



Audit Report



OIG-17-014

FINANCIAL MANAGEMENT

Management Letter for the Bureau of the Fiscal Service Funds Management Branch Schedules for Selected Trust Funds as of and for the Year Ended September 30, 2016

November 15, 2016

Office of
Inspector General

Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 15, 2016

**MEMORANDUM FOR SHERYL MORROW, COMMISSIONER
BUREAU OF THE FISCAL SERVICE**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Bureau of the Fiscal Service Funds
Management Branch Schedules for Selected Trust Funds as
of and for the Year Ended September 30, 2016

I am pleased to transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), an independent certified public accounting firm, examined the assertions of the Bureau of the Fiscal Service (Fiscal Service) Funds Management Branch (FMB) pertaining to the Schedule of Assets and Liabilities of Selected Trust Funds as of September 30, 2016, and the related Schedule of Activity of Selected Trust Funds for the year then ended (Schedules), and the related notes to the Schedules. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and the attestation standards established by the American Institute of Certified Public Accountants.

As part of its examination, KPMG issued the attached management letter dated November 14, 2016, that discusses a deficiency in internal control over financial reporting that was identified during the examination, but was not required to be included in the accountants' report.

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.

Should you have any questions, please contact me at (202) 927-0009 or Mark S. Levitt, Manager, Financial Audit, at (202) 927-5076.

Attachment



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

November 14, 2016

Office of Inspector General
Department of the Treasury
Suite 300
875 15th Street, N.W.
Washington, DC 20005

Matthew Miller
Assistant Commissioner
Fiscal Accounting
Bureau of the Fiscal Service
Main Building
200 Third Street
Parkersburg, WV 26106

Dear Matthew Miller:

In planning and performing our examination of the assertions of Funds Management Branch (FMB) of the Bureau of the Fiscal Service (Fiscal Service) of the Department of the Treasury (Treasury) as of the year ended September 30, 2016, in accordance with standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in the Government Auditing Standards issued by the Comptroller General of the United States, we examined, on a test basis, evidence supporting the assertions and performed such other procedures as we considered necessary in the circumstances, for the purpose of expressing our opinion as to whether the following management assertions with respect to the accounts of each Trust Fund included in the Schedule of Assets and Liabilities of selected trust funds as of September 30, 2016 and the related Schedule of Activity for the year then ended (the Schedules) is presented in conformity with the measurement and disclosure criteria set forth in the notes to the Schedules.

- Fund balance with Treasury is reported based on the balance reported by Treasury's Fiscal Service in the Government-wide Accounting's (GWA) Central Accounting and Reporting System (CARS) Account Statement and reconciling transactions identified and recorded by FMB.
- Interest receivables are calculated and reported by FMB based on the investment terms received and recorded by FMB from Fiscal Service's Federal Investments and Borrowings Branch (FIBB) in the investment confirmations and monthly statements of account.
- Investments, net are calculated and reported at net cost based on the cost and premium/discount amounts reported to FMB in the investment confirmations and monthly statements of account received from FIBB.
- The market value of investments is calculated and reported by FMB using the recorded investment cost and the market rates published in the September 30, 2016, Treasury Quote file and unrealized gains and losses are calculated and reported by FMB as the difference between the market value and the investments, net.
- Other payables are reported based on amounts received and recorded by FMB from the program agencies responsible for the respective trust fund activity.



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- Program agency equity is calculated and reported by FMB as the difference between the assets of the trust fund and the other payables received and recorded by FMB from the program agencies responsible for the respective trust fund activity.
- Interest revenue is reported based on the amounts received and recorded by FMB from FIBB in the monthly statements of account and accrued interest and amortization calculated by FMB. Amortization of any premiums and discounts on investments is calculated and reported by FMB based on the investment terms reported to FMB by FIBB using the straight-line method for investments with a term equal to or less than one year and using the level yield method which approximates the interest method for investments with a term of greater than one year.
- Penalties, fines, administrative fees, transfers in from program agencies, premiums, cost recoveries, and other income are reported based on the amounts received and recorded by FMB from the Fiscal Service's GWA, and the program agencies responsible for the respective trust fund activity.
- Tax revenues, tax adjustments, and tax refunds are reported based on the amounts received and recorded by FMB from Treasury's Office of Tax Analysis, Internal Revenue Service, the Fiscal Service's GWA and U.S. Customs and Border Protection.
- Transfers to program agencies are calculated and reported based on the disbursement request amounts received and recorded by FMB from the program agencies responsible for the respective trust fund activity and the disbursement amounts returned and recorded by FMB from the program agencies responsible for the respective trust fund activity.
- Reimbursements to the Fiscal Service and the General Fund are reported based on the disbursement request amounts received and recorded by FMB from various Fiscal Service, Treasury, and other government offices.

Pursuant to the attestation standards of the AICPA and the standards applicable to attestation engagements contained in the Government Auditing Standards, issued by the Comptroller General of the United States, we are required to communicate to management all deficiencies, including significant deficiencies and material weaknesses, in internal control identified during the examination.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.



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In connection with our examination of management's assertions, we have identified the following deficiencies:

Investment Management

FMB-2016-01 Controls over the Review of the Market Value Spreadsheet should be Strengthened

During our testing of the market value of investments, we identified formula errors in the market value spreadsheet for the Oil Spill Liability Trust Fund within the Cost, Net Investment, and Unrealized Gain columns.

The market value spreadsheet is a workbook prepared for funds with market based securities that is sent to a select number of FMB's program agencies. The spreadsheet is populated based on the securities, date, shares/par, discount/ premium, amortization and accrued interest derived from the InvestOne Distribution Report, and the rates from the FedInvest Historical Price Report. The following columns are formula driven in the market value spreadsheet: Cost, Net Investments, Price, Market Value, and Gain/Loss.

Per the Standard Operating Procedure (SOP) for Market Valuation, the trust fund managers must "verify the information on the spreadsheet is correct for all accounts before sending to agency contacts".

Formula errors in the market value spreadsheet for the Oil Spill Liability Trust Fund resulted in an incorrect balance for Cost, Net Investment, and Unrealized Gain. The error was not detected during the review performed by the reviewing trust fund manager or prior to sending to agency contacts as outlined in the SOP for Market Valuation. The combined effect of the mathematical errors was an understatement of \$42.6 million in Cost and Net Investment, which caused an understatement in the amount of Unrealized Gains. The spreadsheet was subsequently updated to include the correct formula and the draft Schedules of Assets and Equity of Selected Trust Funds and related notes to the Schedules provided to the auditors included the correct balances.

We recommend that management:

1. Lock the market value spreadsheet formulas to prevent errors in the Cost, Net Investment, and Gains/Losses column calculations.
2. Strengthen its review procedures to include some manual recalculations of the balances in the market value spreadsheet to ensure mathematical accuracy.

This communication is intended solely for the information and use of management of the Bureau of the Fiscal Service, program agencies responsible for their respective trust fund activity, the Department of the Treasury Office of Inspector General, the Office of Management and Budget, the 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.

Very truly yours,

KPMG LLP

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