public money from being sent to a foreign country from the United States or from a territory or possession of the United States when the Secretary decides that postal, transportation, or banking facilities generally, or local conditions in the foreign country, do not reasonably ensure that the payee will receive the check or warrant and will be able to negotiate it for full value. The account is maintained to receive and hold the proceeds of these checks.

This deposit fund holds non-federal funds not paid to the public due to failure of cashing or depositing a check.

War Claims Fund (Foreign Claims Settlement Commission)

The War Claims Act of 1948, as amended, was designed to compensate individual American citizens and corporations for certain losses incurred by them in specific foreign countries during World War II. In order to compensate them, funds were to be made available by the proceeds from the sale of enemy assets that were seized under the Trading with the Enemy Act rather than through the appropriation process by the Congress.

This information is an integral part of the accompanying Schedules.

**U.S. DEPARTMENT OF THE TREASURY
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Debt Management Operations

The authority for this deposit fund is cited in 31 U.S.C. 1321. The purpose of this deposit fund is to account for non-federal collections and the disbursements of fees due to private collection agencies and individuals.

Albanian Claims Fund

The Albanian Claims program is authorized under the Foreign Claims Settlement Act of 1949 (22 U.S.C. 1627). The statute authorizes special funds to be set up, authorizes investment of funds, and gives directions on how claims are to be paid. On March 10, 1995, the United States and Albania signed an agreement providing for the settlement of the United States national's property claims against Albania in exchange for a lump-sum payment by Albania to the United States of \$2 million. The \$2 million was received by the United States on October 29, 1996, and was invested.

Payment of Unclaimed Moneys

The authority for this deposit fund is cited in 31 U.S.C. 1322. The balance of this account should represent only moneys which, when claimed, are unequivocally refundable. The sole purpose of the account, as originally established, was to hold such moneys in trust for rightful owners (as received by Government agencies from sources outside the Government). Accordingly, items cleared from agency uninvested trust, revolving and deposit fund accounts for transfer to account 20X6133 must meet all four of the following criteria: (1) amount is \$25.00 or more, (2) a refund, upon claim, would be absolutely justified, (3) there is no doubt as to legal ownership of the funds, and (4) a named individual, business, or other entity can be identified with the item.

Libyan Claims Settlement Fund – Department of State, December 2008 Referral

On August 14, 2008, the United States and Libya signed a comprehensive claims settlement agreement in Tripoli. The agreement is designed to provide rapid recovery of fair compensation for American nationals with terrorism-related claim against Libya. The U.S. Congress has supported this initiative by passing the Libya Claims Resolution Act (Public Law 110-301), which was signed into law by the President on August 4, 2008. On March 23, 2009, the Foreign Claims Settlement Commission, an independent quasi-judicial federal agency within the Department of Justice, published notice in the Federal Register announcing the commencement of the first portion of its Libya Claims Program, pursuant to the International Claims Settlement Act of 1949 and the December Referral Letter for claims for physical injury. The deadline for filing claims under the December Referral Letter was July 23, 2009. The Commission received approximately 50 claims which it is currently processing for adjudication.

Libyan Claims Settlement Fund – Department of State, January 2009 Referral

On August 14, 2008, the United States and Libya signed a comprehensive claims settlement agreement in Tripoli. The agreement is designed to provide rapid recovery of fair compensation for American nationals with terrorism-related claim against Libya. The U.S. Congress has supported this initiative by passing the Libya Claims Resolution Act (Public Law 110-301), which was signed into law by the President on August 4, 2008. On July 7, 2009, the Foreign Claims Settlement Commission, an independent quasi-judicial federal agency within the Department of Justice, published notice in the Federal Register announcing the commencement of the second portion of its Libya Claims Program, pursuant to the

This information is an integral part of the accompanying Schedules.

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Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

International Claims Settlement Act of 1949 and the January Referral Letter for six additional categories of claims: (1) claims by U.S. nationals who were held hostage or unlawfully detained in violation of international law; (2) claims of U.S. nationals for mental pain and anguish who are living close relatives of a decedent whose death formed the basis of a death claim compensated by the Department of State; (3) claims of U.S. nationals for compensation for wrongful death, in addition to amounts already recovered under the Claims Settlement Agreement, where there is a special circumstances in that the claimants obtained a prior U.S. court judgment in the Pending Litigation awarding damages for wrongful death; (4) claims of U.S. nationals for compensation for physical injury in addition to amount already recovered under the Commission process initiated by the December 11, 2008 referral; (5) claims of U.S. nationals for wrongful death or physical injury resulting from one of the terrorist incidents covered; and (6) commercial claims of U.S. nationals. The deadline for filing claims under the January Referral Letter was July 7, 2010.

Kennedy Center Revenue Bond Sinking Fund

The authority for this deposit fund is cited in 98 Stat 1876. The Kennedy Center Revenue Bond Sinking Fund is a fund set up to retire obligations of the Board of Trustees of the John F. Kennedy Center for the Performing Arts. Annual deposits are received from the Kennedy Center by the first day of January and deposited into the fund. Interest is received and reinvested on the Fund every May and November. The fund matures in the year 2016.

Iranian Claims Settlement Fund

This claims fund is authorized under 22 U.S.C. 1627. The U.S. made an agreement with the Government of Iran providing for the lump-sum settlement of claims of United States nationals against Iran of under \$250,000 per claim which had been pending against Iran at the Iran-U.S. Claims Tribunal at the Hague, Netherlands. The claimants had filed these claims through the Department of State following the signing of the Algiers Accords by the United States and Iran on January 19, 1981. In addition to the unresolved small claims, the agreement included other claims. Under the terms of the agreement, Iran assented to the transfer of \$105 million to the United States. The United States and Iran submitted the Settlement Agreement to the Tribunal for approval. It was approved and became effective on June 22, 1990.

German Democratic Republic Settlement Fund

Title VI of the Act [Public Law 94-542, approved October 18, 1976, 90 Stat. 2509 (22 U.S.C. 1644)] authorized the Commission to receive and determine claims against the German Democratic Republic for losses which arose from the nationalization, expropriation, or other taking by that government of property interests of nationals of the United States. When the program was authorized, no funds were available for payment of the awards issued by the Commission. The program was completed on May 16, 1981. The Department of State subsequently conducted negotiations with the German Democratic Republic--and, after unification, with the Federal Republic of Germany--to obtain a claims settlement to provide funds for the payment of awards. Those negotiations culminated in the signing of a settlement agreement on May 13, 1992.

Vietnam Claims Fund

On February 25, 1986, the Foreign Claims Settlement Commission completed a program to determine the

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

validity and amount of claims of United States' nationals against the Socialist Republic of Vietnam arising from the nationalization or other taking of property on or after April 29, 1975, when the Government of the Republic of Vietnam (South Vietnam) was overthrown. The program had been authorized by Public Law 96-606, approved December 28, 1980 [94 Stat. 3534 (22 U.S.C. 1645)], which added Title VII to the Act. The Commission made determinations on 534 claims, granting awards to 192 claimants in the total principal amount of \$99,471,983.51.

Small Escrow Amounts

The authority for this deposit fund is cited in 31 U.S.C. 3513. FMS uses this account to record the following transactions: unresolved ACH (Automated Clearing House) issues and unidentified remittances. Therefore, this deposit fund temporarily holds non-federal funds due to the public.

Small Differences Account for Deposit and Check Adjustments

The authority for this deposit fund is cited in 31 U.S.C. 3513. This account was established in 1959 as a deposit suspense account for adjusting small differences, all small differences \$1.00 or less for deposits and checks only. This account is used to adjust small differences relating to receipt and payment transactions processed by depositaries, agencies, and disbursing offices.

Suspense, Net Interest Payments to States

The authority for this deposit fund is cited in 104 Stat 1061. The purpose of the account as stated in the Cash Management Improvement Act of 1990 is to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the Federal government and the States. The funds in this deposit fund are non-federal funds owed to the states.

Accounts Payable, Check Issue Underdrafts

The authority for this deposit fund is cited in 31 U.S.C. 3513. This account is used by FMS for refunds and adjustments due the public.

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Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

**Schedule of Fiduciary Activity
For the Year Ended September 30, 2011
(Amounts in Thousands)**

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of Year	\$ 419,645	\$ 395,221	\$ 814,866
Increases			
Contributions to Fiduciary Net Assets	31,830	88,623	120,453
Investment Earnings	-	890	890
Total Increases	31,830	89,513	121,343
Decreases			
Withdrawals or Distributions of Fiduciary Net Assets	(305)	(117,007)	(117,312)
Total Decreases	(305)	(117,007)	(117,312)
Net Increase (Decrease) in Fiduciary Net Assets	31,525	(27,494)	4,031
Fiduciary Net Assets, End of Year	\$ 451,170	\$ 367,727	\$ 818,897

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

**Schedule of Fiduciary Activity
For the Year Ended September 30, 2010
(Amounts in Thousands)**

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of Year	\$ 389,653	\$ 180,537	\$ 570,190
Increases			
Contributions to Fiduciary Net Assets	102,929	406,446	509,375
Investment Earnings	-	744	744
Total Increases	102,929	407,190	510,119
Decreases			
Withdrawals or Distributions of Fiduciary Net Assets	(72,937)	(192,506)	(265,443)
Total Decreases	(72,937)	(192,506)	(265,443)
Net Increase in Fiduciary Net Assets	29,992	214,684	244,676
Fiduciary Net Assets, End of Year	\$ 419,645	\$ 395,221	\$ 814,866

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

**Fiduciary Net Assets
As of September 30, 2011
(Amounts in Thousands)**

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Assets			
Fund Balance With Treasury	\$ 451,170	\$ 291,707	\$ 742,877
Investments	-	75,667	75,667
Other Assets	-	352	352
Total Fiduciary Assets	451,170	367,726	818,896
Total Fiduciary Net Assets	\$ 451,170	\$ 367,726	\$ 818,896

**Fiduciary Net Assets
As of September 30, 2010
(Amounts in Thousands)**

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Assets			
Fund Balance With Treasury	\$ 419,645	\$ 29,248	\$ 448,893
Investments	-	365,649	365,649
Other Assets	-	474	474
Total Fiduciary Assets	419,645	395,371	815,016
Liabilities			
Less: Fiduciary Liabilities	-	(150)	(150)
Total Fiduciary Net Assets	\$ 419,645	\$ 395,221	\$ 814,866

This information is an integral part of the accompanying Schedules.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2011 and 2010

NOTE 7. COMMITMENTS AND CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible payment to FMS. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or unasserted litigation, a liability/cost is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources can be reasonably estimated.

In the case of *Cobell, et al v. Salazar, et al.*, the plaintiffs allege that the Departments of the Interior and Treasury owe an accounting and other trust duties with respect to Individual Indian Monies accounted for on the books of both agencies. The plaintiffs also claim that they are owed restitution, measured by the amount of money the Government collected from the plaintiffs and did not disburse, plus the amount of benefit the Government allegedly earned from using the plaintiff's money. The outcome of this case has been determined as probable and the estimated loss is \$3.4 billion. The Department of Interior has recorded an accrual for this case. Payments will be made from the Judgment Fund, and at that time, an expense will be recorded on Treasury's books.

There are numerous legal actions pending against the United States in Federal courts in which claims have been asserted that may be based on action taken by FMS. Management intends to vigorously contest all such claims. Management believes, based on information provided by legal counsel, that losses, if any, for the majority of these cases would not have a material impact on the Schedules. There are other cases that could result in significant payouts; however, legal counsel is unable to determine the probability of an unfavorable outcome, or determine an estimate or range of potential loss, for these matters, if any. No loss accrual has been made for these cases outstanding at September 30, 2011 or 2010.

In addition, FMS manages several accounts that may be used for the payment of claims against other Federal Agencies. Such payments are reflected in the following Non-Entity cost accounts reflected in the Schedules: Judgments and Moneys Erroneously Received and Covered. At September 30, 2011 and 2010, such claims are in various stages of settlement.



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