



# Audit Report



OIG-24-017

## FINANCIAL MANAGEMENT

**Management Letter for the Audit of the Exchange Stabilization Fund's Financial Statements for Fiscal Years 2023 and 2022**

December 19, 2023

Office of Inspector General  
Department of the Treasury

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OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

December 19, 2023

**MEMORANDUM FOR JAY SHAMBAUGH  
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS**

**FROM:** Pauletta Battle /s/  
Deputy Assistant Inspector General for Financial  
Management and Transparency Audits

**SUBJECT:** Management Letter for the Audit of the Exchange  
Stabilization Fund's Financial Statements for Fiscal Years  
2023 and 2022

We hereby transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Exchange Stabilization Fund (ESF) as of September 30, 2023 and 2022, 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. 24-01, *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 December 19, 2023, that discusses a matter involving a deficiency in internal control over financial reporting that was identified during the audit. The matter involved ineffective procedures over the budget and accrual reconciliation.

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. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 597-1819, or a member of your staff may contact Ade Bankole, Director, Financial Statement Audits, at (202) 927-5329.

Attachment



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

December 19, 2023

Mr. Richard K. Delmar  
Deputy Inspector General  
Department of the Treasury  
875 15<sup>th</sup> Street, N.W.  
Washington, DC 20005

Mr. Jay Shambaugh  
Under Secretary for International Affairs  
Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, DC 20220

In planning and performing our audit of the financial statements of the Department of the Treasury Exchange Stabilization Fund (ESF) as of and for the year September 30, 2023, in accordance with auditing standards generally accepted in the United States of America and 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. 24-01, *Audit Requirements for Federal Financial Statements*, we considered the ESF'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ESF's internal control. Accordingly, we do not express an opinion on the effectiveness of the ESF's internal control.

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 December 19, 2023, on our consideration of the ESF's internal control over financial reporting.

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 identified a deficiency in internal control which is described in Appendix A.

ESF's written response to the deficiency identified in our audit is outlined in Appendix A. Management's response has not been subjected to the auditing procedures applied in the audit of the ESF financial statements, and accordingly, we express no opinion on it.

This purpose of this letter is solely to describe the deficiency in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

**THE EXCHANGE STABILIZATION FUND  
Management Letter**

**Ineffective Procedures over the Budget and Accrual Reconciliation (BAR)**

ESF management did not properly present intra-governmental and other than intra-governmental activity in accordance with Statements of Federal Financial Accounting Standards and OMB Circular A-136. Specifically, ESF management did not initially present interest income and interest expense activity related to the Treasury Bureau of Fiscal Service as intra-governmental transactions. This resulted in the misclassification of costs (income) for the *Intra-Governmental* and *Other Than Intra-Governmental* activities within the BAR disclosure.

ESF management did not have effective policies and procedures in place to review the classification of intra-governmental and other than intra-governmental costs (income) when preparing the BAR disclosure. Specifically, when determining if activity was intra-governmental or other than intra-governmental, management leveraged a schedule from the Treasury Information Executive Repository Financial System (TFS) which eliminates intra-Treasury activity. Treasury uses TFS system for consolidated group reporting. However, for purposes of the ESF standalone report, these costs (income) should be included and considered as intra-governmental activity.

Without properly documented policies and procedures, ESF management may not prevent and detect errors in the reporting classification of intra-governmental and other than intra-governmental activities within the financial statements and related note disclosures. For FY 2023, the ineffective procedures resulted in a known misstatement of approximately \$624 million between the *Intra-Governmental* and *Other Than Intra-Governmental* columns on the BAR disclosure for the caption *Total Net Cost (Income) of ESF Operations*. The total column was still correct for the caption *Total Net Cost (Income) of ESF Operations*.

Recommendation

We recommend that ESF management document policies and procedures, such as updating the financial statement disclosure checklists, in order to review the classification of intra-governmental and other than intra-governmental activities in the financial statements and BAR disclosure.

Management Response

Management concurred with this finding and recommendation. ESF management will document policies and procedures in order to review the classification of intra-governmental and other than intra-governmental activities in the BAR disclosure. ESF management has already taken action to correct the issue and will utilize the correct information within the TFS report. Further, management is looking into establishing an additional tie-point to validate the information throughout the ESF Financial Statements and Notes.



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