



Audit Report



OIG-12-031

Management Letter for the Audit of the Office of D.C. Pensions' Fiscal Years 2011 and 2010 Financial Statements

December 16, 2011

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 16, 2011

**MEMORANDUM FOR NANCY OSTROWSKI, DIRECTOR
OFFICE OF D.C. PENSIONS**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for the Audit of the
Office of D.C. Pensions' Fiscal Years 2011 and 2010
Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Office of D.C. Pensions' (ODCP) Fiscal Years 2011 and 2010 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of ODCP as of September 30, 2011 and 2010, and for the years then ended. 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*, as amended; 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 other matters involving internal control over financial reporting and its operation 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 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 Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

December 5, 2011

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions

We have audited the consolidated financial statements of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) for the year ended September 30, 2011, and have issued our report thereon dated December 5, 2011. In planning and performing our audit of the consolidated financial statements of the ODCP, 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 (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we considered the ODCP's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These findings 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 Appendix A to this report.

In addition, we identified certain deficiencies in internal control over financial reporting that we consider collectively to be a significant deficiency, and communicated them in writing as Exhibit I to the Independent Auditors' Report on Internal Control Over Financial Reporting to management and those charged with governance on December 5, 2011.

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 deficiencies in policies or procedures that may exist. We aim, however, to use our knowledge of the ODCP's organization gained during our work to make comments and suggestions that we hope will be useful to you. The ODCP's responses to our findings and recommendations are included in Exhibit I. We did not audit the ODCP's responses and, accordingly, we express no opinion on them.

We would be pleased to discuss these comments and recommendations with you at any time.



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

Very truly yours,

KPMG LLP

FINDINGS AND RECOMMENDATIONS

Improve compliance with Treasury Directive Publication 85-01

During our review of the Office of DC Pensions' (ODCP) System to Administer Retirement (STAR) password parameters, we identified that the system was not in compliance with the password history requirements set forth in Treasury Directive Publication (TD P) 85-01, *Treasury Information Technology Security Program*, amendment #2.2.5 adopted August 6, 2010. TD P 85-01 requires the retention of a password history of 10 previous passwords effective May 6, 2011. We noted the STAR application is configured to retain a password history of 6 previous passwords, which is not in compliance with TD P 85-01.

ODCP performs a Security Testing and Assessment (STA) annually, which is also when the identification and implementation of new federal system requirements is conducted. The annual STA testing activity was performed in June 2010 before TD P 85-01 was revised in August 2010 to require the retention of 10 previous password histories. The current timing of the STA does not allow for timely implementation and compliance with updated Treasury or new federal system regulations and requirements.

The password history retention was subsequently corrected by ODCP in June 2011.

Recommendations

We recommend ODCP: (1) Update the STAR Account Management Policy and Procedures Manual to be in accordance with the TD P 85-01; and (2) Implement a process to monitor compliance with updated Treasury Directive Publications and other Federal requirements on a more frequent basis.

Management's Response

1. As of June 8, 2011, STAR has been updated to retain password history of 10 previous passwords. In addition, the STAR Account Management Policy and Procedures Manual and the STAR Rules of Behavior have been updated to be in accordance with security control IA-5(1) as identified in TD P 85-01.
2. As part of preparing for the annual security test and evaluation, ODCP will periodically check the TreasNet Cyber Security Program webpage for updated requirements.

Improve Annuitant Recordkeeping

During our testing of 85 new annuitant and beneficiary payments processed by the District of Columbia Retirement Board (DCRB) for the Police & Firefighters and Teachers retirement plans, DCRB was not able to locate and provide all annuitant files on a timely basis.

One file was located about one month later and the other file was lost and required to be recreated.

Memorandum of Understanding (MOU) *Concerning Interim Benefit Administration of Retirement Programs dated September 26, 2005*, section 4.5 Recordkeeping, requires DCRB to “keep timely and accurate records of all matters within the scope of its responsibilities covered by this Memorandum and the First Amended MOU, and shall retain and preserve all records transferred to the Retirement Board by the District until such time that the final reconciliation is complete and disposal of the records are otherwise consistent with applicable records disposition schedules. Such records include, records of benefit determinations and records and other information relied upon in making such determinations, the amount and timing of Federal Benefit Payments and District Benefit Payments, the amount of each Refund, Lump Sum Payment or Prior Service Deposit, the manner in which it was calculated, the name of the individual receiving the Refund, Lump Sum Payment or making the Prior Service Deposit, the dates of service with respect to which such Refund, Lump Sum Payment or Prior Service Deposit is made and the employer for whom the service associated with a Prior Service Deposit was performed, and the date on which each Refund or Lump Sum Payment was paid.”

OMB Circular No. A-123, *Management’s Responsibility for Internal Control*, in the introduction section notes the requirements of the Federal Managers’ Financial Integrity Act (FMFIA) of 1982: “The agency head must establish controls that reasonably ensure that ...iii. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.”

In addition, U.S. Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) (the Standards) states: “Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.”

Recommendations

We recommend that the ODCP: (1) Work with DCRB to ensure they are in compliance with the *Recordkeeping* requirement as specified in *MOU Concerning Interim Benefit Administration of Retirement Programs dated September 26, 2005*, section 4.5; and (2) Take appropriate steps to inform DCRB management of the importance of the preservation, maintenance, and monitoring of annuitant files at DCRB by requesting DCRB to implement a file tracking system to include the person with custody of annuitant files, secondary review, file scanning and quality review processes.

Management's Response

1. ODCP will conduct training with applicable DCRB staff on recordkeeping requirements.
2. ODCP will propose to DCRB the idea of implementing a file tracking system to include the person with custody of annuitant files, secondary review, file scanning and quality review processes.