Audit Report

OIG-09-018

Management Letter for Fiscal Year 2008 Audit of the Financial Management Service's Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

December 18, 2008

Office of Inspector General

DEPARTMENT OF THE TREASURY

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. Section 552.

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 18, 2008

MEMORANDUM FOR JUDITH R. TILLMAN, COMMISSIONER
FINANCIAL MANAGEMENT SERVICE

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2008 Audit of the Financial Management Service's Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

I am pleased to transmit the attached management letter in connection with the audit of the Financial Management Service's (FMS) Fiscal Year (FY) 2008 Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of FMS's Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue for FY 2008. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses 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.

This letter contains sensitive information about FMS's information technology policies and practices, such as thresholds and tolerances, which requires protection from public dissemination. This information was redacted in our report for public dissemination in accordance with Exemption 2 of the Freedom of Information Act, 5 USC § 552(b)(2). Recipients of this letter should not show or release its contents for purposes other than official review to prevent publication or other improper disclosure of the information it contains.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. 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
FISCAL YEAR 2008

Treasury Managed Accounts

Management Letter **(REDACTED VERSION)**

November 17, 2008

U.S. DEPARTMENT OF THE TREASURY

Treasury Managed Accounts

Fiscal Year 2008

Management Letter

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

November 17, 2008

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

We have audited the Schedule of Non-Entity Assets as of September 30, 2008 and Non-Entity Costs and Custodial Revenue (collectively, Treasury Managed Accounts (TMA)) for the year then ended (hereinafter referred to as the "Schedule") of the U.S. Department of the Treasury's Financial Management Service (FMS), 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. In planning and performing our audit of FMS's Schedule, in accordance with auditing standards generally accepted in the United States of America, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule and not for the purpose of expressing an opinion on the effectiveness of FMS's internal control relating to TMA. Accordingly, we do not express an opinion on the effectiveness of FMS's internal control relating to TMA. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that we present for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I (Current Year Comments and Recommendations) and Exhibit II (Status of Prior Year Comments and Recommendations).

We noted other matters involving internal control and its operation relating to information technology general controls that could affect the data used to prepare FMS's Schedule. These matters are detailed in a separate management letter issued in conjunction with the FY2008 audit of FMS's Schedule of Non-Entity Government-wide Cash, the title of which is "User System Access is not being removed in a timely manner upon separation of employment from FMS".

Our audit procedures are designed primarily to enable us to form an opinion on the Schedule described above, and therefore may not bring to light all deficiencies in policies, procedures, or internal control that may exist. We aim, however, to use our knowledge of FMS relating to TMA gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at any time.

FMS's responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the Schedule and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of FMS management, the U.S. Department of the Treasury's 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.

KPMG LLP

Exhibit I

Financial Management Service
Treasury Managed Accounts

Current Year Comments and Recommendations

September 30, 2008

1. Miscalculation of a Foreign Currency Payment in the Judgment Fund, Contract Disputes Accounts Receivable Balances

During our testwork over 32 Contract Disputes Act (CDA) accounts receivable balances, we identified 1 CDA accounts receivable balance where the amount certified for disbursement from the Judgment Fund was incorrect due to a miscalculation of the foreign currency conversion.

We noted the following causes of this miscalculation and resulting overpayment:

- The Certifying Officer (CO) within the Judgment Fund Branch did not review the Judgment Fund Internet Claims System (JFICS) Transfer Report prior to certifying the Voucher and Schedule of Payment form, SF 1166a, because it was not provided with the SF 1166a.
- Line 1 of the Judgment Fund Voucher for Payment (FMS Form 197) did not include the disbursement amount in Euros; therefore, FMS should have requested a revised FMS Form 197 with the correct payment amount in Euros from the requesting agency.

GAO Standards for Internal Control in the Federal Government states, "Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered."

Treasury Financial Manual Volume I, Part 6, Chapter 3100, section 3135, states, "FMS will return, without action, requests for certifications that do not contain all required documents, information or certifications."

FMS had initially overstated its Intra-governmental Accounts Receivable, Net balance, by $126,811 and had not requested reimbursement of the $126,811 overpayment from the entity paid. However, the requesting agency subsequently paid this accounts receivable amount to FMS in July 2008 for the full amount of $387,671. Therefore, as of September 30, 2008, FMS had understated its With the Public, Accounts Receivable, Net balance; overstated its Non-Entity Costs – Judgments; overstated its Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes; and understated Accounts Payable-Federal, all by $126,811.

Recommendations:

We recommend:

1. FMS develop and implement procedures to have the Preparer/Data Entry Operator (DEO) review, reconcile and sign off as evidence of their review of the Voucher and Schedule of Payment form, SF1166a, and JFICS Transfer Report prior to the information being provided to the CO for approval. In addition, the CO should review and reconcile both the SF 1166a and the JFICS Transfer Report and document their review prior to certification of the payment.

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September 30, 2008

2. FMS develop and implement procedures to have the Accountant responsible for recording the CDA accounts receivable review the voucher package from the Judgment Fund Branch for accuracy and completeness prior to recording the related accounts receivable in the general ledger.
3. FMS request reimbursement of the $126,811 overpayment from the entity paid.
4. FMS:
    - Establish a With the Public, Accounts Receivable, and an Accounts Payable-Federal, both for $126,811, and
    - Reduce its Non-Entity Costs - Judgments, and Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes, both for $126,811.

Management's Response: Concur

FMS will develop and implement procedures to have the Preparer/DEO review, reconcile and sign off as evidence of their review the Voucher and Schedule of Payment form, SF1166a. Due date: January 15, 2009.

FMS will develop and implement procedure to attach the JFICS Transfer Report for review by the Certifying Officer prior to approving the Voucher and Schedule of Payment, SF166a. Due date: January 15, 2009.

FMS will develop and implement procedure to have the Accountant responsible for recording the CDA accounts receivable review the voucher package from the Judgment Fund Branch for accuracy and completeness prior to recording the related accounts receivable in the general ledger. Due date: February 15, 2009.

Written request will be made of the entity paid for return of funds by November 14, 2008. If funds are not returned to FMS within 30 business days, FMS will send a follow up letter requesting return of the funds. Finally, if no payment or other response is received within the next 30 days, the outstanding debt will be referred to the Treasury Offset Program (TOP).

Establish an accounts receivable of $126,811 with the Public by November 30, 2008.

2. Non-Compliance with Billing Letter Requirements Contained in the Contract Disputes Act and No FEAR Act

During our testing of compliance with the Contract Dispute Act and No FEAR Act, KPMG noted the following:

- For 1 out of 32 CDA accounts receivable transactions, 15-day billing letters were not provided to KPMG for testing.

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Treasury Managed Accounts

Current Year Comments and Recommendations

September 30, 2008

- For 1 out of 32 CDA accounts receivable transactions, timeliness of 45-day letters could not be determined because there was no initial letter within 15 days.
- For 1 out of 32 CDA accounts receivable transactions, timeliness of 60-day letters could not be determined because there was no initial letter within 15 days.
- For 9 out of 32 CDA accounts receivable transactions, 15 day billing letters were late.
- For 10 out of 32 CDA accounts receivable transactions, 45-day letters were not sent in a timely manner.
- For 19 out of 32 CDA accounts receivable transactions, 60-day letters were late.
- For 1 out of 34 No FEAR accounts receivable transactions, 15-day billing letters did not have a date.
- For 14 out of 34 No FEAR account receivable transactions, 15 day billing letters were late.
- 1 out of 34 No FEAR accounts receivable transactions was recorded in FASDAS prior to disbursement from the Judgment Fund.

We noted the following causes:

- The Judgment Fund Branch procedures related to CDA and No FEAR do not document how the timeliness of billing letters is to be monitored and there is no requirement for a supervisory review to be performed to ensure compliance with CDA and No FEAR billing letter requirements.
- FMS has no written procedures in place to require a review over the recording of No FEAR Accounts Receivable to ensure appropriate dates are utilized for the recording of accounts receivable.

FMS is not in compliance with the following:

<u>Contract Disputes Act</u>

- Treasury Financial Manual Volume I, Part 6 Chapter 3100, section 3150.10, states, "FMS will make demands for the reimbursement in writing to the debtor agency 15 days from the date of payment to the claimant. If the responsible agency fails to contact FMS within 30 days of initial contact letter, FMS will send a follow up letter to the responsible agency [45-day billing letter]. If the agency fails to respond within 60 days of the initial contact, FMS will send a letter to the responsible agency's Chief Financial Officer CFO [60-day letter]."

<u>No FEAR Act</u>

- 5 CFR 724.104 states:

"§ 724.104 Procedures

(a) The procedures that agencies must use to reimburse the Judgment Fund are those prescribed by the Financial Management Service (FMS), the Department of the Treasury, in Chapter 3100 of the Treasury Financial Manual. All reimbursements to the Judgment Fund covered by the No FEAR Act are expected to be fully collectible from the agency. FMS will provide written notice to the agency's Chief Financial Officer within 15 business days after payment from the Judgment Fund. (b) Within 45 business days of receiving the FMS notice, agencies must reimburse the Judgment Fund or contact FMS to make arrangements in writing for reimbursement.

- Treasury Financial Manual Volume I, Part 6 Chapter 3100, section 3150.30, states, "FMS must report all receivables arising from certification of Fund Payments."

In addition, by FMS not sending the notifications on a timely basis, the related timeliness of reimbursements from the agencies may be effected. Lastly, recording No FEAR accounts receivable transactions prior to the related disbursement from the Judgment Fund may misstate TMA accounts receivable.

Recommendations:

We recommend:

1. FMS develop and implement procedures for the Judgment Fund Branch related to CDA and No FEAR to require the monitoring of the timeliness of billing letters, and to require a supervisory review be performed periodically to ensure compliance with CDA and No FEAR billing letter requirements.
2. FMS develop and implement procedures to require the System Accountant responsible for recording the CDA accounts receivable review the voucher package from the Judgment Fund Branch for accuracy and completeness, ensuring that the disbursement had been made prior to recording the related accounts receivable in the general ledger.

Management's Response: Concur

FMS will develop and implement procedures for the Judgment Fund Branch related to CDA and No FEAR Act cases to require the monitoring of the timeliness of billing letters, and to require a supervisory review be performed periodically to ensure compliance with CDA and No FEAR billing letter requirements. Due date: February 27, 2009

FMS will develop and implement procedures to perform periodically a review and spot check to ensure appropriate dates are entered correctly for the computation of the accounts receivable dates. Due date: February 27, 2009

Exhibit I

Financial Management Service
Treasury Managed Accounts

Current Year Comments and Recommendations

September 30, 2008

3. FASDAS AIX Operating System Password Age Not in Compliance with the AIX Security Standards Manual

The password expiration settings for three (3) user accounts with remote access to the Financial Accounting and Services Division Accounting System (FASDAS) IBM Advanced Interactive Executive (AIX) operating system have not been configured in accordance with the FMS AIX Security Standards Manual. Specifically, in the IBM AIX operating system, the MAXAGE parameter is the maximum number of weeks that can pass before a password must be changed. The MAXEXPIRED parameter is the maximum number of weeks beyond MAXAGE that a password can be changed before administrative action is required to change the password. When combined, these parameters determine a user account's password age. For the aforementioned three user accounts, the MAXAGE and MAXEXPIRED parameters have been set to ************, respectively. This created a maximum password age of ************** ****, which is ****** longer then what the AIX Security Standard Manual requires. According to FMS management, due to an oversight in the implementation of the updated AIX Security Standards, the MAXAGE and MAXEXPIRED parameters were incorrectly configured for these three (3) user accounts.

The AIX Security Standards Version 3.2, effective 2/19/08, requires the MAXAGE parameter to be set to ******** and the MAXEXPIRED parameter to be set to ***********, for a maximum password age totaling *******, or *******. In addition, the FMS IT Security Standards Manual requires passwords to be changed every 90 days. User accounts with passwords that do not expire in a timely manner could be exposed to greater misuse and abuse than accounts with passwords changed in a more frequent manner.
[*- information REDACTED - FOIA EXEMPTION 2, 5 U.S.C. §552(b)(2)]

Recommendation:

We recommend FMS management configure the MAXAGE and MAXEXPIRED parameters of the three (3) accounts identified to be in accordance with the requirements outlined in the FMS AIX Security Standards Manual.

Management's Response: Concur

FMS completed correct configuration of the MAXAGE and MAXEXPIRED parameters for the three (3) accounts identified.

Additionally, we are implementing a new user provisioning tool that ensures users are provisioned with the requirements outlined in the FMS AIX Standards document.

Exhibit II

Financial Management Service
Treasury Managed Accounts

Status of Prior Year
Comments and Recommendations

September 30, 2008

FMS Finding#	Findings	Action Complete	Action in Progress
1	The FASDAS UNIX password setting is not in compliance with FMS IT Security or AIX standards.	X	