Audit Report

OIG-07-008

Audit of the Financial Management Service's Fiscal Years 2006 and 2005 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

November 15, 2006

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2006

MEMORANDUM FOR KENNETH R. PAPAJ, COMMISSIONER
FINANCIAL MANAGEMENT SERVICE

FROM: Michael Fitzgerald
Acting Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audit of the Financial Management Service's
Fiscal Years 2006 and 2005 Schedules of Non-Entity Assets,
Non-Entity Costs and Custodial Revenue

I am pleased to transmit the attached audited Financial Management Service's (FMS) Fiscal Years (FY) 2006 and 2005 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedules). We contracted with the independent certified public accounting firm Clifton Gunderson LLP to audit the Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue for Fiscal Years 2006 and 2005. The contract 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. 06-03, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by Clifton Gunderson LLP, are incorporated in the attachment:

- Independent Auditor's Report;
- Independent Auditor's Report on Internal Control; and
- Independent Auditor's Report On Compliance and Other Matters.

In its audit of FMS' Schedules, Clifton Gunderson LLP found:

- the Schedules present fairly, in all material respects, the Non-Entity Assets as of September 30, 2006 and 2005, and Non-Entity Costs and Custodial Revenue for the years then ended in conformity with accounting principles generally accepted in the United States of America,

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

In addition, Clifton Gunderson LLP issued a management letter dated October 31, 2006, discussing 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 auditor's reports.

In connection with the contract, we reviewed Clifton Gunderson 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. Clifton Gunderson LLP is responsible for the attached auditor's reports dated October 31, 2006 and the conclusions expressed in the reports. However, our review disclosed no instances where Clifton Gunderson 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.

Attachment

cc: Donald V. Hammond
Fiscal Assistant Secretary

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

Washington, DC

INDEPENDENT AUDITOR'S REPORTS AND SCHEDULES OF NON-ENTITY ASSETS, NON-ENTITY COSTS AND CUSTODIAL REVENUE

September 30, 2006 and 2005

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

INDEPENDENT AUDITOR'S REPORTS
AND SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
September 30, 2006 and 2005

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Office of Inspector General
of the U.S. Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the accompanying Schedules of Non-Entity Assets as of September 30, 2006 and 2005, and Non-Entity Costs and Custodial Revenue for the years then ended (the Schedules) of the U. S. Department of the Treasury's Financial Management Service (FMS). These Schedules are the responsibility of FMS' management. Our responsibility is to express an opinion on these Schedules based on our audits.

We conducted our audits 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. 06-03, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Schedules referred to above present fairly, in all material respects, the Non-Entity Assets as of September 30, 2006 and 2005, and Non-Entity Costs and Custodial Revenue for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our reports dated October 31, 2006, on our consideration of FMS' internal control over financial reporting relating to the amounts reflected in the Schedule and on our tests of FMS' compliance with certain provisions of laws and regulations and other matters relating to the amounts reflected in the Schedule. 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 an opinion 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 considered in assessing the results of our audit.

Clifton Gunderson LLP

Calverton, Maryland
October 31, 2006

Independent Auditor's Report on Internal Control

To the Office of Inspector General
of the U.S. Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Assets as of September 30, 2006, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2006 (the Schedule) of the U. S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated October 31, 2006. 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. 06-03, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered FMS' internal control over financial reporting for the amounts reflected in the Schedule by obtaining an understanding of relevant internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting for the amounts reflected in the Schedule would not necessarily disclose all matters in the internal control over financial reporting for the amounts reflected in the Schedule that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect FMS' ability to record, process, summarize, and report financial data consistent with the assertions made by management in the Schedule. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted no matters involving the internal control and its operation that we consider to be a material weakness.

However, we noted other matters involving the internal control over financial reporting for the amounts reflected in the Schedule that we have reported to management of FMS in a separate letter dated October 31, 2006.

This report is intended solely for the information and use of the management of FMS, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
October 31, 2006

Independent Auditor's Report On Compliance and Other Matters

To the Office of Inspector General
of the U.S. Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Assets as of September 30, 2006, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2006 (the Schedule) of the U. S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated October 31, 2006. 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. 06-03, *Audit Requirements for Federal Financial Statements*.

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 amounts reflected in the Schedule are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the amounts reflected in the Schedule and certain other laws and regulations specified in OMB Bulletin No. 06-03. We limited our tests of compliance to those provisions, and we did not test compliance with all laws and regulations applicable to FMS.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations described in the preceding paragraph or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of FMS, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
October 31, 2006

U.S. DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
SCHEDULES OF NON-ENTITY ASSETS
AS OF SEPTEMBER 30, 2006 AND 2005 AND
NON-ENTITY COSTS AND CUSTODIAL REVENUE
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands)

	2006	**2005**
NON-ENTITY ASSETS		
Intra-governmental:		
Fund balance with Treasury (Note 2)	$ 573,474	$ 611,554
Accounts receivable, net (Note 3)	372,129	501,115
Other	15,508	14,781
Total intra-governmental	961,111	1,127,450
With the public:		
Receivable on deposit of earnings, Federal Reserve System	773,937	312,465
Accounts receivable, net (Note 3)	40,082	14,473
Total with the public	814,019	326,938
TOTAL NON-ENTITY ASSETS	$ 1,775,130	$ 1,454,388
NON-ENTITY COSTS (Notes 4 and 6)		
Credit reform - interest paid on uninvested funds	$ 5,200,201	$ 4,417,854
Judgments	677,087	973,366
Resolution Funding Corporation	1,978,671	2,129,953
Public Broadcasting Fund, Corporation for Public Broadcasting	460,350	465,947
Legal Services Corporation	328,048	333,348
Anti-terrorism judgments	-	1,410
District of Columbia	131,666	157,526
Restitution of foregone interest	156,774	141,545
Other	10,716	64,661
TOTAL NON-ENTITY COSTS	$ 8,943,513	$ 8,685,610
CUSTODIAL REVENUE (Note 5)		
Deposit of earnings, Federal Reserve System	$ 29,945,010	$ 19,297,485
Interest received from tax and loan depositaries	923,656	509,877
Recoveries from federal agencies for settlement of claims from contract disputes	135,909	229,945
General fund proprietary receipts, not otherwise classified	42,774	512,877
Fines, penalties, and forfeitures	40,738	37,958
Other	50,376	32,610
Total cash collections	31,138,463	20,620,752
Accrual adjustment	357,803	(133,369)
TOTAL CUSTODIAL REVENUE	$ 31,496,266	$ 20,487,383

These schedules should be read only in connection with the accompanying notes to schedules.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 government 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.

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. However, the Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedules) do not include Non-Entity Operating Cash of the Federal Government (commonly known as Government-wide Cash). These Schedules include the activity of Non-Entity account symbols managed by FMS.

Some Non-Entity accounts receive appropriations for specific Federal programs. Some of the appropriations are permanent, indefinite appropriations. They are not subject to budgetary ceilings established by Congress. Both types of appropriations are used for payments to Federal program agencies and others.

Some Non-Entity accounts receive cash collections. These types of accounts are miscellaneous receipt accounts. Examples of collections include interest payments, contributions, and collections of fines and penalties.

Basis of Presentation

The Schedules have been prepared from the accounting records maintained by FMS and are meant to report Non-Entity Assets, Non-Entity Costs and Custodial Revenue of FMS in accordance with generally accepted accounting principles. Such principles require the use of the accrual method of accounting to record transactions. Under the accrual method, revenues are recognized when earned and costs are recognized when a cost is incurred, without regard to receipt or payment of cash. These Schedules were prepared following accrual accounting.

The standards used in the preparation of these Schedules are issued by the Federal Accounting Standards Advisory Board (FASAB), as the body authorized to establish generally accepted accounting principles for Federal government entities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Balances reflected on these Schedules may differ from those on financial reports prepared by FMS pursuant to certain OMB directives that are primarily used to monitor and control FMS' use of budgetary resources.

Use of Estimates in Preparing Schedules

The preparation of these Schedules, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. These estimates affect the reported amounts of assets at the date of the Schedules and the amounts of revenues and costs during the reporting period for the Schedules. Actual results may differ from these estimates.

Fund Balance with Treasury

The Fund Balance with Treasury (FBWT) is an asset account that reflects the available budget spending authority of Federal agencies. Collections and disbursements by agencies will, correspondingly, increase or decrease the balance in the account.

Accounts Receivable

Accounts receivable is comprised of Intra-governmental accounts (i.e., amounts due from other Federal agencies) and accounts with the Public. Accounts with the Public include amounts due from the Federal Reserve System. FMS records an allowance for uncollectible accounts based on projections of future collections (based on prior year collection trends) and the aging of outstanding accounts receivable at September 30.

Receivable on Deposit of Earnings, Federal Reserve System

Reserve Banks are required by the Board of Governors of the Federal Reserve System to transfer to the U. S. Treasury excess earnings, after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid in. In the event of losses, or a substantial increase in capital, a Reserve Bank will suspend its payments to the U. S. Treasury until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U. S. Treasury may vary significantly. The Receivable on Deposit of Earnings, Federal Reserve System, represents the earnings due Treasury as of September 30, but not collected by the U. S. Treasury until after the end of the year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Custodial Revenue

Custodial revenue is initially recorded on a cash basis when amounts are deposited into receipt accounts. However, an adjustment is reflected on the Schedules at September 30 to accrue for collections in a fiscal year relating to prior year's Non-Entity Accounts Receivable, and to account for other changes in the Non-Entity Accounts Receivable not resulting in a collection of cash in the current period (i.e., new reimbursements and changes in the allowance for uncollectible accounts).

Intra-governmental Financial Activities

The financial activities of FMS are affected by, and are dependent upon, those of U. S. Department 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.

Reclassifications

Certain amounts in the prior year's presentation have been reclassified to conform with the current year's presentation. These reclassifications have no effect on previously reported total non-entity assets, total non-entity costs, or total custodial revenue.

NOTE 2 – FUND BALANCE WITH TREASURY

The Fund Balance with Treasury is funded through various sources depending on the specific legislative authority and purpose, and may be used only for specific purposes. Such amounts may be in escrow or other special accounts. These accounts are primarily funded through appropriations, collections, tax receipts, gifts to the Government, and settlements from foreign countries.

Obligated balances are funds against which budgetary obligations have been incurred, but disbursements have not been made. The Unobligated Available balance is the amount of funds available to FMS against which no claims have been recorded. The Unobligated Unavailable balance is the amount of unobligated funds remaining from appropriations that have expired, appropriations that have not been apportioned, authority that is not available pursuant to public law, and the amount of funds in deposit funds, clearing accounts and receipt accounts. Fund Balance with Treasury as of September 30, 2006 and 2005 consisted of the following (amounts in thousands):

NOTE 2 – FUND BALANCE WITH TREASURY (CONTINUED)

	2006			
Account Type	**Obligated**	**Unobligated Available**	**Unobligated Unavailable**	**Total**
Appropriated Funds	$ 62,988	$ 150,733	$ 13,079	$ 226,800
Revolving Funds	383	3,030	-	3,413
Trust Funds	41	39	-	80
Other Fund Types	-	-	343,181	343,181
Total	$ 63,412	$ 153,802	$ 356,260	$ 573,474

	2005			
Account Type	**Obligated**	**Unobligated Available**	**Unobligated Unavailable**	**Total**
Appropriated funds	$ 169,720	$ 121,820	$ 7,432	$ 298,972
Revolving funds	206	5,776	-	5,982
Trust funds	48	18	-	66
Other fund types	-	-	306,534	306,534
Total	$ 169,974	$ 127,614	$ 313,966	$ 611,554

The fund balance, unobligated available supports the budgetary resources available except for $310 thousand in 2006 and 2005, which is invested. The fund balance, unobligated unavailable for appropriated funds supports the budgetary resources not available. The fund balance, unobligated unavailable for other fund types, includes only deposit funds and suspense accounts which do not have a budgetary impact.

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Intra-governmental Accounts Receivable, Net

Intra-governmental accounts receivable principally includes amounts for which Federal agencies are required to reimburse the Treasury's Judgment Fund for settlements paid or accrued on their behalf for contract disputes (pursuant to the Contracts Dispute Act) and No Fear Act. While the Contracts Dispute Act (CDA) and No Fear Act (No Fear) require Federal Agencies reimburse the Judgment Fund for payments, CDA and No Fear do not authorize FMS collection action against those Agencies. Accordingly, FMS has historically had difficulty in collecting amounts owed to them under the CDA. An allowance for uncollectible accounts has been established to recognize losses on receivables that may not be collected under this Program. The activity in the allowance account each year is reflected in the "Accrual Adjustment" line in the custodial revenue section of the Schedules.

NOTE 3 – ACCOUNTS RECEIVABLE, NET (CONTINUED)

Intra-governmental accounts receivable as of September 30, 2006 and 2005 consist of the following (amounts in thousands):

	2006	2005
Claims for Contract Disputes and Fire Fighting	$ 1,096,305	$ 1,150,826
Claims for No Fear Act	5,824	10,289
Less: Allowance for Uncollectable Accounts	(730,000)	(660,000)
Accounts Receivable, Net	$ 372,129	$ 501,115

Accounts Receivable With the Public, Net

Accounts receivable with the Public, exclusive of amounts due from the Federal Reserve System, as of September 30, 2006 and 2005 consist of the following (amounts in thousands):

	2006	2005
U. S. Treasury Check Forgery Insurance Fund Receivables	$ 1,752	$ 1,295
Interest Received from Tax and Loan Depositaries	39,293	13,891
German Democratic Republic Settlement Fund	63	63
Interest Payments from States	12	96
Gross Accounts Receivable	41,120	15,345
Less Allowance for Uncollectible Accounts	(1,038)	(872)
Accounts Receivable, Net	$ 40,082	$ 14,473

The U. S. Treasury Check Forgery Insurance Fund was established to expedite payments on claims and provide a dependable source of funds to meet the Federal Government's responsibility for the payment of settlement checks issued to replace checks paid over forged endorsements. The receivable represents the amount due from banks that cashed the forged checks.

The receivable for Interest Received from Tax and Loan Depositaries represents interest accrued and owed to the Treasury, from the depositaries participating in the Investment Programs, for the interest earned on Treasury Tax and Loan funds. The Treasury Tax and Loan (TT&L) program invests funds collected by the Federal Government in short-term loans to commercial financial institutions. These funds can be withdrawn on demand to meet the Federal Government's immediate cash requirements.

NOTE 4 – NON-ENTITY COSTS

Non-Entity Costs represent payments made on behalf of the Federal Government through various Treasury Managed Accounts (TMA) described below. In addition, Non-Entity Costs also include accruals for which FMS has made a commitment to make a payment for claims existing as of September 30, 2006 and 2005.

Credit Reform: Interest Paid on Uninvested Funds – Direct loan and loan guarantee financing accounts receive various payments, repayments and fees, and make payments on defaults. When cash receipts exceed outlays or when an agency does not disburse all of its borrowings, these balances are held in the Treasury and earn interest. The interest earned on these balances is disbursed by FMS to the agency.

Judgments – FMS processes payments from the Judgment Fund for certain judicially and administratively ordered monetary awards against the United States, as well as amounts owed under compromise agreements negotiated by the United States Department of Justice in settlement of claims arising under actual or imminent litigation.

Resolution Funding Corporation – The Resolution Funding Corporation (REFCORP) account is maintained pursuant to the Federal Home Loan Bank Act. FMS provides payments to REFCORP to cover the interest expenses of REFCORP.

Public Broadcasting Fund, Corporation for Public Broadcasting – This account is used to make annual payments to the Corporation for Public Broadcasting pursuant to the enacted Public Law. The payment is used to assist and facilitate the full development of public telecommunications in which programs of high quality, diversity, creativity, excellence, and innovations will be made available to public telecommunications.

Legal Services Corporation – This account is used to pay the Legal Services Corporation through letter of credit drawdowns. The Legal Services Corporation distributes appropriated funds to local nonprofit organizations that provide free civil legal assistance, according to locally determined priorities, to people living in poverty. Congress chartered the corporation as a private, non-profit entity outside of the Federal Government.

Anti-Terrorism Judgments – This account was established by the authority of Section 2002 of the Victims of Trafficking and Violence Protection Act, Public Law 106-386, for the purpose of making payments to persons who hold certain categories of judgments against Iran in suits brought under 28 U.S.C. 1605(a)(7). For purposes of funding payments in connection with judgments against Iran, Section 2002 provides that the Department of the Treasury shall make payments from amounts paid and liquidated from (a) rental proceeds accrued on the date of the enactment of the Act from Iranian diplomatic and consular property located in the United States and (b) funds not otherwise made available in an amount not to exceed the total of the amount in

NOTE 4 – NON-ENTITY COSTS (CONTINUED)

the Iran Foreign Military Sales program account within the Foreign Military Sales Fund on the date of the enactment of the Act. FMS received an appropriation to pay claims related to these judgments in the amount of $400 million, of which $1.4 million was paid in fiscal year 2005. At September 30, 2005, the full amount of the appropriation was paid.

District of Columbia – Payments to the District of Columbia cover certain operations of the District of Columbia. It includes payments for a program of management reform, for the administration and operation of correctional facilities, and for construction and repair of the District's infrastructure.

Restitution of Foregone Interest – This account is used to restore "lost" interest to investing program agencies such as the Civil Service Retirement and Disability Trust Fund and the Thrift Savings Fund after a Debt Issuance Suspension Period (debt crisis) has ended.

Other – Other Non-Entity costs include the following payments: Moneys Erroneously Received and Covered, Payments to the States, Presidential Election Campaign Fund (PECF), Payments to Agencies for Interest on Uninvested Funds, Payment to the Institute of American Indian and Alaskan Native Culture and Arts Development, Payments from the U. S. Treasury Check Forgery Insurance Fund, Payments to Individuals under Private and Public Relief Laws, Payments from Biomass Energy Development, and Payments for Salaries and Expenses, United States-Canada Alaska Rail Commission.

NOTE 5 – COLLECTIONS OF CUSTODIAL REVENUE

FMS collects Custodial Revenue that is not related to its mission and distributes the full amount collected to the Treasury General Fund. For the years ended September 30, 2006 and 2005 cash collections were as follows (amounts in thousands):

	2006		
	October to December, 2005	**January to September, 2006**	**Total**
Deposit of earnings, Federal Reserve System	$ 5,804,409	$24,140,601	$29,945,010
Interest received from tax and loan depositaries	148,213	775,443	923,656
Recoveries from federal agencies for settlement of claims from contract disputes	60,470	75,439	135,909
General fund proprietary receipts, not otherwise classified	7,119	35,655	42,774
Fines, penalties and forfeitures	61	40,677	40,738
Other	7,448	42,928	50,376
Total	$ 6,027,720	$25,110,743	$31,138,463

NOTE 5 – COLLECTIONS OF CUSTODIAL REVENUE (CONTINUED)

	2005		
	October to December, 2004	January to September, 2005	Total
Deposit of earnings, Federal Reserve System	$ 5,089,527	$14,207,958	$19,297,485
Interest received from tax and loan depositaries	73,580	436,297	509,877
Recoveries from federal agencies for settlement of claims from contract disputes	50,923	179,022	229,945
General fund proprietary receipts, not otherwise classified	5,490	507,387	512,877
Fines, penalties and forfeitures	162	37,796	37,958
Other	3,451	29,159	32,610
Total	$ 5,223,133	$15,397,619	$20,620,752

NOTE 6 – CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible payment by FMS. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or unasserted litigation, a liability/cost is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources can be reasonably estimated.

There are numerous legal actions pending against the United States in Federal courts in which claims have been asserted that may be based on action taken by FMS. Management intends to vigorously contest all such claims. Management believes, based on information provided by legal counsel, that losses, if any, for the majority of these cases would not have a material impact on the Schedules. There are other cases that could result in significant payouts; however, legal counsel is unable to determine the probability of an unfavorable outcome, or determine an estimate or range of potential loss, for these matters, if any. No loss accrual has been made for these cases outstanding at September 30, 2006 or 2005. Below is an example of one such case:

Cobell, et al. v. Kempthorne, et al.
In this case, the plaintiffs allege that the Departments of the Interior and Treasury have breached trust obligations with respect to the management of the plaintiffs' Individual Indian Monies (IIM). The plaintiffs have not made claims for specific dollar amounts. However, their claims are complex, and if an unfavorable decision is rendered, a material loss could be incurred.

NOTE 6 – CONTINGENCIES (CONTINUED)

In addition, FMS manages several accounts that may be used for the payment of claims against other Federal Agencies. Such payments are reflected in the following Non-Entity cost accounts reflected in the Schedules: Judgments and Moneys Erroneously Received and Covered. At September 30, 2006 and 2005, such claims are in various stages of settlement.

Pursuant to the provisions of the Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, "Accounting for Treasury Judgment Fund Transactions," claim amounts will be reflected in the Schedules upon completion of certain judicial procedures and the Federal agency's request for payment of these claims from the Judgment Fund. At September 30, 2006 and 2005, $10 million and $107 million, respectively, has been accrued for the estimated future expenditures expected to satisfy these claims. The assumptions made in developing the estimated liability relating to Harbor Maintenance Tax Export Refunds - Administrative Claims at September 30, 2005 did not come to fruition as the final claims were processed by the U. S. Customs Service in FY 2006. Accordingly, such estimate was reduced by $87 million and is reflected as a cost reduction in the FY 2006 Schedule of Non-Entity Costs.