Audit Report

OIG-19-019

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2018 and 2017

December 6, 2018

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 6, 2018

MEMORANDUM FOR DAVID F. EISNER
ASSISTANT SECRETARY FOR MANAGEMENT

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2018 and 2017

We contracted with the certified independent public accounting firm KPMG LLP (KPMG) to audit the financial statements of the Department of the Treasury as of September 30, 2018 and 2017, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated November 15, 2018, that discusses a matter involving deficiencies in internal control over financial reporting that was identified during the audit, but was not required to be included in the auditors' reports. This matter relates to the Departmental Office's monitoring of security events.

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. 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 a member of your staff may contact Ade Bankole, Manager, Financial Audit, at (202) 927-5329.

Attachment

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

November 15, 2018

Inspector General
Department of the Treasury

In planning and performing our audit of the consolidated financial statements of the Department of the Treasury (the Department), as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 15, 2018 on our consideration of the Department's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit, we noted one matter involving deficiencies in internal control that is presented for your consideration. The comment and recommendation, all of which have been discussed with the appropriate members of management, are intended to improve internal control are summarized as follows:

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

The DO Information Technology (IT) System Security Plan (SSP) Control AU-6 requires DO personnel to review, analyze, report, and retain security audit logs at the server level on a daily basis. Although, DO has enabled audit logging at the server level, DO personnel did not analyze and report on security audit logs at the server level. As a result, server level security-related incidents could go unnoticed and uninvestigated, increasing the possibility for unauthorized users to continue attempting to access DO environment and resources.

Recommendation

We recommend that DO management:

1. Focus additional resources to perform the following:

    a. Review and analyze the server level security audit logs at the defined frequency that has been established.

    b. Follow DO Incident Response procedure to report any security incidents, policy violations, fraudulent activity, and operational problems.

    c. Track completion of the analysis, review and any escalations based upon the review and analysis of the security audit logs.

2. Periodically review Information System Security Officer's implementation and operation of the review of the security audit logs for the server level to determine that they completed the review and analysis of the security audit logs consistent with the defined frequency review requirement.

Management Response

DO Management concurs with the recommendation and will seek to obtain or align additional resources for reviewing and analyzing server-level security audit logs and for tracking the completion of those reviews. DO Incident Response procedures will be followed for reporting security incidents, policy violations, fraudulent activity, and operational problems. DO management will review the implementation and operation of these security audit log reviews on a quarterly basis to verify that they are being completed in accordance with defined frequency and management expectations.

Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Department's organization 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.

The Department's response to our communication of the deficiencies and other matters identified in our audit is described above. The Department's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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

Very truly yours,

KPMG LLP

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