Audit Report

OIG-14-017

Audit of the Bureau of the Fiscal Service's Fiscal Years 2013 and 2012 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

January 14, 2014

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 14, 2014

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

FROM: Michael Fitzgerald
Director, Financial Audit

SUBJECT: Audit of the Bureau of the Fiscal Service's Fiscal Years 2013 and 2012 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

I am pleased to transmit the attached audited Bureau of the Fiscal Service's (Fiscal Service) Fiscal Years 2013 and 2012 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (Schedules). Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), an independent certified public accounting firm, performed an audit of the Schedules. The contract required that the audit be performed in accordance with generally accepted government auditing standards and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

The following reports, prepared by KPMG, are incorporated in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control Over Financial Reporting; and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit, KPMG found:

- the Schedules present fairly, in all material respects, the Fiscal Service's Non-Entity Assets as of September 30, 2013 and 2012, and the related Non-Entity Costs and Custodial Revenue for the years then ended, in accordance with U.S. generally accepted accounting principles,
- certain deficiencies in internal control that were considered to be a significant deficiency[1] (described below), and

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

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

KPMG concluded that Fiscal Service's general information technology controls do not provide reasonable assurance that: (1) an adequate security management program is in place; (2) access to computer resources (i.e., data, equipment, and facilities) is reasonable and restricted to authorized individuals; (3) changes to information system resources are authorized and systems are configured and operated securely and as intended; and (4) incompatible duties are effectively segregated. Collectively the conditions observed and reported on could compromise the Fiscal Service's ability to prevent the possible disclosure of entity-sensitive information related to Non-Entity Assets, Non-Entity Costs and Custodial Revenue to unauthorized individuals or entities and ensure the reliability of key systems.

In connection with the contract, we reviewed KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Schedules or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' reports dated December 20, 2013, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Mark S. Levitt, Manager, Financial Audit at (202) 927-5076.

Attachment

cc: Richard L. Gregg
Fiscal Assistant Secretary

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

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

September 30, 2013 and 2012

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

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

Independent Auditors' Report

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

Report on the Schedules

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

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express an opinion on these Schedules based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free from material misstatement.

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

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

Opinion on the Schedules

In our opinion, the Schedules referred to above present fairly, in all material respects, the U.S. Department of the Treasury's Bureau of the Fiscal Service's Non-Entity Assets as of September 30, 2013 and 2012, and the related Non-Entity Costs and Custodial Revenue for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

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

KPMG LLP

Washington, D.C.
December 20, 2013

KPMG LLP
Suite 12000
1801 K Street, NW
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Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the Schedules of Non-Entity Assets of the U.S. Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) as of September 30, 2013 and 2012, 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 the related notes to the Schedules, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedules as of and for the year ended September 30, 2013, we considered the Fiscal Service's internal control over financial reporting (internal control) related to TMA to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of the Fiscal Service's internal control related to TMA. Accordingly, we do not express an opinion on the effectiveness of the Fiscal Service's internal control 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

The Fiscal Service's Response to Findings

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

Purpose of this Report

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

KPMG LLP

Washington, D.C.
December 20, 2013

Exhibit I

U.S. Department of the Treasury

Bureau of the Fiscal Service

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

Significant Deficiency in Internal Control over Financial Reporting

<u>Information Technology Controls Over Systems Managed by the Fiscal Service (Repeat Condition)</u>

The Fiscal Service relies on an extensive array of information technology 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 confidentiality, integrity, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts.

In our audit, we evaluated general information technology controls over key systems related to TMA. General information technology controls are the structure, policies, and procedures that apply to an entity's overall computer systems. They include security management, access controls, configuration management, segregation of duties, and contingency planning.

In our fiscal year 2013 audit, we noted that the Fiscal Service made progress in resolving identified security weaknesses in its efforts to address this finding. Despite these improvements, our tests revealed that the necessary policies and procedures to detect and correct information system control weaknesses have not been consistently documented, implemented, or enforced. The Fiscal Service's general information technology controls do not provide reasonable assurance that:

1. An adequate security management program is in place;
2. Access to computer resources (i.e., data, equipment, and facilities) is reasonable and restricted to authorized individuals;
3. Changes to information system resources are authorized and systems are configured and operated securely and as intended; and
4. Incompatible duties are effectively segregated.

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

Because of the sensitivity of the information, we issued a separate sensitive but unclassified report to the Commissioner of the Bureau of the Fiscal Service detailing the conditions identified and our recommendations for corrective action.

Management's Response:

Management has prepared an official response presented as a separate attachment to this report. Management agreed with our finding and their comments were responsive to our recommendations.

KPMG LLP
Suite 12000
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Independent Auditors' Report on Compliance and Other Matters

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the Schedules of Non-Entity Assets of the U.S. Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) as of September 30, 2013 and 2012, 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 the related notes to the Schedules, and have issued our report thereon dated December 20, 2013.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations related to TMA, noncompliance with which could have a direct and material effect on the determination of amounts reflected in the Schedules, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of this Report

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

KPMG LLP

Washington, D.C.
December 20, 2013

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

Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2013 and 2012
(In Thousands)

		2013		2012
Non-Entity Assets (Note 7)				
Intra-governmental:				
Fund Balance with Treasury (Note 2)	$	684,649	$	1,255,123
Due from the General Fund (Note 3)		800,545		0
Accounts Receivable, Net (Note 4)		363,465		456,171
Other		352		371
Total Intra-governmental		1,849,011		1,711,665
With the Public:				
Receivable on Deposit of Earnings, Federal Reserve System		3,079,432		2,281,778
Accounts Receivable, Net (Note 4)		563		824
Total With the Public		3,079,995		2,282,602
Total Non-Entity Assets	$	4,929,006	$	3,994,267
Commitments and Contingencies (Note 8)				
Non-Entity Costs (Note 5)				
Credit Reform: Interest Paid on Uninvested Funds	$	8,488,116	$	9,923,016
Judgments		5,125,334		3,479,634
Resolution Funding Corporation		2,503,313		2,628,312
Restitution of Foregone Interest		820,049		58,870
Public Broadcasting Fund, Corporation for Public Broadcasting		421,860		444,159
Legal Services Corporation		381,585		355,590
District of Columbia		130,189		127,575
Presidential Election Campaign Fund		600		(264)
Federal Railroad Administration for AMTRAK Debt Restructuring		55,045		309,619
Travel Promotion Fund, Corporation for Travel Promotion		94,900		100,000
Moneys Erroneously Received and Covered		33,433		46,905
Other		49,562		53,429
Total Non-Entity Costs	$	18,103,986	$	17,526,845
Custodial Revenue (Note 6)				
Deposit of Earnings, Federal Reserve System	$	75,766,554	$	81,956,891
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes		129,016		83,256
General Fund Proprietary Receipts, Not Otherwise Classified		103,003		104,861
Fees, Travel Promotion Fund, Corporation for Travel Promotion		127,408		119,926
Fines, Penalties, and Forfeitures, Not Otherwise Classified		475,025		921
Other		38,314		32,431
Total Cash Collections		76,639,320		82,298,286
Accrual Adjustment		704,681		749,980
Total Custodial Revenue	$	77,344,001	$	83,048,266

The accompanying notes are an integral part of these Schedules.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Non-Entity accounts are those Treasury Account Symbols (TAS) that the Fiscal Service holds but are not available to the Fiscal Service in its operations. For example, the Fiscal Service accounts for certain cash that the Federal Government collects and holds on behalf of the U. S. Government or other entities. These Schedules include the activity of Non-Entity TAS managed by the Fiscal Service. 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 the Fiscal Service 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 the Fiscal Service as if it was a stand-alone entity.

On October 7, 2012, the Department of the Treasury bureaus formerly known as the Financial Management Service and the Bureau of the Public Debt were redesignated as the Bureau of the Fiscal Service.

B. Basis of Preparation

The Schedules have been prepared from the accounting records maintained by the Fiscal Service and are meant to report Non-Entity Assets, Non-Entity Costs and Custodial Revenue of the Fiscal Service 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.

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 the Fiscal Service pursuant to certain Office of Management and Budget (OMB) directives that are primarily used to monitor and control the Fiscal Service's 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 and the amounts of custodial revenues and non-entity costs during the reporting period for 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.

E. Due from the General Fund

Due from the General Fund represents a receivable, or future funds required of the General Fund to repay restoration of foregone federal debt interest that was Accrued at the end of the fiscal year.

F. 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. The Fiscal Service 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.

G. 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, or a substantial increase in capital, a Federal Reserve Bank will suspend its payments to the U.S. Treasury until such losses or increases in capital 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.

H. 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).

I. 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. Fiduciary cash and other assets are not assets of the U.S. Government and are not reported on the Schedules. They are reported in Note 7 to the Schedules.

(In Thousands)

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 the Fiscal Service 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, 2013 and 2012 consisted of the following:

2013

Account Type	Obligated	Unobligated Available	Unobligated Unavailable	Total
Appropriated Funds	$ 203,712	$ 269,594	$ -	$ 473,306
Revolving Funds	124	4,726	-	4,850
Trust Funds	60	84	-	144
Other Fund Types	-	-	206,349	206,349
Total	$ 203,896	$ 274,404	$ 206,349	$ 684,649

2012

Account Type	Obligated	Unobligated Available	Unobligated Unavailable	Total
Appropriated Funds	$ 648,557	$ 232,636	$ 2,137	$ 883,330
Revolving Funds	337	5,449	-	5,786
Trust Funds	58	65	-	123
Other Fund Types	-	-	365,884	365,884
Total	$ 648,952	$ 238,150	$ 368,021	$ 1,255,123

The fund balance, unobligated available supports the budgetary resources available except for a $310 thousand as of September 30, 2013 and 2012, 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. DUE FROM THE GENERAL FUND

During fiscal year 2013, Treasury took certain extraordinary measures during a Debt Issuance Suspension Period (DISP), which did not expire until October 17, 2013. Treasury, on behalf of the U.S. Government and pursuant to Title 5 of the U.S. Code, used amounts collected for the Government Securities Investment Fund within the Federal Employees' Retirement System (referred hereinafter as the Thrift Savings Plan, or TSP), the Civil Service Retirement and Disability Fund (Civil Service Fund), and the Postal Service Retiree Health Benefit Fund (Postal Benefits Fund) for the ongoing operating needs of the United States Government. In accordance with Title 5, as of September 30, 2013, foregone interest owed to the TSP, the Civil Service Fund, and the Postal Benefits Fund amounted to $800,545, which would be paid from the General Fund.

NOTE 4. 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 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 the Fiscal Service to initiate collection action against those agencies. The Fiscal Service 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 for FYs 2013 and 2012 was $940,000 and $930,000 respectively. During the individual account analysis, it was determined that four of the non-reimbursing agencies made up 83% and 77% of the intra-governmental accounts receivable balance for FYs 2013 and 2012, respectively. 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.

(In Thousands)

Intra-governmental accounts receivable as of September 30, 2013 and 2012 consist of the following:

	2013	2012
Claims for CDA and Fire Fighting	$ 1,299,873	$ 1,383,671
Claims for No FEAR	2,293	1,474
Billing for Water and Sewage Service	1,299	1,026
Gross Accounts Receivable	1,303,465	1,386,171
Less: Allowance for Uncollectable Accounts – Claims for CDA	(940,000)	(930,000)
Accounts Receivable, Net	$ 363,465	$ 456,171

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, 2013 and 2012, consist of the following:

	2013	2012
U.S. Treasury Check Forgery Insurance Fund Receivables	$ 974	$ 1,172
General Fund Proprietary Receipts	127	127
Gross Accounts Receivable	1,101	1,299
Less: Allowance for Uncollectable Accounts – U.S. Treasury Check Forgery Insurance Fund	(538)	(475)
Accounts Receivable, Net	$ 563	$ 824

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 5. 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 the Fiscal Service has made a commitment to make a payment for claims existing as of September 30, 2013 and 2012.

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 the Fiscal Service.

Judgments **-** The Fiscal Service 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.

Resolution Funding Corporation **-** The Resolution Funding Corporation (REFCORP) account is maintained pursuant to the Federal Home Loan Bank Act. The Fiscal Service 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. Please refer to Note 3 for additional detail on the Debt Issuance Suspension Period.

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.

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.

Travel Promotion Fund, Corporation for Travel Promotion - This account was established pursuant to the Travel Promotion Act of 2009, as amended (22 U.S.C. 2131). The act establishes the Corporation for Travel Promotion as a non-profit entity which shall not be an agency of the United States Government. For each of the fiscal years 2012 – 2015, the Secretary of the Treasury shall transfer not more than $100 million to the Fund which shall be made available to the Corporation. Transfers to the fund are based on collections of the Department of Homeland Security (DHS) visa fees deposited during the previous fiscal year.

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 Partnership Fund for Program Integrity Innovation, and Payments from Biomass Energy Development.

(In Thousands)

NOTE 6. COLLECTIONS OF CUSTODIAL REVENUE

The Fiscal Service 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, 2013 and 2012, cash collections were as follows:

	2013		
	October to December 2012	January to September 2013	Total
Deposit of Earnings, Federal Reserve System	$21,808,481	$53,958,073	$75,766,554
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	7,742	121,274	129,016
General Fund Proprietary Receipts	181,420	(78,417)	103,003
Fees, Travel Promotion Fund	26,282	101,126	127,408
Fines, Penalties, and Forfeitures	109,032	365,993	475,025
Other	18,314	20,000	38,314
Total	$22,151,271	$54,488,049	$76,639,320

	2012		
	October to December 2011	January to September 2012	Total
Deposit of Earnings, Federal Reserve System	$15,854,675	$66,102,216	$81,956,891
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	37,657	45,599	83,256
General Fund Proprietary Receipts	28,912	75,949	104,861
Fees, Travel Promotion Fund	24,249	95,677	119,926
Fines, Penalties, and Forfeitures	19	902	921
Other	12,660	19,771	32,431
Total	$15,958,172	$66,340,114	$82,298,286

NOTE 7. SCHEDULE OF FIDUCIARY ACTIVITY

The Fiscal Service accounts for certain cash that the Federal Government collects and holds on behalf of other entities. The Fiscal Service collects funds from foreign governments to make payments to U.S. nationals. Also, the Fiscal Service maintains an account – Unclaimed Moneys – whose sole purpose, as originally established, is 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 financial statements.

The following are the funds identified by the Fiscal Service as fiduciary activities along with activity for the years ended September 30, 2013 and 2012.

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 depositary 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 depositary; 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.

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 statue 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. This fund invests in market-based bills.

Iraq Claims Settlement Fund

The authority for this deposit fund is cited in 22 U.S.C. 1627(a). The funds in this account are designated to pay the awards certified by the Foreign Claims Settlement Commission under 22 U.S.C. 1624 for special circumstances by U.S. nationals. On November 14, 2012, the Legal Adviser of the U.S. Department of State referred to the Foreign Claims Settlement Commission for adjudication a category of claims within the scope of the Claims Settlement Agreement between the Government of the United States of America and the Government of the Republic of Iraq, signed on September 2, 2010. The category of claims referred to the Foreign Claims Settlement Commission consists of claims of U.S. nationals for compensation for serious personal injuries knowingly inflicted upon them by Iraq.

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 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. This fund invests in market-based bonds.

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. This fund invests in market-based bills.

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. This fund invests in market-based bills.

Vietnam Claims Fund
On February 25, 1986, the Foreign Claims Settlement Commission completed a program to determine the 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. This fund invests in market-based bills.

Small Escrow Amounts
The authority for this deposit fund is cited in 31 U.S.C. 3513. The Fiscal Service 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 the Fiscal Service for refunds and adjustments due the public.

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2013 and 2012
(In Thousands)

Schedule of Fiduciary Activity
For the Year Ended September 30, 2013

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of Year	$ 508,829	$ 310,451	$819,280
Increases			
Contributions to Fiduciary Net Assets	48,319	239,335	287,654
Investment Earnings	-	667	667
Total Increases	48,319	240,002	288,321
Decreases			
Withdrawals or Distributions of Fiduciary Net Assets	(6,015)	(441,281)	(447,296)
Total Decreases	(6,015)	(441,281)	(447,296)
Net Increase (Decrease) in Fiduciary Net Assets	42,304	(201,279)	(158,975)
Fiduciary Net Assets, End of Year	$ 551,133	$ 109,172	$ 660,305

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2013 and 2012
(In Thousands)

Schedule of Fiduciary Activity
For the Year Ended September 30, 2012

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of Year	$ 451,170	$ 367,727	$ 818,897
Increases			
Contributions to Fiduciary Net Assets	58,724	142,798	201,522
Investment Earnings	-	669	669
Total Increases	58,724	143,467	202,191
Decreases			
Withdrawals or Distributions of Fiduciary Net Assets	(1,065)	(200,743)	(201,808)
Total Decreases	(1,065)	(200,743)	(201,808)
Net Increase (Decrease) in Fiduciary Net Assets	57,659	(57,276)	383
Fiduciary Net Assets, End of Year	$ 508,829	$ 310,451	$ 819,280

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

Notes to Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue
September 30, 2013 and 2012
(In Thousands)

Schedule of Fiduciary Net Assets
As of September 30, 2013

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Assets			
Fund Balance With Treasury	$ 551,133	$ 100,144	$ 651,277
Investments	-	16,978	16,978
Other Assets	-	407	407
Total Fiduciary Assets	551,133	117,529	668,662
Liabilities			
Less: Fiduciary Liabilities	-	(8,357)	(8,357)
Total Fiduciary Net Assets	$ 551,133	$ 109,172	$ 660,305

Fiduciary Net Assets
As of September 30, 2012

	Unclaimed Moneys	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Assets			
Fund Balance With Treasury	$ 508,829	$ 296,291	$ 805,120
Investments	-	15,800	15,800
Other Assets	-	366	366
Total Fiduciary Assets	508,829	312,457	821,286
Liabilities			
Less: Fiduciary Liabilities	-	(2,006)	(2,006)
Total Fiduciary Net Assets	$ 508,829	$ 310,451	$ 819,280

NOTE 8. COMMITMENTS AND CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible payment to Fiscal Service. 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.

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 Fiscal Service. 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, 2013 or 2012.

In addition, Fiscal Service 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, 2013 and 2012, such claims are in various stages of settlement.

DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE
WASHINGTON, DC 20227

December 20, 2013

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

Dear Mr. Lewis:

This letter is in response to your reports on the Bureau of the Fiscal Service's (Fiscal Service's) (1) Schedules of Non-Entity Government-wide Cash as of September 30, 2013 and 2012, and (2) Schedules of Non-Entity Assets as of September 30, 2013 and 2012, and Non-Entity Costs and Custodial Revenue for the years then ended.

We are pleased to receive an unqualified opinion on the Schedules and that no material weaknesses related to internal control over financial reporting were noted in your report. We acknowledge the significant deficiency and appreciate your feedback resulting from the audit of our security controls as we continue to move forward to address this deficiency.

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

Sincerely,

David A. Lebryk