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Accounting and Information
Management Division

159985

B-279268

February 27, 1998

Mr. Van Zeck
Acting Commissioner
Bureau of the Public Debt

Subject: Financial Audit: Schedule of Loans Receivable Serviced by the Bureau of the Public Debt

Dear Mr. Zeck:

This report presents the results of the audit of the Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt (BPD) at September 30, 1997 (Schedule of Loans Receivable).[1] Loans Receivable From Federal Entities represents an intragovernmental receivable. These receivables arise from certain federal entities that have been granted specific legislative authority to borrow from the Department of the Treasury. Using the funds borrowed, these entities make loans to various nonfederal borrowers, such as students and farmers. During fiscal year 1997, Treasury transferred to BPD the responsibilities for accounting and servicing of loans made to federal entities. Accordingly, the Schedule of Loans Receivable presents the September 30, 1997, balances of federal loans receivable and related interest receivable that are serviced by BPD.

We contracted with the independent public accounting firm of KPMG Peat Marwick LLP (KPMG) to audit the Schedule of Loans Receivable at September 30, 1997. The

[1]As provided by the Government Management Reform Act of 1994, the Office of Management and Budget (OMB) designated BPD as a component of the Department of the Treasury required to issue audited financial statements. As approved by OMB, BPD's fiscal year 1997 financial statements submission, which also represents BPD's annual report, will consist of the (1) Administrative Financial Statements, (2) Schedule of Federal Debt Managed by the Bureau of the Public Debt for the fiscal year ended September 30, 1997, (3) Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt at September 30, 1997, and (4) Overview to the Financial Statements.

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contract required that the audit be done in accordance with generally accepted government auditing standards; OMB Bulletin 93-06, Audit Requirements For Federal Financial Statements; and GAO's Financial Audit Manual.

In its audit of the Schedule of Loans Receivable, KPMG found the following:

- The Schedule of Loans Receivable was reliable in all material respects.

- Management fairly stated that the related internal controls in place on September 30, 1997, were effective in safeguarding assets against unauthorized acquisition, use, or disposition; assuring material compliance with laws and regulations relevant to the Schedule of Loans Receivable; and assuring that there were no material misstatements in the Schedule of Loans Receivable.

- There was no reportable noncompliance with selected provisions of laws and regulations it tested.

KPMG's audit disclosed a reportable condition, which it did not consider to be a material weakness, related to procedures in place to ensure the completeness of recording of interest income earned on loans receivable. In commenting on a draft of KPMG's report, management of BPD agreed with KPMG's finding and stated that corrective action is being taken.

We reviewed the KPMG report and related working papers and held discussions with KPMG's 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, opinions on the fair presentation of the Schedule of Loans Receivable, or on management's assertion about the effectiveness of internal controls, or conclusion on BPD's compliance with laws and regulations. KPMG is responsible for the attached auditors' report, dated January 23, 1998, and for the conclusions expressed therein. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted government auditing standards.

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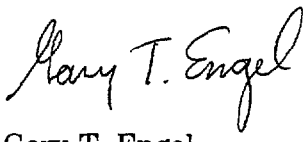
We are sending copies of this report to the Secretary of the Treasury and the Treasury Deputy Inspector General. Copies will be made available to others upon request. Should you have any questions concerning our review of the audit, please

contact me on (202) 512-3406 or J. Lawrence Malenich, Assistant Director, on (202) 512-9399.

Sincerely yours,



Gary T. Engel
Associate Director
Governmentwide Accounting and
Financial Management Issues

Enclosure

Enclosure

AUDIT OF SCHEDULE OF LOANS RECEIVABLE

Independent Auditors' Report

KPMG Peat Marwick LLP

2001 M Street, N.W.
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

The Acting Comptroller General
United States General Accounting Office:

We have audited the accompanying Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt (BPD) at September 30, 1997 (the Schedule). We have also examined management's assertions regarding the effectiveness of the internal controls over financial reporting related to the Schedule that were in place as of September 30, 1997. The objective of our audit was to express an opinion on the fair presentation of the Schedule. The objective of our examination of management's assertions regarding internal controls over financial reporting was to express an opinion on management's assertions. In connection with our audit, we also tested BPD's compliance with certain provisions of applicable laws and regulations related to the Schedule.

In our opinion:

- The Schedule of Loans Receivable From Federal Entities and Related Interest Receivable at September 30, 1997 is presented fairly, in all material respects, in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, as described in Note 1 to the Schedule, and

- BPD management fairly stated its assertions that internal controls in place on September 30, 1997, were effective in providing reasonable assurance that assets are safeguarded against loss from unauthorized acquisition, use, or disposition; transactions are executed in all material respects in compliance with applicable laws and regulations, and transactions are properly recorded, processed, and summarized to permit the preparation of a reliable schedule of loans receivable from federal entities and related interest receivable, and to maintain accountability for assets.

However, we noted a reportable condition, which we do not consider to be a material weakness, related to procedures in place to ensure the completeness of recording of interest income earned on loans receivable.

We noted no material noncompliance with laws and regulations we tested.

Our conclusions and the scope of our work are discussed in more detail below.

Member Firm of
KPMG International

OPINION ON SCHEDULE

We have audited the accompanying Schedule of Loans Receivable From Federal Entities and Related Interest Receivable serviced by the Bureau of the Public Debt at September 30, 1997. This statement is the responsibility of BPD's management. Our responsibility is to express an opinion on this Schedule based on our audit.

The Schedule is prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, as described in Note 1.

In our opinion, the accompanying Schedule presents fairly, in all material respects, the loans receivable from federal entities and related interest receivable serviced by the Bureau of the Public Debt at September 30, 1997, in conformity with the comprehensive basis of accounting described in Note 1.

OPINION ON MANAGEMENT'S ASSERTIONS ABOUT THE EFFECTIVENESS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

We have examined the accompanying report on internal controls which sets forth BPD management's assertions regarding the effectiveness of the internal controls designed by management to provide reasonable assurance that the following objectives are met:

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
- Transactions are executed in accordance with applicable laws and regulations, noncompliance with which could have a direct and material effect on the Schedule;
- Transactions are properly recorded, processed, and summarized to permit the preparation of a reliable schedule of loans receivable from federal entities and related interest receivable and maintain accountability for assets.

In our opinion, management's assertions included in the accompanying report on internal controls are fairly stated in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management Accountability and Control.*

We noted a matter involving the internal controls over financial reporting and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements.* Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect BPD's ability to safeguard

assets against loss from unauthorized acquisition, use, or disposition; execute transactions in accordance with applicable laws and regulations; and record, process, summarize, and report financial data consistent with the assertions of management in the Schedule.

A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that misstatements 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. Our consideration of internal controls would not necessarily disclose all internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not consider the matter described below to be a material weakness. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the BPD Schedule, described above, at September 30, 1997.

Incomplete Recording of Interest Income

It is BPD's general policy to record interest income on loans receivable from federal entities when it is earned. Payments due are reconciled to signed SF-1081 forms submitted by federal entities. The remaining interest earned, but not received, as of fiscal year end is accrued. However, the procedures that were in place prior to BPD assuming responsibility for servicing loans receivable from federal entities, were not modified to ensure BPD received the necessary information to reconcile and accrue interest income earned on the largest federal borrower's outstanding loans. As a result, interest income on loans receivable from this borrower was not initially recorded.

We recommend BPD revise the procedures related to this borrower to make them consistent with all other borrowers, and ensure the completeness of interest income recognition.

Through confirmation with the borrower and other substantive audit procedures, we were able to satisfy ourselves that the weakness described above did not have a material effect on the Schedule.

We also noted other matters involving the internal controls and BPD's operations that we do not consider to be reportable conditions. These matters will be reported to BPD's management in a separate letter.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with laws and regulations that have a direct and material effect on the Schedule, disclosed no instances of noncompliance that would be

reported under *Government Auditing Standards* and OMB Bulletin No. 93-06. Per discussions with the Office of Management and Budget, the preparation of the Schedule referred to above, is not subject to the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996 and, accordingly, our testwork and conclusion did not encompass the FFMIA requirements.

RESPONSIBILITIES

Management's Responsibility. Management is responsible for:

- Preparing the Schedule in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, as described in Note I
- Maintaining adequate internal controls designed to fulfill control objectives
- Complying with applicable laws and regulations

Auditors' Responsibility. Our responsibility is to express an opinion on the Schedule of Loans Receivable From Federal Entities and Related Interest Receivable serviced by the Bureau of the Public Debt at September 30, 1997, based on our audit. The professional standards referred to below require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

We are also responsible for expressing an opinion, based on our examination, on management's assertions that internal controls in place on September 30, 1997, were effective in providing reasonable assurance that assets are safeguarded against loss from unauthorized acquisition, use, or disposition; in assuring material compliance with applicable laws and regulations, and in assuring that transactions are properly recorded, processed, and summarized to permit the preparation of a reliable Schedule of Loans Receivable from Federal Entities and Related Interest Receivable, and to maintain accountability for assets.

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of BPD's compliance with certain provisions of laws and regulations. However, the objective of our audit of the Schedule was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the Schedule
- Assessed the accounting principles used and significant estimates made by management
- Evaluated the overall Schedule presentation

- Assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule
- Obtained an understanding of the internal controls relevant to the Schedule and related to safeguarding of assets, compliance with laws and regulations, and financial reporting
- Tested and evaluated the design and operating effectiveness of relevant internal controls over safeguarding of assets, compliance with laws and regulations, and financial reporting related to the Schedule
- Tested compliance with certain provisions of the following laws and regulations that may have a direct and material affect on the Schedule:
  - Federal Managers' Financial Integrity Act of 1982
  - Government Management Reform Act of 1994
  - Federal Credit Reform Act of 1990
- Performed such other procedures as we considered necessary in the circumstances

We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertions about the effectiveness of internal controls. Because of inherent limitations in internal controls, errors or fraud may occur and not be detected. Also projections of any evaluation of internal controls over financial reporting to future periods are subject to the risk that the internal control procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We conducted our audit of the Schedule at September 30, 1997, in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 93-06. We conducted our examination of management's assertions regarding the effectiveness of the BPD's internal controls over safeguarding of assets, compliance with laws and regulations, and financial reporting related to the Schedule as of September 30, 1997, in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audit and examination provide a reasonable basis for our opinions.

Agency Comments and Our Evaluation. Management of BPD agrees with our assessment of the reportable condition noted above and corrective action is being taken.

Distribution. This report is intended solely for the information and use of the U.S. General Accounting Office, the Acting Commissioner and management of the Bureau of the Public Debt, others within the organization, and Congress. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

January 23, 1998

BPD Management Report on Internal Controls

BUREAU OF PUBLIC DEBT
Management Report on Internal Controls
over Financial Reporting related to
The Schedule of Loans Receivable From Federal Entities
and Related Interest Receivable

As of September 30, 1997

The management of the Bureau of the Public Debt has assessed the effectiveness of internal controls over financial reporting as it relates to the accounting and financial reporting for loans receivable from federal entities and the related interest receivable as of September 30, 1997, in order to determine whether it achieves the following objectives:

- assets are safeguarded against loss from unauthorized acquisition, use or disposition;
- transactions are executed in accordance with laws and regulations that have a direct and material effect on the Schedule of Loans Receivable From Federal Entities and Related Interest Receivable (the Schedule); and
- transactions are properly recorded, processed, and summarized to permit the preparation of a reliable Schedule and to maintain accountability for loans outstanding and related interest income and interest receivable.

This assessment was based upon control criteria established under the Federal Managers Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123. Such criteria encompass the concept that reasonable assurance recognizes the cost of internal control should not exceed the benefits expected to be derived therefrom, and errors or irregularities may, nevertheless, occur and not be detected because of inherent limitations in any system of internal control.

Based on the results of our assessment, the internal controls over safeguarding of assets, compliance with laws and regulations, and financial reporting in place as of September 30, 1997, provided reasonable assurance that material losses, noncompliance, or misstatements in relation to the Schedule referred to above would be prevented or detected on a timely basis.

Van Zeck, Acting Commissioner	January 23, 1998 Date
Thomas W. Harrison, Chief Financial Officer	January 23, 1998 Date
Debra L. Hines, Assistant Commissioner, OPDA	January 23, 1998 Date

Schedule of Loans Receivable

Schedule of Loans Receivable
From Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 1997
(Dollars in Millions)

Loans Receivable from Federal Entities	$133,301
Interest Receivable	$967

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Loans Receivable

Notes to the Schedule of Loans Receivable
From Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 1997

Note 1. Significant Accounting Policies

Basis of Presentation

Pursuant to the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, the Office of Management and Budget (OMB) required the Bureau of the Public Debt (BPD), as a component of the Department of the Treasury, to issue audited financial statements. As approved by OMB, BPD's fiscal year 1997 financial statements submission consists of the (1) Administrative Financial Statements, (2) Schedule of Federal Debt Managed by BPD, (3) Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by BPD (the Schedule), and (4) Overview to the financial statements. The Schedule has been prepared to report the balances outstanding at September 30, 1997, of amounts loaned by Treasury to federal entities. The Administrative Financial Statements, Schedule of Federal Debt Managed by BPD, and Overview to the Financial Statements are separately reported.

Reporting Entity

Loans Receivable From Federal Entities represents an intragovernmental receivable. These receivables arise from certain federal entities who have been granted specific legislative authority to borrow from Treasury. Using the funds borrowed, these entities make loans to various nonfederal borrowers, such as students and farmers. During fiscal year 1997, Treasury transferred to BPD the responsibilities for accounting and servicing of loans made to these federal entities.

Basis of Accounting

This Schedule was prepared using a comprehensive basis of accounting other than generally accepted accounting principles, as prescribed by OMB Bulletin No. 94-01. The amounts included in the accompanying Schedule are presented on the accrual basis.

Notes to the Schedule of Loans Receivable
From Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 1997

Loans Receivable Writeoffs/Forgiveness

When a federal entity borrows from Treasury to fund loans to nonfederal borrowers, Treasury records an intragovernmental receivable and the entity records an intragovernmental payable. In some cases, the entities are unable to fully collect on such loans. When this occurs, the prevalent practice is for the federal entity to obtain Congressional approval to forgive the debt. If the debt is forgiven, the intragovernmental receivable is written down, as well as the entities' intragovernmental payable. During fiscal year 1997, $93 million was written off.

Note 2. Loans Receivable from Federal Entities

As of September 30, 1997, Loans Receivable from Federal Entities related to the following programs and funds(dollars in millions):

Treasury:	Federal Financing Bank revolving fund	$34,944
Education:	Federal direct student loan program	22,713
SBA:	Disaster loan fund	9,015
Agriculture:	Rural Utilities Service:	
	Rural electrification and telecommunications fund	8,982
Agriculture: :	Farm Service Agency:	
	Commodity Credit Corporation	7,748
FCC:	Spectrum auction loan fund	7,120
Agriculture:	Rural Housing Service:	
	Rural housing insurance fund	6,474
HUD:	Housing for the elderly and handicapped	6,174
Other Programs and Funds		30,131
Total Loans Receivable from Federal Entities		$133,301

Note 3. Interest Income

During fiscal year 1997, interest earned on loans receivable from federal entities totalled $10.1 billion.

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