



Audit Report



OIG-09-010

Audit of the Financial Management Service's Fiscal Years 2008
and 2007 Schedules of Non-Entity Government-Wide Cash

November 19, 2008

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 19, 2008

**MEMORANDUM FOR JUDITH R. TILLMAN, COMMISSIONER
FINANCIAL MANAGEMENT SERVICE**

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Audit of the Financial Management Service's
Fiscal Years 2008 and 2007 Schedules of Non-Entity
Government-wide Cash

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years (FY) 2008 and 2007 Schedules of Non-Entity Government-wide Cash (the Schedules). Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the Schedule of Non-Entity Government-wide Cash for FY 2008. The FMS's Schedule for FY 2007 was audited by Clifton Gunderson LLP, another independent certified public accounting firm, whose report dated November 8, 2007, expressed an unqualified opinion. Both contracts 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*; 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 of FMS' Schedule, KPMG LLP found:

- the Schedule presents fairly, in all material respects, the balance of Non-Entity Government-wide Cash as of September 30, 2008, in conformity with U.S. generally accepted accounting principles,

- no matters involving internal control and its operations that are considered material weaknesses, and
- no instances of reportable noncompliance with laws and regulations tested.

KPMG LLP will also issue a management letter dated November 17, 2008, discussing certain matters involving internal control and other operational matters 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 LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on FMS' 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 17, 2008 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: Kenneth E. Carfine
Fiscal Assistant Secretary

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

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

September 30, 2008 and 2007

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

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General, U.S. Department of the Treasury and the
Commissioner of the Financial Management Service:

We have audited the accompanying Schedule of Non-Entity Government-wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2008 (hereinafter referred to as the "Schedule"). This Schedule is the responsibility of FMS management. Our responsibility is to express an opinion on this Schedule based on our audit. The accompanying Schedule as of September 30, 2007 was audited by other auditors whose report thereon dated November 8, 2007, expressed an unqualified opinion on that Schedule.

We conducted our audit 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 Schedule is 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's internal control over financial reporting relating to GWC. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the balance of FMS GWC as of September 30, 2008 in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008, on our consideration of FMS's internal control over financial reporting relating to GWC and our tests of its compliance with certain provisions of laws and regulations relating to GWC. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions 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 audit.

KPMG LLP

November 17, 2008



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, U.S. Department of the Treasury and the
Commissioner of the Financial Management Service:

We have audited the Schedule of Non-Entity Government-wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2008 (hereinafter referred to as the "Schedule"), and have issued our report thereon dated November 17, 2008. The Schedule as of September 30, 2007 was audited by other auditors whose report thereon dated November 8, 2007, expressed an unqualified opinion on that Schedule.

We conducted our audit 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 Schedule is free of material misstatement.

FMS management is responsible for establishing and maintaining effective internal control relating to GWC. In planning and performing our fiscal year 2008 audit, we considered FMS's internal control over financial reporting relating to GWC by obtaining an understanding of the design effectiveness of FMS's internal control relating to GWC, determining whether internal controls relating to GWC had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule. To achieve this purpose, we did not test all internal controls relating to GWC relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of FMS's internal control over financial reporting relating to GWC. Accordingly, we do not express an opinion on the effectiveness of FMS's internal control over financial reporting relating to GWC.

Our consideration of internal control over financial reporting relating to GWC was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting relating to GWC that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects FMS's ability to initiate, authorize, record, process, or report financial data relating to GWC reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Schedule that is more than inconsequential will not be prevented or detected by FMS's internal control relating to GWC. A material weakness is a significant



deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Schedule will not be prevented or detected by FMS's internal control relating to GWC.

In our fiscal year 2008 audit, we did not identify any deficiencies in internal control over financial reporting relating to GWC that we consider to be material weaknesses, as defined above. Exhibit I presents the status of the prior year significant deficiency.

We noted certain matters involving internal control and other operational matters relating to GWC that we will report to FMS management in a separate letter dated November 17, 2008.

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 17, 2008

**Non-Entity Government-wide Cash
Status of Prior Year Significant Deficiency
September 30, 2008**

FMS Finding #	Findings	Action Complete	Action in Progress
1	Several high and moderate risk security vulnerabilities identified within the CASHLINK II Security Assessment Report remain unresolved during FY2007.	X	
2	Security plan and configuration management documents do not accurately reflect their current operating environment.	X	
3	Several high and moderate risk security vulnerabilities affecting FMS general support systems remain unresolved during FY2007.	X	
4	The mainframe operating system utilized by the Hyattsville Regional Operations Center (HROC) and the Kansas City Operations Center (KROC) was not supported by the vendor during a portion of the fiscal year.	X	
5	User system access is not being removed in a timely manner upon separation of employment from FMS (Repeat Condition).		X This remains open and will be listed as management letter comment #4
6	HROC building access by separated employees and contractors is not being effectively controlled.	X	

Exhibit I (cont.)

**Non-Entity Government-wide Cash
Status of Prior Year Significant Deficiency
September 30, 2008**

7	Interconnection Security Agreements were not in place for several CA\$HLINK II system interconnections.		X This remains open and will be listed as management letter comment #5
8	Rules of Behavior (ROB) forms were not signed prior to obtaining access to the Treasury Offset Program (TOP) application.	X	
9	Several UNIX server password settings are not configured in accordance with FMS Policy.	X	



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Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury and the
Commissioner of the Financial Management Service:

We have audited the Schedule of Non-Entity Government-wide Cash (GWC) of the U.S. Department of the Treasury's Financial Management Service (FMS) as of September 30, 2008 (hereinafter referred to as the "Schedule"), and have issued our report thereon dated November 17, 2008. The Schedule as of September 30, 2007 was audited by other auditors whose report thereon dated November 8, 2007, expressed an unqualified opinion on that Schedule.

We conducted our audit 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 Schedule is free of material misstatement.

The management of FMS is responsible for complying with laws and regulations applicable to the amounts reflected in the Schedule. As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations relating to GWC, noncompliance with which could have a direct and material effect on the determination of the amounts reflected in the Schedule, 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 described 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 17, 2008

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

Schedules of Non-Entity Government-wide Cash
(In Thousands)

September 30, 2008 and 2007

	<u>September 30</u>	
	<u>2008</u>	<u>2007</u>
Non-entity government-wide cash (Notes 1 and 2)	<u>\$ 364,690,866</u>	<u>\$ 70,491,723</u>

The accompanying notes are an integral part of these schedules.

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

Notes to the Schedules of Non-Entity Government-wide Cash

September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

Non-Entity accounts are those accounts that FMS holds but are not available to FMS in its operations. For example, FMS accounts for certain cash that the Federal Government collects and holds on behalf of the U. S. Government or other entities. This schedule includes the Non-Entity Government-wide cash accounts.

(b) Basis of Accounting

The standards used in the preparation of the accompanying schedules are issued by the Federal Accounting Standards Advisory Board, as the body authorized to establish generally accepted accounting principles for Federal Government entities. Accordingly, the accompanying schedules are prepared in accordance with generally accepted accounting principles.

The accompanying Schedules are different from the financial reports prepared by FMS pursuant to OMB directives that are used to monitor and control FMS' use of budgetary resources.

This information is an integral part of the accompanying schedules.

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

Notes to the Schedules of Non-Entity Government-wide Cash

September 30, 2008 and 2007

(c) *Non-entity Government-wide Cash*

Non-entity Government-wide cash is held in depository institutions or Federal Reserve Accounts.

Operating Cash of the U.S. Government represents balances from tax collections, customs duties, other revenue, federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U. S. Treasury Tax and loan accounts. Checks outstanding are netted against operating cash until they are cleared by the Federal Reserve System.

The Treasury General Account (TGA) is maintained at the Federal Reserve Bank of New York (FRBNY) and functions as the government's checking account for deposits and disbursements of public funds. Agencies can deposit funds that are submitted to them directly into either a Federal Reserve TGA or a local TGA depository. The balances in these TGA accounts are transferred to the FRBNY's TGA at the end of each day.

The Treasury Tax and Loan (TT&L) program includes about 9,000 depositories that accept tax payments and remit them the day after receipt to FRBNY's TGA. Certain TT&L depositories also hold Non-entity Government-wide Cash in interest bearing accounts. Cash in the TGA and the TT&L program is restricted for Government-wide operations.

U. S. Treasury Tax and Loan Accounts include funds invested through the Term Investment Option program and the Repo program. Under the Term Investment Option program, Treasury auctions funds for a set term, usually in the range of 1 day to 3 weeks. Under the Repo program, Treasury invests funds through overnight reverse repurchase agreements. However, under both programs, Treasury reserves the right to call the funds prior to maturity under special circumstances.

The Supplemental Financing Account is maintained at the Federal Reserve Bank of New York for the Supplementary Financing Program (SFP). The SFP is a temporary program announced by Treasury and the Federal Reserve on September 17, 2008, to provide emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets.

Other cash is mostly comprised of Automated Clearinghouse transfers and other deferred items.

This information is an integral part of the accompanying schedules.

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

Notes to the Schedules of Non-Entity Government-wide Cash
September 30, 2008 and 2007

(2) Non-Entity Government-wide Cash

Non-Entity Government-wide Cash includes the Operating Cash of the U.S. Government, managed by Treasury, and foreign currency maintained by various U. S. and military disbursing offices, at September 30, 2008 and 2007 as follows:

	<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
Operating Cash of the U.S. Government:		
Held in Depository Institutions	\$ 39,209,396	\$ 69,797,268
Held in the Federal Reserve Account	32,988,331	5,538,744
Held in the Supplementary Financing Account	<u>299,491,411</u>	<u>0</u>
Subtotal	371,689,138	75,336,012
Outstanding Checks	<u>(7,415,945)</u>	<u>(5,634,828)</u>
Subtotal	364,273,193	69,701,184
Other Cash	<u>386,036</u>	<u>699,419</u>
Subtotal	364,659,229	70,400,603
Foreign Currency	<u>31,637</u>	<u>91,120</u>
Total	<u>\$ 364,690,866</u>	<u>\$ 70,491,723</u>

Operating Cash of the Federal Government held by depository institutions is either insured (for balances up to \$100,000) by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities pledged by the depository institution, or through securities held under reverse repurchase agreements. The limit insured by FDIC was raised to \$250,000 as of October 3, 2008.

This information is an integral part of the accompanying schedules.