



Audit Report



OIG-06-011

Agreed-Upon Procedures for the Department of the Treasury's
Fiscal Year 2005 Intragovernmental Activity and Balances

December 2, 2005

Office of
Inspector General

Department of the Treasury

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Transmittal Memorandum

**Independent Accountants' Report on Applying Agreed-Upon
Procedures for Intragovernmental Activity and Balances**



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 2, 2005

MEMORANDUM FOR FAYE McCREARY

**DIRECTOR, FINANCIAL REPORTS DIVISION
FINANCIAL MANAGEMENT SERVICE**

**GARY T. ENGEL
DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE
GOVERNMENT ACCOUNTABILITY OFFICE**

**SANDRA L. PACK
ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF
FINANCIAL OFFICER
DEPARTMENT OF THE TREASURY**

FROM:

William H. Pugh, *William H. Pugh*
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT:

Agreed-Upon Procedures for the Department of the
Treasury's Fiscal Year 2005 Intragovernmental Activity and
Balances

I am pleased to transmit the attached report on agreed-upon procedures for the Department of the Treasury's (Department) fiscal year (FY) 2005 intragovernmental activity and balances. We contracted with the independent certified public accounting firm KPMG LLP to perform the agreed-upon procedures for the Department's FY 2005 intragovernmental activity and balances. The contract required that the agreed-upon procedures be performed in accordance with generally accepted government auditing standards. KPMG LLP issued the attached Independent Accountants' Report on Applying Agreed-Upon Procedures for Intragovernmental Activity and Balances.

In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an agreed-upon procedures engagement performed in accordance with generally accepted government auditing standards, was not intended to enable us to report, and we do not report, findings based on agreed-upon procedures performed on the Department's intragovernmental activity and balances. KPMG LLP is responsible for the attached report dated December 1, 2005 and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

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Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

**Independent Accountants' Report on Applying Agreed-Upon
Procedures for Intragovernmental Activity and Balances**



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Accountants' Report on Applying Agreed-Upon Procedures for Intragovernmental Activity and Balances

Office of Inspector General
U.S. Department of the Treasury:

We have performed the procedures enumerated in Exhibit A (attached), which were based on the procedures stated in the U.S. Department of Treasury's (Department) *Treasury Financial Manual*, Volume 1, Part 2, Chapter 4700, Section 4705.75 "*IG Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances*", solely to assist the Department's Office of Inspector General (OIG) in evaluating the Department's assertion that it properly reported intragovernmental activity and balances in the Department's consolidated financial statements as of and for the year ended September 30, 2005, and in its *2005 Financial Report of the United States Government Closing Package (Closing Package)*. The Department's management is responsible for the proper accounting, presentation, and reporting of its intragovernmental activity and balances, consolidated financial statements, and *Closing Package*.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These procedures were based on procedures agreed to by, and the sufficiency of these procedures is solely the responsibility of, the Office of Management and Budget (OMB), the Treasury Financial Management Service (FMS), and the U.S. Government Accountability Office (GAO). Consequently, we make no representations regarding the sufficiency of the procedures described in Exhibit A either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our associated findings are presented in Exhibit A.

We were not engaged to, and did not, conduct an audit of the information addressed herein, the objective of which would be the expression of an opinion on such information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Department, the Department's OIG, OMB, FMS, and GAO, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 1, 2005

U.S. DEPARTMENT OF THE TREASURY
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Procedures and Findings**Procedure 1**

Obtain all *Intragovernmental Closing Package Line Item* reports from Module 4 of the Governmentwide Financial Report System (GFRS) for intragovernmental activity/balances supporting the *Closing Package*:

- Reclassified Balance Sheet's Federal Assets and Liabilities,
- Reclassified Statement of Net Cost's Federal Gross Cost and Federal Earned Revenue, and
- Reclassified Statement of Changes in Net Position's Nonexchange Revenue and Budgetary and Other Financing Sources.

Finding 1

We obtained the following Intragovernmental Closing Package Line Item Reports from Module 4 of the GFRS (hereinafter referred to as the Schedules) for intragovernmental activity/balances supporting the Closing Package:

A. Reclassified Balance Sheet's Federal Assets and Liabilities

1. Accounts Receivable
2. Interest Receivable
3. Other Assets (without reciprocals)
4. Loans Receivable
5. Advances from Others and Prepayments
6. Accounts Payable
7. Federal Debt
8. Interest Payable
9. Advances from Others and Deferred Credits
10. Other Liabilities (without reciprocals)
11. Benefit Program Contributions Payable

B. Reclassified Statement of Net Cost's Federal Gross Cost and Federal Earned Revenue

1. Imputed Costs
2. Benefit Program Costs
3. Buy/Sell Costs
4. Federal Securities Interest Expense
5. Other Costs (without reciprocals)
6. Buy/Sell Revenue
7. Other Revenue (without reciprocals)
8. Borrowing Gains
9. Borrowing and Other Interest Expense
10. Borrowing and Other Interest Revenue (Exchange)

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C. Reclassified Statement of Changes in Net Position's Federal Nonexchange Revenue and Budgetary and Other Financing Sources

1. Other Financing Sources
2. Borrowing and Other Interest Revenue
3. Unexpended Appropriations Transferred In
4. Unexpended Appropriations Transferred Out
5. Appropriation Transfers-Out
6. Transfers-in Without Reimbursement
7. Transfers-out Without Reimbursement
8. Imputed Financing Source

Procedure 2

Compare the Schedules' intragovernmental activity/balances by Federal line item totals and/or trading partner activity/balances to the agency's general ledger and the Required Supplementary Information (RSI) data from the audited consolidated financial statements. Identify any differences.

Finding 2

- A. *We compared the fiscal year 2005 intragovernmental activity/balances for each trading partner from the Schedules to the Department's general ledger. We noted no differences.*
- B. *We compared the total fiscal year 2005 intragovernmental balances for each Federal line item total by trading partner from the Schedules to the RSI data in the Department's audited consolidated financial statements and we identified the following differences:*

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Table 1 – Reclassification Differences

Closing Package Line Description	RSI Data Description	Balance Per Schedule (000,000s)	Balance Per RSI Data (000,000s)	Difference (000,000s)	Explanation
Loans Receivable		\$ -	\$ 236,214	\$ (236,214)	1
Interest Receivable		-	1,463	(1,463)	1
	Loans and Interest Receivable	228,491	-	228,491	1
	Advances to the Black Lung Trust Fund	9,186	-	9,186	1
Net Difference				\$ -	
Federal Debt		\$ 3,325,707	\$ -	\$ 3,325,707	1
Interest Payable		43,362	-	43,362	1
	Federal Debt and Interest Payable	-	3,354,905	(3,354,905)	1
	Other Debt and Interest Payable	-	14,164	(14,164)	1
Net Difference				\$ -	
Accounts Payable		\$ 211	\$ -	\$ 211	1
Advances from Others and Deferred Credits		42	-	42	1
Benefit Program Contributions Payable		171	-	171	1
	Other Liabilities	-	422	(422)	1
Net Difference				\$ 2	

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Table 2 – Other Differences

Schedule Description	Balance per Schedule (000,000s)	Balance per RSI (000,000s)	Difference (000,000s)	Explanation
Imputed Costs	\$ 722	\$ -	\$ 722	2
Benefit Program Costs	1,659	-	1,659	2
Buy/Sell Costs	2,069	-	2,069	2
Federal Securities Interest Expense	173,790	-	173,790	2
Other Costs (Without Reciprocals)	(614)	-	(614)	2
Other Revenue (Without Reciprocals)	(41)	-	(41)	2
Borrowing Gains	15	-	15	2
Borrowing and Other Interest Expense	4,650	-	4,650	2
Borrowing and Other Interest Revenue (Exchange)	13,910	-	13,910	2
Statement of Net Cost Net Difference	\$ 196,160	\$ -	\$ 196,160	
Other Financing Sources	\$ 2,037,833	\$ -	\$ 2,037,833	2
Unexpended Appropriations Transferred In	415	-	415	2
Unexpended Appropriations Transferred Out	1,009	-	1,009	2
Imputed Financing Source	722	-	722	2
Statement of Changes in Net Position Net Difference	\$ 2,039,979	\$ -	\$ 2,039,979	

The procedures performed took into consideration the following:

- *Rounding differences of \$5 million or less are not reflected in the table above.*
- *The RSI data does not present intragovernmental costs by trading partner, but the Schedules do report this information.*
- *The Schedules do not present Fund Balance with Treasury, but that information is included in RSI data.*

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- *The U.S. Standard General Ledger (SGL) crosswalk relating to the RSI data presents SGL 5765, Transfers, as “transfers without reimbursement,” whereas the crosswalk relating to the Schedules presents those transfers as “appropriations transfers.”*

We communicated the differences noted above to the Department and requested explanations for the differences. We received the following explanations from the Department:

1. *The differences related to reclassifications made in accordance with the Treasury Financial Manual Chapter 4700 for the Closing Package financial statements.*
2. *The differences related to the Intragovernmental Closing Package Line Item Reports included line items not required to be presented in the RSI.*

No additional procedures were performed with respect to management’s explanations as to the reasons for the differences.

Procedure 3

Compare trading partner activity/balances from the intragovernmental RSI schedules in the agency’s audited consolidated financial statements to the agency’s *Intragovernmental Closing Package vs. 4th Quarter Submission Comparative Data Report for Fiscal Year 2005 (Revised)* and the *Closing Package Material Differences/Status of Disposition Certification Report* (Section II of the CFO Representations). For items where agency reporting differences exist, compare the explanations to supporting documentation and identify any differences.

Finding 3

- A. *We compared the fiscal year 2005 trading partner activity/balances from the intragovernmental RSI schedules in the Department’s audited consolidated financial statements to the column entitled “Agency Reported Amount – Closing Package” of the Department’s “Intragovernmental Closing Package vs. 4th Quarter Submission Comparative Data Report for Fiscal Year 2005 (Revised)”. We identified the following difference:*

Table 3

Category	Closing Package Line Item Description	Trading Partner	Balance Per RSI Schedules (000,000s)	Balance Per Closing Package vs. 4th Qtr. Comparative Report (000,000s)	Difference (000,000s)	Reference
29	Uncategorized - SGLs that are not assigned to any other category	General Fund	\$ 8,251,632	\$ 10,289,424	\$ (2,037,792)	1

The procedures performed take into consideration the matters noted in Finding 2, and that the “Agency Reported Amount – Closing Package” of the Department’s “Intragovernmental Closing Package vs. 4th

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Quarter Submission Comparative Data Report for FY 2005 (Revised)” by reciprocal category, groups multiple Closing Package financial statement line items (such as accounts receivable, accounts payable, and other liabilities) into single categories.

We communicated the difference noted above to the Department and requested an explanation and supporting documentation for the difference. We received the following explanation and supporting document from the Department.

- 1. The difference relates to the Intragovernmental Closing Package vs. 4th Quarter Comparative Data Report including line items not presented in the RSI. The difference relates to Standard General Ledger Accounts (SGL) 5790 - Other Financing Sources, SGL 5990 - Collections for Others, SGL 5991 – Accrued Collections for Others (for example IRS Custodial Collections) and SGL 7501 - Mint Distribution of Dividend Income which are not included in the RSI. We also inspected the reconciling schedule prepared by the Department.*

No additional procedures were performed with respect to management’s explanations as to the reasons for the differences.

- B. We were unable to compare trading partner activity/balances from the intragovernmental RSI schedules in the Department’s audited consolidated financial statements to the Intragovernmental Closing Package Material Differences/Status of Disposition Certification Report (Section II of the CFO Representations) because intragovernmental activity/balances reported in RSI schedules is not classified by reciprocal category/line item and the Intragovernmental Closing Package Material Differences/Status of Disposition Certification Report does not include all reciprocal categories for agreement to the RSI schedules.*

Procedure 4

Obtain the Treasury Financial Management Service’s (FMS’) *Intragovernmental Comparative Closing Package Explanation of Differences Report (FMS’ Comparative Report)* for intragovernmental activity/balances. Compare the differences between the agency and its trading partners by reciprocal category/line-item from *FMS’ Comparative Report* to explanations from the agency’s supporting documentation. For items where agency reporting differences exist, compare the explanations to the supporting documentation. Identify any inconsistencies in amounts or explanations between *FMS’ Comparative Report* and agency supporting documentation. In the event of nonreporting by trading partners, as indicated in the footer section of *FMS’ Comparative Report*, identify that the difference is due to a nonreporting partner and do not proceed further with the review of the differences.

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Finding 4

A. We obtained the “FMS’ Comparative Report” for intragovernmental activity/balances. We requested explanations and obtained supporting documentation from the Department for the reported differences on the FMS’ Comparative Report, presented below:

Table 4

Reciprocal Category	Reporting Agency Amount (000,000s)	Trading Partner Amount (000,000s)	Difference (000,000s)	Adjustment (000,000s)	Unreconciled (000,000s)	Explanation
<i>Partner 12-Department of Agriculture</i>						
RC 05-Borrowings	\$ 5,078	\$ 4,586	\$ 492	\$ -	\$ 492	1
Interest Revenue/Expense						
<i>Partner 12-Department of Agriculture</i>						
RC 24-Buy-Sell	\$ 391	\$ 2	\$ 359	\$ -	\$ 359	1
Revenue/Expense						
<i>Partner 15-Department of Justice</i>						
RC 01-Investments/Debt	\$ 1,039	\$ 2,141	\$ 1,102	\$ -	\$ 1,102	1
<i>Partner 16R-Pension Benefit Guaranty Corporation</i>						
RC 01-Investments/Debt	\$ 16,464	\$ 6,158	\$ 306	\$ -	\$ 306	1
<i>Partner 16R-Pension Benefit Guaranty Corporation</i>						
RC 03-Investment	\$ 1,992	\$ 3,895	\$ 1,903	\$ -	\$ 1,903	1
Interest Expense/Revenue – Exchange						
<i>Partner 24-Office of Personnel Management</i>						
RC 22-Buy-Sell	\$ -	\$ 249	\$ 249	\$ -	\$ 249	1
Related Receivable/Payable						
<i>Partner 27-Federal Communications Commission</i>						
RC 01-Investments/Debt	\$ 3,905	\$ 4,140	\$ 235	\$ (235)	\$ -	3
<i>Partner 27-Federal Communications Commission</i>						
RC 03-Investment	\$ 148	\$ 194	\$ 46	\$ (102)	\$ (57)	4
Interest Expense/Revenue – Exchange						
<i>Partner 27-Federal Communications Commission</i>						
RC 05-Borrowings	\$ 371	\$ 269	\$ 102	\$ (102)	\$ -	2
Interest Revenue/Expense						

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Reciprocal Category	Reporting Agency Amount (000,000s)	Trading Partner Amount (000,000s)	Difference (000,000s)	Adjustment (000,000s)	Unreconciled (000,000s)	Explanation
<i>Partner 28-Social Security Administration</i>						
RC 24-Buy-Sell Revenue/Expense	\$ 99	\$ 677	\$ 578	\$ (578)	\$ -	2
<i>Partner 33R-Smithsonian Institution</i>						
RC 17-Loans Receivable/Payable	\$ 20	\$ -	\$ 20	\$ (20)	\$ -	2
<i>Partner 36-Department of Veterans Affairs</i>						
RC 01-Investments/Debt	\$ 13,083	\$ 15,277	\$ 2,194	\$ (2,194)	\$ -	2
<i>Partner 36-Department of Veterans Affairs</i>						
RC 17-Loans Receivable/Payable	\$ 2,193	\$ -	\$ 2,193	\$ (2,194)	\$ (1)	2
<i>Partner 36-Department of Veterans Affairs</i>						
RC 18-Transfers In/Out without Reimbursement	\$ -	\$ (1,371)	\$ 1,371	\$ -	\$ 1,371	4
<i>Partner 47-General Services Administration</i>						
RC 22-Buy-Sell Related Receivable/Payable	\$ 153	\$ 276	\$ 123	\$ -	\$ 123	1
<i>Partner 50-Securities and Exchange Commission</i>						
RC 01-Investments/Debt	\$ -	\$ 1,768	\$ 1,768	\$ -	\$ 1,768	4
<i>Partner 51-Federal Deposit Insurance Corporation</i>						
RC 01-Investments/Debt	\$ 49,978	\$ 50,619	\$ 641	\$ -	\$ 641	1
<i>Partner 51-Federal Deposit Insurance Corporation</i>						
RC 19-Appropriation Transfers In/Out	\$ -	\$ 424	\$ 424	\$ (424)	\$ -	2
<i>Partner 60-Railroad Retirement Board</i>						
RC 01-Investments/Debt	\$ 2,091	\$ 1,262	\$ 828	\$ -	\$ 828	1
<i>Partner 72-Agency for International Development</i>						
RC 24-Buy-Sell Revenue/Expense	\$ 251	\$ 32	\$ 218	\$ -	\$ 218	1
<i>Partner 73-Small Business Administration</i>						
RC 18-Transfers in/Out without Reimbursement	\$ -	\$ 663	\$ 663	\$ (663)	\$ -	2
<i>Partner 75-Department of Health and Human Services</i>						
RC 19-Appropriation	\$ -	\$ 482	\$ 482	\$ (482)	\$ -	2

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Reciprocal Category	Reporting Agency Amount (000,000s)	Trading Partner Amount (000,000s)	Difference (000,000s)	Adjustment (000,000s)	Unreconciled (000,000s)	Explanation
Transfers In/Out						
<i>Partner 75-Department of Health and Human Services</i>						
RC 24-Buy-Sell Revenue/Expense	\$ 111	\$ 436	\$ 325	\$ (143)	\$ 182	2
<i>Partner 78R-Farm Credit System Insurance Corp</i>						
RC 01-Investments/Debt	\$ 1,990	\$ 1,971	\$ 18	\$ -	\$ 18	1
<i>Partner 78R-Farm Credit System Insurance Corp</i>						
RC 03-Investment Interest Expense/Revenue – Exchange	\$ 84	\$ 83	\$ 1	\$ -	\$ 1	1
<i>Partner 86-Department of Housing and Urban Development</i>						
RC 24-Buy-Sell Revenue/Expense	\$ 11	\$ -	\$ 11	\$ (11)	\$ -	3
<i>Partner 89-Department of Energy</i>						
RC 01-Investments/Debt	\$ 23,738	\$ 22,197	\$ 1,541	\$ -	\$ 1,541	1
<i>Partner 89-Department of Energy</i>						
RC 03-Investment Interest Expense/Revenue – Exchange	\$ 1,592	\$ 1,056	\$ 536	\$ -	\$ 536	1

We received the following explanations and supporting documentation from the Department:

1. The differences resulted because of a difference in accounting treatment between the Department and related trading partners. We inspected email documentation sent by the Department to the related trading partners indicating the Department's accounting treatment.
2. The differences resulted because of accounting errors identified related to the transactions with the various trading partners. We inspected email documentation from the Department to the various trading partners describing the accounting errors.
3. The differences resulted because of timing differences related to when transactions were recorded by the Department and by its trading partner. We inspected email documentation from the Department to the various trading partners describing the timing differences.

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4. *The differences resulted because of misclassifications by the respective trading partner. We inspected email documentation from the Department to the various trading partners describing the misclassifications.*

We identified no inconsistencies in amounts or explanations between FMS Comparative Report and agency supporting documentation.

No additional procedures were performed with respect to management's explanations as to the reasons for the differences.

Procedure 5

Identify and include copies of internal control findings related to intragovernmental activities from the consolidated financial statement audit, including items cited in the management letter. Also, identify and report auditor-proposed intragovernmental adjustments that were waived by the agency.

Finding 5

We did not identify any internal control findings related to the Department's accounting for intragovernmental activities from the fiscal year 2005 consolidated financial statement audit.

We identified and reported auditor-proposed intragovernmental account adjustments that were waived by the Department. This is presented as Exhibit B to this report.

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
SUMMARY OF UNADJUSTED AUDIT DIFFERENCES - Intragovernmental Account Adjustments Only
FY 2005

#	W/P Ref	Bureau	Description	Adjustments on financial statement captions (Debit/(Credit))					Disposition		
				Statement of Net Cost			Balance Sheet				
				Unadjusted audit differences arising in Current Period	Prior Period	Total	Equity	Assets		Liabilities	
1	L-18-13 pg. 10	BPD	Held by the Public - Restitution of Foregone Interest - FY 2005 Intragovernmental Debt Holdings - Restitution of Foregone Interest - FY 2005 Imputed Financing Source - FY 2005 <i>To record forgone interest during the fiscal year 2005 debt issuance suspension period that, as required by statute, was restored by Treasury through the restitution of foregone interest appropriation.</i>	140,692,175		140,692,175				Passed	
				852,740		852,740	(141,544,915)				
2	L-18-13 pg. 1	BPD	Public Debt Intragovernmental Debt <i>Reclassifying the Treasury's deposit funds from intragovernmental debt holdings to Debt Held by the Public as of 9/30/04</i>						(343,411,000)	343,411,000	Passed
3	L-18-13 pg. 1	BPD	Public Debt Intragovernmental Debt <i>Reclassifying the Treasury's deposit funds from intragovernmental debt holdings to Debt Held by the Public as of 9/30/05</i>						(336,502,000)	336,502,000	Passed
			Total Adjustments Not Recorded	141,544,915	-	141,544,915	(141,544,915)	-	-		