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July 18, 2014

Ms. Sheryl Morrow
Commissioner
Bureau of the Fiscal Service
Department of the Treasury

Management Report: Improvements Are Needed in the Bureau of the Fiscal Service’s Information Systems Controls

Dear Ms. Morrow:

In connection with our audit of the consolidated financial statements of the U.S. government,¹ we audited and reported on the Schedules of Federal Debt Managed by the Bureau of the Fiscal Service (Fiscal Service) for the fiscal years ended September 30, 2013, and 2012.² As part of these audits, we performed a review of information systems controls over key Fiscal Service financial systems relevant to the Schedule of Federal Debt.

As we reported in connection with our audits of the Schedules of Federal Debt for the fiscal years ended September 30, 2013, and 2012, although internal controls could be improved, Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2013, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers’ Financial Integrity Act. We identified a significant deficiency in Fiscal Service’s internal control over financial reporting, which although not a material weakness, is important enough to merit the attention of those charged with governance of Fiscal Service.³ Specifically, during fiscal year 2013, we identified new deficiencies in Fiscal Service’s information systems controls that along with unresolved control deficiencies from prior audits, collectively represent a significant deficiency in Fiscal Service’s internal control over financial reporting.

¹31 U.S.C. § 331(e)(2). Because the Bureau of the Fiscal Service is a bureau within the Department of the Treasury, federal debt and related activity and balances managed by it are also significant to the consolidated financial statements of the Department of the Treasury (see 31 U.S.C. § 3515(b)).

²GAO, *Financial Audit: Bureau of the Fiscal Service’s Fiscal Years 2013 and 2012 Schedules of Federal Debt*, GAO-14-173 (Washington, D.C.: Dec. 12, 2013).

³A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

In late fiscal year 2011, the Department of the Treasury (Treasury) began consolidating the data centers and related operations of Treasury's Bureau of the Public Debt and Financial Management Service. On October 7, 2012, the Secretary of the Treasury (1) established the Fiscal Service as a bureau within Treasury, (2) consolidated and redesignated the Bureau of the Public Debt and the Financial Management Service as the Fiscal Service, and (3) transferred the duties of the Bureau of the Public Debt and Financial Management Service commissioners to the Commissioner of the Fiscal Service. In addition, in fiscal year 2013, Fiscal Service began testing a new general ledger system and implemented the new system in fiscal year 2014. These continuing changes can introduce risks that require corresponding changes to controls and can hinder the effective operation of controls. Also, such changes could hamper Fiscal Service's ability to effectively and timely resolve the identified control deficiencies and could result in additional control deficiencies. Consequently, addressing the significant deficiency in this environment will require increased focus on assessing risks associated with these changes, monitoring the effectiveness of the operation of controls, and designing and implementing effective internal controls.

This report presents the deficiencies we identified during our fiscal year 2013 testing of information systems controls over key Fiscal Service financial systems that are relevant to the Schedule of Federal Debt. This report also includes the results of our follow-up on the status of Fiscal Service's corrective actions to address information systems control-related deficiencies and associated recommendations contained in our prior years' reports that were open as of September 30, 2012. In a separately issued Limited Official Use Only report, we communicated detailed information regarding our findings and related recommendations to the Commissioner of the Bureau of the Fiscal Service.

We also assessed information systems controls over key financial systems maintained and operated by the Federal Reserve Banks (FRB) on behalf of Treasury relevant to the Schedule of Federal Debt. While we identified deficiencies in controls of information systems maintained and operated by the FRBs on behalf of Treasury relevant to the Schedule of Federal Debt, these deficiencies did not individually or collectively contribute to our conclusion that a significant deficiency exists over financial reporting relevant to the Schedule of Federal Debt. We issued a separate report to the Board of Governors of the Federal Reserve System on the results of that assessment.⁴

Results in Brief

During fiscal year 2013, we identified 14 new information systems general control deficiencies related to security management,⁵ access controls,⁶ and configuration management.⁷ In the

⁴GAO, *Management Report: Areas for Improvement in the Federal Reserve Banks' Information Systems Controls*, [GAO-14-691R](#) (Washington, D.C.: June 18, 2014).

⁵Security management provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls.

⁶Access controls limit access or detect inappropriate access to computer resources (data, equipment, and facilities), thereby protecting them from unauthorized modification, loss, disclosure, or a combination of these.

⁷Configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle.

Limited Official Use Only report, we made 16 recommendations to address these control deficiencies.

In addition, during our follow-up on the status of Fiscal Service's corrective actions to address information systems control-related deficiencies and associated recommendations contained in our prior years' reports that were open as of September 30, 2012, we determined that corrective actions were complete for 7 of the 13 open recommendations and corrective action was in progress for each of the 6 remaining open recommendations related to access controls and configuration management.

These new deficiencies in Fiscal Service's information systems controls, along with unresolved control deficiencies from prior audits, collectively represent a significant deficiency in Fiscal Service's internal control over financial reporting. The potential effect of these new and continuing deficiencies on the Schedule of Federal Debt financial reporting for fiscal year 2013 was mitigated primarily by Fiscal Service's physical security measures and compensating management and reconciliation controls designed to detect potential misstatements on the Schedule of Federal Debt.

The Commissioner of the Bureau of the Fiscal Service provided comments on the detailed findings and recommendations in the separately issued Limited Official Use Only report. In those comments, the Commissioner stated that the Fiscal Service acknowledges the significant deficiency in internal control over financial reporting and continues to move forward to address this deficiency. The Commissioner further commented that the Fiscal Service is committed to having effective internal controls for its information technology systems. Accordingly, Fiscal Service will continue to look for efficient and effective ways to improve and ensure the consistent application of agency-wide security controls over all systems.

Background

Treasury is authorized by Congress to borrow money backed by the full faith and credit of the United States to fund federal operations. Treasury is responsible for prescribing the debt instruments and otherwise limiting and restricting the amount and composition of the debt. Treasury is also responsible for issuing and redeeming debt instruments, paying interest to investors, and accounting for the resulting debt. In addition, Treasury maintains an investment program for federal government accounts, including trust funds that have legislative authority to invest temporary cash reserves not needed for current benefits and expenses.

As of September 30, 2013, and 2012, federal debt managed by Treasury's Fiscal Service totaled about \$16,732 billion and \$16,059 billion, respectively, primarily for moneys borrowed to fund the federal government's operations. These balances consisted of approximately (1) \$11,976 billion and \$11,270 billion of debt held by the public as of September 30, 2013, and 2012, respectively, and (2) \$4,756 billion as of September 30, 2013, and \$4,789 billion as of September 30, 2012, of intragovernmental debt holdings. Total interest expense on federal debt managed by Fiscal Service for fiscal years 2013 and 2012 was about \$425 billion and \$432 billion, respectively.

Treasury relies on a number of interconnected financial systems and electronic data to process and track the money that it borrows, to account for the securities it issues, and to manage the federal debt. Many FRBs provide fiscal agent services on behalf of Treasury. Such services primarily consist of issuing, servicing, and redeeming Treasury securities held by the public and handling the related transfers of funds. FRBs use a number of key financial systems to process debt-related transactions. Detailed data initially processed at FRBs are summarized and then

forwarded electronically to the appropriate Treasury data center for matching, verification, and posting to Fiscal Service's general ledger.

Information systems general controls are the structure, policies, and procedures that apply to an entity's overall computer operations. Information systems general controls establish the environment in which the application systems and controls operate. They include five general control areas—security management, access controls, configuration management, segregation of duties, and contingency planning.⁸ An effective information systems general control environment (1) provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls (security management); (2) limits or detects access to computer resources, such as data, programs, equipment, and facilities, thereby protecting them against unauthorized modification, loss, and disclosure (access controls); (3) prevents unauthorized changes to information system resources, such as software programs and hardware configurations, and provides reasonable assurance that systems are configured and operating securely and as intended (configuration management); (4) includes policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations (segregation of duties); and (5) protects critical and sensitive data, and provides for critical operations to continue without disruption or be promptly resumed when unexpected events occur (contingency planning).

Objectives, Scope, and Methodology

Our objectives were to evaluate information systems controls over key financial systems maintained and operated by, and on behalf of, Treasury that are relevant to the Schedule of Federal Debt, and to determine the status of Fiscal Service's corrective actions to address information systems control-related deficiencies and associated recommendations in our prior years' reports for which actions were not complete as of September 30, 2012. Our evaluation of information systems controls was conducted using the *Federal Information System Controls Audit Manual*.⁹ This work was performed in connection with our audit of the Schedules of Federal Debt for the fiscal years ended September 30, 2013, and 2012, for the purpose of supporting our opinion on Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt.

To evaluate information systems controls, we identified and reviewed Fiscal Service's information systems control policies and procedures, observed controls in operation, conducted tests of controls, and held discussions with officials at the appropriate Treasury data center to determine whether controls were adequately designed, implemented, and operating effectively.

The scope of our information systems general controls work for fiscal year 2013 included (1) following up on open recommendations from our prior years' reports and (2) using a risk-based approach to test the five general control areas related to the systems in which the applications operate and other critical control points in the systems or networks that could have an impact on the effectiveness of the information systems controls at Fiscal Service as they relate to financial reporting in the current year. In addition, we assessed software and network

⁸GAO, *Government Auditing Standards: 2011 Revision*, [GAO-12-331G](#) (Washington, D.C.: December 2011).

⁹GAO, *Federal Information System Controls Audit Manual (FISCAM)*, [GAO-09-232G](#) (Washington, D.C.: February 2009).

security over key Fiscal Service financial systems that are relevant to the Schedule of Federal Debt.

We determined whether relevant application controls were appropriately designed and implemented, and then performed tests to determine whether the application controls were operating effectively. We reviewed six key Fiscal Service applications relevant to the Schedule of Federal Debt to determine whether the application controls were designed and operating effectively to provide reasonable assurance that

- all transactions that occurred were input into the system, accepted for processing, processed once and only once by the system, and properly included in output;
- transactions were properly recorded in the proper period, key data elements input for transactions were accurate, data elements were processed accurately by applications that produce reliable results, and output was accurate;
- all recorded transactions actually occurred, were related to the organization, and were properly approved in accordance with management's authorization, and output contained only valid data;
- application data and reports and other output were protected against unauthorized access; and
- application data and reports and other relevant business information were readily available to users when needed.

We also reviewed the information systems application control audit documentation from the work performed by the Treasury Office of Inspector General's contractor on two other key Fiscal Service applications.

GAO used an independent public accounting (IPA) firm, under contract, to evaluate and test certain Fiscal Service information systems controls, including the follow-up on the status of Fiscal Service's corrective actions during fiscal year 2013 to address open recommendations from our prior years' reports. We agreed on the scope of the audit work, monitored the IPA firm's progress, and reviewed the related audit documentation to determine whether the firm's findings were adequately supported.

During the course of our work, we communicated our findings to Fiscal Service management. We plan to follow up to determine the status of corrective actions taken for matters open as of September 30, 2013, during our audit of the fiscal year 2014 Schedule of Federal Debt.

We performed our work in accordance with U.S. generally accepted government auditing standards. We believe that our audit provided a reasonable basis for our conclusions in this report.

As noted above, we obtained agency comments on the detailed findings and recommendations in a draft of the separately issued Limited Official Use Only report. The Commissioner of the Bureau of the Fiscal Service's comments are summarized in the Agency Comments section of this report.

Assessment of Fiscal Service's Information Systems Controls

During our fiscal year 2013 audit, we identified 14 new information systems general control deficiencies. Three of these deficiencies related to security management, seven related to access controls, and four related to configuration management. These new deficiencies in Fiscal Service's information systems controls, along with unresolved control deficiencies from

prior audits, collectively represent a significant deficiency in Fiscal Service's internal control over financial reporting.

Security management is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. Effectively designed and implemented security management programs establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed security management program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

Access controls limit access or detect inappropriate access to computer resources (data, equipment, and facilities), thereby protecting them from unauthorized modification, loss, disclosure, or a combination of these. Such controls include logical access controls and physical access controls. The new access control deficiencies we identified during fiscal year 2013 related to logical access controls. Effectively designed and implemented logical access controls require users to authenticate themselves through the use of passwords or other identifiers, and limit the files and other resources that authenticated users can access and the actions that they can execute based on a valid need that is determined by assigned official duties.

Configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. Effectively designed and implemented configuration management controls provide reasonable assurance that only authorized and fully tested changes are made to critical components at each system sublevel (i.e., network, operating systems, and infrastructure applications). In addition, effectively designed and implemented configuration management controls provide reasonable assurance that applications and changes to the applications go through a formal, documented systems development process that identifies all changes to the baseline configuration. To reasonably assure that changes to applications are necessary, work as intended, and do not result in the loss of data or program integrity, such changes should be documented, authorized, tested, and independently reviewed.

In a separately issued Limited Official Use Only report, we communicated to the Commissioner of the Bureau of the Fiscal Service detailed information regarding the 14 new information systems general control deficiencies and made 16 recommendations to address these control deficiencies.

In addition, our follow-up on the status of actions taken by Fiscal Service to address previously identified, but unresolved, information systems general control deficiencies as of September 30, 2012, found that corrective actions were complete for 7 of the 13 open recommendations and corrective action was in progress for each of the 6 remaining open recommendations.

The new deficiencies in Fiscal Service's information systems controls, along with unresolved control deficiencies from prior audits, collectively represent a significant deficiency in Fiscal Service's internal control over financial reporting. The potential effect of these new and continuing deficiencies on the Schedule of Federal Debt financial reporting for fiscal year 2013 was mitigated primarily by Fiscal Service's physical security measures and compensating management and reconciliation controls designed to detect potential misstatements on the Schedule of Federal Debt. Nevertheless, these new and continuing deficiencies impair

management's ability to obtain reasonable assurance regarding the effectiveness of controls, including change management controls, and increase the risk of unauthorized access, modification, or disclosure of sensitive data and programs, which could result in the disruption of critical operations and therefore warrant the attention and action of management.

Agency Comments

The Commissioner of the Bureau of the Fiscal Service provided comments on the detailed findings and recommendations in the separately issued Limited Official Use Only report. In those comments, the Commissioner stated that Fiscal Service acknowledges the significant deficiency in internal control over financial reporting and continues to move forward to address this deficiency. The Commissioner further commented that Fiscal Service is committed to having effective internal controls for its information technology systems. Accordingly, Fiscal Service will continue to look for efficient and effective ways to improve and ensure the consistent application of agency-wide security controls over all systems. We plan to follow up to determine the status of corrective actions taken for matters open as of September 30, 2013, during our audit of the fiscal year 2014 Schedule of Federal Debt.

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In the separately issued Limited Official Use Only report, we noted that the head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and to the House Committee on Oversight and Government Reform not later than 60 days after the date of this report. A written statement must also be sent to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to interested congressional committees, the Secretary of the Treasury, the Inspector General of the Department of the Treasury, and the Director of the Office of Management and Budget. In addition, this report is available at no charge on the GAO website at <http://www.gao.gov/>.

If you have any questions regarding this report, please contact me at (202) 512-3406 or engelg@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report include Nicole M. Burkart, Dianne D. Guensberg, David B. Hayes, and Jeffrey L. Knott (Assistant Directors) and Mickie E. Gray, Charles E. Jones, and Yiming Wu.

Sincerely yours,



Gary T. Engel
Director
Financial Management and Assurance

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