



Audit Report



OIG-20-015

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2019 and 2018

December 6, 2019

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 6, 2019

**MEMORANDUM FOR DAVID F. EISNER
ASSISTANT SECRETARY FOR MANAGEMENT**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2019 and 2018

We hereby transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Department of the Treasury as of September 30, 2019 and 2018, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated November 15, 2019, that discusses certain matters involving deficiencies in internal control over financial reporting that were identified during the audit, but were not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards with respect to this management letter.

If you wish to discuss this report, please contact me at (202) 927-0009, or a member of your staff may contact Ade Bankole, Manager, Financial Audit, at (202) 927-5329.

Attachment

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

November 15, 2019

Mr. Richard K. Delmar
Acting Inspector General
U.S. Department of the Treasury
Washington, DC

Mr. David F. Eisner
Assistant Secretary for Management
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

In planning and performing our audit of the consolidated financial statements of the Department of the Treasury (the Department), as of and for the year ended September 30, 2019, 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 Office of Management and Budget Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

We did not audit the financial statements of the Internal Revenue Service and the Office of Financial Stability, component entities of the Department. Those statements were audited by other auditors.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 15, 2019 on our consideration of the Department's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be significant deficiencies.

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. During our audit, we identified the following deficiencies in internal control which are described in Appendix A. Appendix B presents the status of the prior year comment.

The Department's responses to the findings identified in our audit are described in Appendix A. The Department's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.



The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

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Management Letter Comments

1) Timely Removal of Terminated Users from FARS and DO IT Needs Improvement

The Department's financial management system structure requires bureaus to maintain and/or utilize financial management systems to meet their business requirements and submit required financial and performance data to the Treasury-wide Financial Analysis and Reporting System (FARS) in order to meet Departmental analysis and reporting requirements. The Department uses FARS to produce its annual Agency Financial Report (AFR). Our testing of the FARS consisted of two of its three subsystems:

- Treasury Information Executive Repository (TIER): The TIER application collects standard financial data on a monthly basis from multiple bureau financial systems. End users utilize these data for analysis as well as bureau, Treasury-wide, and government-wide reporting related to proprietary and budgetary accounting.
- TIER Financial Statements (TFS): The TFS application uses TIER data to generate monthly bureau and consolidated Treasury financial statements and notes as well as other analytical reports. These financial statements are submitted to the Office of Management and Budget.

The Departmental Offices (DO) Information Technology (IT) is the Local Area Network (LAN)/Wide Area Network (WAN) that facilitates the processing, storing, and transmitting of sensitive but unclassified information in support of DO.

The Department's existing information system security policies and plans do not have an established timeframe for management to remove FARS and DO IT user accounts associated with terminated employees and contractors. Specifically, we noted the following:

- FARS management did not disable or remove the access of two employees from TIER and TFS, as of the date of our observation, approximately 1 month following their termination from Treasury.
- DO IT management did not disable or remove the access of two employees from the DO IT Active Directory (AD), as of the date of our observation, approximately 2 months and 9 months following their terminations from Treasury.

Management subsequently removed access of all four employees from the respective applications.

Recommendation

We recommend that DO management communicate the timeframe required to disable or remove the access of terminated employees and contractors from DO systems to the appropriate staff, and communicate the timeframe required to disable or remove the access of terminated employees and contractors from the FARS application, which includes TIER and TFS, to the appropriate staff.

Management Response

Management concurs with the finding. Management will ensure that DO IT staff responsible for removing DO system, network, and other IT access for terminated employees and contractors are aware of the timeframe requirements established by DO 910 policy. Treasury's FARS suite may accept the risk of using compensating controls from DO 910 guidance and establish separate policies and procedures for implementing Personnel Security (PS) control PS-4 Personnel Termination which are compliant with National Institute of Standards and Technology (NIST) guidance and Treasury Department Publication (TD P) 85-01 policy. The new FARS policy for this control will be based in part on an analysis of risk levels inherent to the FARS.

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2. FARS User Accounts Management Needs Improvement

The FARS existing information system security policies and procedures do not have an established segregation of duties matrix for FARS roles to inform management of incompatible roles for specific job duties and organizational units.

One TIER bureau user, out of the full population of 186 active TIER users, had conflicting access to a privileged bureau role and to a privileged departmental role. Because this is a bureau user, management should not have granted the user access to the privileged departmental role. Having both these roles creates a separation of duties conflict that allows the user to override data errors. Moreover, during the recertification process, management incorrectly marked this user as having appropriate TIER roles despite having access to the role only allowed for departmental users which creates a conflict of duties.

Recommendations

We recommend that management:

- implement a segregation of duties matrix for FARS user account roles and
- train staff on the FARS segregation of duties matrix to be aware and mindful of conflicting roles.

Management Response

Management concurs with the finding. The Office of the Deputy Chief Financial Officer (ODCFO) will review and, if possible, strengthen the existing segregation of duties (SoD) criteria reflected in current FARS user role definitions. The ODCFO will use these criteria to develop a SoD matrix which summarizes the SoD rules that govern the management of FARS user access. In addition, the ODCFO will use the SoD matrix as the basis for training staff with responsibility for managing or reviewing FARS user access. This training will help to ensure that FARS user administrators comply with FARS SoD rules in their management of FARS user access.

3) The Process of Compliance over FMFIA Process Could be Improved

The Federal Manager's Financial Integrity Act of 1982 (FMFIA) requires federal agencies to establish internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The Treasury Chief Financial Officers' Council (CFO Council) has overall governance responsibility for the Treasury-wide internal control program. To achieve this, the Risk and Control Group (RCG) at the Treasury requires that each individual Treasury component prepares and submits the results of their FMFIA assessments annually.

During our testwork over compliance with FMFIA, we noted that two Treasury components documented the results of certain control testing to be operating effectively despite the detail documentation that disclosed multiple exceptions without rationale as to how the exceptions were resolved. Although Treasury's guidance requires components to document their test results and conclusions, it does not specifically require components to submit an explanation of the resolution of testing exceptions to ODCFO. We note that our current finding does not impact the Department's compliance with FMFIA.

Recommendation

To assist management in mitigating the risk of potential non-compliance with FMFIA if results of testing were not communicated or evaluated correctly by the components, we recommend that management

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provide guidance on how to evaluate testing exceptions and how to document factors considered in concluding on the effectiveness of controls.

Management's Response

Management concurs with this finding. We appreciate the recommendation for improving our FMFIA process. ODCFO provides extensive guidance and oversight over the Department's FMFIA process. While our guidance is comprehensive, by design it is not overly prescriptive. Through our guidance Treasury components are required to use their professional judgement and expertise in assessing their systems of internal control and determining the overall effectiveness of their controls. Our guidance emphasizes the need for components to thoroughly document their assessment activities. ODCFO oversees this process through the review of specific documentation required from the components, including detailed test plans, which document the controls tested, the tests performed, the results of the tests, and the conclusions on the effectiveness of the controls. However, components are responsible for maintaining all supporting work papers related to the assessments, which are subject to periodic on-site review by ODCFO. While we believe the review of the required documentation provides adequate oversight, we appreciate the recommendation to provide specific guidance on the evaluation and documentation of exceptions noted during testing. We will update our Fiscal Year (FY) 2020 guidance to Treasury bureaus accordingly.

4) Appropriate Documentation of the Preparation and Review of Government-Wide Cash Core Trial Balance to TIER Reconciliation Need to be Improved

TIER data is ultimately used in the preparation of the Department of the Treasury's consolidated financial statements. In FY 2019, the Bureau of the Fiscal Service (Fiscal Service) did not document the preparation and supervisory review of a reconciliation of the trial balance generated from a component entity's core accounting system to the TIER data file, which is required by the Office of Financial Reporting and Policy (OFRP) Accounting Policy and Implementation Guidance OFRP-16-02 on TIER Reporting. Specifically, we noted that for the month of April 2019:

- The preparer of the reconciliation did not sign the document upon completion of the reconciliation.
- The reviewer of the reconciliation did not sign the document upon review of the reconciliation.

Without appropriate documentation of the preparer and timely supervisory review, there is a potential that misstatements may occur in the other financial information that Fiscal Service reported—between the component entity's trial balance and the TIER data file—and not be prevented, or detected and corrected, on a timely basis in Treasury's consolidated financial statements and related footnotes.

Recommendation

We recommend that Fiscal Service management implement an oversight procedure to ensure that it documents the completion of the reconciliation by the preparer and the timely supervisory review in accordance with the current policy.

Management Response

Management concurs with the finding. The Cash Accounting Group within Fiscal Service has always performed this particular reconciliation on a monthly basis. However, procedures were not established to retain documentation of the preparation and verification of the reconciliation. To address this, Fiscal Service will begin immediately printing the Core trial balance to TIER Reconciliation to a Portable

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Document Format (PDF) and requiring a digital signature from both the preparer and a verifier to document the timely review.

5) Appropriate Review of Year-end Balances Submission from the Fiscal Service Funds Management Branch Needs to be Improved

As part of our testing over the population of journal entries received from Fiscal Service, we identified differences in three Fiscal Service U.S. Standard General Ledger (USSGL) accounts due to the lack of appropriate review and independent verification of the month-end data received from the Fiscal Service's Funds Management Branch (FMB), which caused misstatements and resulted in the following control deficiencies:

- The FMB incorrectly recorded in Oracle the September 2019 month-end balances related to interest earned on foreign currency balances instead of the 2019 year-end balances. FMB then provided the Fiscal Service Cash Accounting Branch the month-end balances in order to submit its year-end TIER financial data.
- FMB provided the Fiscal Service Cash Accounting Branch incomplete financial data due to a late transaction that was posted in the Treasury Central Accounting Reporting System (CARS).

Recommendation

We recommend that Fiscal Service management develop policies and procedures to independently verify the balances received from FMB in CARS prior to preparing the data uploaded into TIER for the Department's consolidated financial statements.

Management's Response

Fiscal Service management concurs with the finding and recommendation of enhancing policies and procedures to independently verify balances prior to preparing the data uploaded into TIER for the Department's consolidated financial statements.

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Status of Prior Year Management Letter Comment

Fiscal Year 2018 Management Letter Comment

Departmental Offices (DO) Main Treasury's Monitoring of Security Events Needs Improvements

Fiscal Year 2019 Status

Closed



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