U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

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Mr. Timothy E. Gribben
Commissioner
Bureau of the Fiscal Service
Department of the Treasury

Management Report: Improvements Needed in the Bureau of the Fiscal Service's Information System Controls Related to the Schedules of the General Fund

Dear Mr. Gribben:

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government,[1] we were engaged to perform an audit of the Schedules of the General Fund, which the Department of the Treasury's (Treasury) Bureau of the Fiscal Service (Fiscal Service) manages, as of, and for the fiscal year ended, September 30, 2018.[2] As reported in connection with our audit of the Schedules of the General Fund for the fiscal year ended September 30, 2018, we identified a significant deficiency in internal control over certain Fiscal Service information systems.[3] We issued a LIMITED OFFICIAL USE ONLY management report presenting the deficiencies identified during our fiscal year 2018 testing of information system controls over key Fiscal Service financial systems relevant to the Schedules of the General Fund and associated recommendations to address them.[4]

As we reported in connection with our audit of the Schedules of the General Fund for the fiscal year ended September 30, 2018, certain significant deficiencies in internal control over financial reporting and other limitations on the scope of our work resulted in conditions that prevented us from expressing an opinion. Given the magnitude of some of our findings, we did not conduct an audit of the Schedules of the General Fund as of, and for the fiscal year ended, September 30, 2019, in order to provide Fiscal Service an opportunity to implement remediation efforts. However, during fiscal year 2019, we followed up on the status of fiscal year 2018 deficiencies and performed testing of information system controls for key Fiscal Service financial systems to

[1]Government Management Reform Act of 1994, Pub. L. No. 103-356, § 405(c), 108 Stat. 3410, 3416-17 (Oct. 13, 1994), *codified at* 31 U.S.C. § 331(e)(2).

[2]GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Year 2018 Schedules of the General Fund*, GAO-19-185 (Washington, D.C.: May 15, 2019).

[3]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. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[4]GAO, *Management Report: Improvements Needed in the Bureau of the Fiscal Service's Information System Controls Related to the Schedules of the General Fund*, GAO-19-463RSU (Washington, D.C.: May 15, 2019).

support our work on Fiscal Service's internal control over financial reporting relevant to the Schedules of the General Fund.

In addition, in our fiscal year 2019 audit of the Schedules of Federal Debt (SFD), we reported on deficiencies related to Fiscal Service's corrective action plan and independent verification and validation (IV&V) procedures used for addressing the information system control deficiencies identified in prior audits.[5] Specifically, Fiscal Service's corrective actions did not consistently resolve the underlying causes of the control deficiencies. These deficiencies affect the Schedules of the General Fund because Fiscal Service uses the same corrective action plan and IV&V procedures for both SFD and the Schedules of the General Fund.

Fiscal Service management made progress addressing prior year deficiencies during fiscal year 2019; however, the majority of the deficiencies that led to the Schedules of the General Fund's significant deficiency in internal control over certain Fiscal Service information systems for fiscal year 2018 were not remediated as of September 30, 2019. Continued and consistent management commitment will be essential to remediating the remaining deficiencies.

This report presents the deficiencies identified during our fiscal year 2019 testing of information system controls over key Fiscal Service financial systems relevant to the Schedules of the General Fund. This report also includes the results of our follow-up on the status of Fiscal Service's corrective actions to address control deficiencies contained in our prior report that were not remediated as of September 30, 2018.[6]

This report is a public version of a LIMITED OFFICIAL USE ONLY report that we issued concurrently. Fiscal Service deemed much of the information in our concurrently issued report to be sensitive information, which must be protected from public disclosure. Therefore, this report omits sensitive information about the information system control deficiencies we identified. Although the information provided in this report is more limited, the report addresses the same objectives as the LIMITED OFFICIAL USE ONLY report and uses the same methodology.

Results in Brief

During fiscal year 2019, we identified six new information system control deficiencies relevant to the Schedules of the General Fund: three related to access controls, one to configuration management, and two to segregation of duties. In the LIMITED OFFICIAL USE ONLY report, we made six recommendations to address these control deficiencies.

Concurrently with our work on the Schedules of the General Fund, Treasury's Office of Inspector General (OIG) contracted with an independent public accounting (IPA) firm to audit Treasury's fiscal year 2019 and 2018 consolidated financial statements.[7] Based on the results of the Treasury audit, Treasury OIG issued a management report containing 17 deficiencies, 10 of

[5]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2019 and FY 2018 Schedules of Federal Debt*, GAO-20-117 (Washington, D.C.: Nov. 8, 2019).

[6]GAO-19-463RSU.

[7]Department of the Treasury, Office of Inspector General, *Financial Management: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2019 and 2018*, OIG-20-012 (Washington, D.C.: Nov. 15, 2019).

which are new information system deficiencies that are relevant to the General Fund.[8] Those 10 deficiencies are included in the LIMITED OFFICIAL USE ONLY report.

In addition, during our follow-up on the status of Fiscal Service's corrective actions to address information system control–related deficiencies and associated recommendations contained in our prior year report that were open as of September 30, 2018, we determined that corrective action was complete for three of the 14 prior recommendations and corrective action was in progress for the remaining 11 recommendations.[9] Further, we followed up on the status of Fiscal Service's corrective actions to address information system control–related deficiencies relevant to the Schedules of the General Fund that Treasury OIG reported for fiscal year 2018. Treasury OIG reported that corrective action was complete for five of the 12 deficiencies and corrective action was in progress for the remaining seven deficiencies.[10] In the LIMITED OFFICIAL USE ONLY report, we communicated additional information regarding actions Fiscal Service has taken to address the control deficiencies contained in our prior year report and the status of those that Treasury OIG reported that were not remediated as of September 30, 2018.

These new and continuing information system control deficiencies increase the risk of unauthorized access to, modification of, or disclosure of sensitive data and programs; unauthorized configuration changes; and disruption of critical operations. In commenting on a draft of the separately issued LIMITED OFFICAL USE ONLY report, Fiscal Service stated that it continues to work to address all prior year recommendations that remained open as of September 30, 2019, and has established plans to address the six new recommendations made in this year's report.

Background

The General Fund is the entity responsible for reporting on the central activities fundamental to funding the federal government. The General Fund consists of assets and liabilities used to finance the daily and long-term operations of the U.S. government. More specifically, the General Fund is the reporting entity responsible for accounting for the cash activity of the U.S. government. For fiscal year 2018, the General Fund, whose management has been delegated to Treasury's Fiscal Service, reported $14.2 trillion of cash inflows, including debt issuances and taxes collected, and $14 trillion of cash outflows, including debt repayments and Social Security and health care benefit payments.[11] Further, the General Fund accounts for the annual budget deficit (budget outlays in excess of budget receipts).

The Schedules of the General Fund consist of two schedules. The first schedule, the Schedule of Operations of the General Fund, presents the cash balance and cash activity for the year, General Fund assets and liabilities that are held and managed by the Treasury, other intragovernmental assets and liabilities, and net equity of the General Fund. The Cash Held by Treasury section of this schedule reflects the cash activity of the U.S. government as well as its

[8]Department of the Treasury, Office of Inspector General, *Financial Management: Management Report for the Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2019 and 2018*, OIG-20-022 (Washington, D.C.: Dec. 16, 2019).

[9]GAO-19-463RSU.

[10]GAO-19-463RSU.

[11]Although Fiscal Service produced the Schedules of the General Fund for fiscal year 2019, they were not publicly released. Therefore, fiscal year 2018 amounts are being disclosed in this report.

fiscal year-end cash balance. The largest inflows of cash are collections from debt issuances and taxes, while the largest outflows are debt repayments and Social Security and health care benefit payments. As noted above, for fiscal year 2018, the Schedule of the Operations of the General Fund reported $14.2 trillion of cash inflows and $14 trillion of cash outflows. These amounts include cash activity related to debt issuances and repayments and tax collections that GAO audited as part of the fiscal year 2018 SFD and Internal Revenue Service (IRS) financial statement audits. Specifically, for fiscal year 2018, the SFD reported borrowings from the public totaling $10.1 trillion and repayments of debt held by the public totaling $9.0 trillion.[12] Tax collections by the IRS in fiscal year 2018 totaled $3.5 trillion.[13]

The second schedule, the Schedule of Changes in Cash Balance from Budget and Other Activities, reports how the annual budget deficit relates to the change in the cash held by Treasury. This schedule illustrates the government's cash flows relative to the budget deficit and provides the adjustments needed to reconcile the budget deficit for fiscal year 2018 ($779.0 billion) to the change in the Cash Held by Treasury for Governmentwide Operations line item reported on the Schedule of the Operations of the General Fund ($225.1 billion), including information on the federal government's investing and financing activities. This schedule presents three categories of reconciling items: (1) adjustments for noncash outlays included in the budget, (2) cash flow from activities not included in the budget, and (3) other General Fund activity. For fiscal year 2018, interest accrued on federal debt securities during fiscal year 2018 resulted in the largest adjustment for noncash activity to the budget deficit ($268.5 billion), while the net cash flow from financing federal debt securities resulted in the largest adjustment for cash activity not included in the budget ($1.0 trillion).

Fiscal Service relies on a number of interconnected financial systems and electronic data to manage the cash inflows and outflows of the U.S. government. Federal law requires federal agencies to provide information security protections for (1) information collected or maintained by or on behalf of the agency and (2) information systems[14] used or operated by the agency or by a contractor or other organization on the agency's behalf.[15] Federal law also requires agencies to comply with information security standards that the National Institute of Standards and Technology developed.[16] Further, federal law requires each agency to develop, document, and implement an agency-wide information security program to provide information security for

[12]GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2018 and 2017 Schedules of Federal Debt*, GAO-19-113 (Washington, D.C.: Nov. 8, 2018).

[13]GAO, *Financial Audit: IRS's Fiscal Years 2018 and 2017 Financial Statements*, GAO-19-150 (Washington, D.C.: Nov. 9, 2018).

[14]Under federal law, an information system is defined broadly as a "discrete set of information resources organized for the collection, processing, maintenance, use, sharing, dissemination, or disposition of information." 44 U.S.C. § 3502(8).

[15]Federal agency information security responsibilities are provided by the Federal Information Security Modernization Act of 2014 (FISMA 2014), Pub. L. No. 113-283, 128 Stat. 3073 (Dec. 18, 2014), *codified at* 44 U.S.C. §§ 3551–3558, which largely superseded the similar Federal Information Security Management Act of 2002, Title III of the E-Government Act of 2002, Pub. L. No. 107-347, 116 Stat. 2899, 2946 (Dec. 17, 2002). In particular, the federal agency responsibilities noted in this report are codified at 44 U.S.C. § 3554.

[16]FISMA 2014, *codified at* 44 U.S.C. § 3554(a).

the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source.[17]

Information system general controls are the structure, policies, and procedures that apply to an entity's overall computer operations and establish the environment in which the application systems and controls operate. An effective information system general control environment includes five general control areas:[18]

- **Security management.** Provides a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning responsibilities, and monitoring the adequacy of the entity's information system controls.
- **Access controls.** Limits access or detects inappropriate access to computer resources, such as data, programs, equipment, and facilities, thereby protecting them from unauthorized modification, loss, or disclosure.
- **Configuration management.** Prevents unauthorized or untested changes to critical information system resources at each system sublevel (i.e., network, operating systems, and infrastructure applications) and provides reasonable assurance that systems are securely configured and operating as intended.
- **Segregation of duties.** Includes policies and procedures and an organizational structure to manage who can control key aspects of computer-related operations.
- **Contingency planning.** Protects critical and sensitive data and provides for critical operations to continue without disruption or be promptly resumed when unexpected events occur.

Further, application controls, sometimes referred to as business controls, are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of data during application processing and reporting.

Objectives, Scope, and Methodology

Our objectives were to (1) evaluate information system controls over key financial systems that Fiscal Service maintains and operates that are relevant to the General Fund and (2) determine the status of Fiscal Service's corrective actions to address information system control deficiencies contained in our prior year report that were not remediated as of September 30, 2018. We evaluated information system controls using the *Federal Information System Controls Audit Manual*.[19] We performed this work to support our work on Fiscal Service's internal control over financial reporting relevant to the Schedules of the General Fund.

The scope of our information system general controls work for fiscal year 2019 included (1) following up on the status of Fiscal Service's corrective actions to address the information system control deficiencies contained in our prior year report that were not remediated as of September 30, 2018, 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

[17]FISMA 2014, *codified at* 44 U.S.C. § 3554(b).

[18]GAO, *Government Auditing Standards: 2011 Revision*, GAO-12-331G (Washington, D.C.: December 2011). The 2018 revision is not applicable for financial audits until July 2020.

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

systems or networks that could have an impact on the effectiveness of the information system controls at Fiscal Service as they relate to financial reporting relevant to the General Fund.

To evaluate information system controls, we identified and reviewed Fiscal Service's information system control policies and procedures; observed controls in operation; conducted tests of controls; and held discussions with Fiscal Service officials to determine whether controls were designed, implemented, and operating effectively.

We also determined whether relevant application controls were designed and implemented effectively, and then performed tests to determine whether the application controls were operating effectively as applicable. Specifically, we identified 13 systems relevant to the Schedules of the General Fund, of which we reviewed five. The remaining eight relevant systems overlapped with Treasury OIG's work and were not included in our review.

We used an IPA firm, under contract, to assist with information system testing, including follow-up on the status of Fiscal Service's corrective actions to address the control deficiencies contained in our prior year report that were not remediated as of September 30, 2018. We agreed on the scope of the IPA's work, monitored and reviewed all aspects of its work, and determined that the work was sufficient to satisfy our objectives.

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 to address control deficiencies not remediated as of September 30, 2019, during our audit of the fiscal year 2020 Schedules of the General Fund.

We conducted our work in accordance with U.S. generally accepted government auditing standards. We believe that our work provides a reasonable basis for the findings and recommendations in our separately issued LIMITED OFFICIAL USE ONLY report.

Assessment of Fiscal Service's Information System Controls Relevant to the Schedules of the General Fund

During fiscal year 2019, we identified six new information system control deficiencies: three related to access controls, one to configuration management, and two to segregation of duties. In addition, Treasury OIG issued a management report to Treasury containing 17 deficiencies, 10 of which are new information system deficiencies that are relevant to the General Fund.[20]

Access controls limit access or detect inappropriate access to computer resources, such as data, programs, equipment, and facilities, thereby protecting them from unauthorized modification, loss, or disclosure. Such controls include logical access controls and physical access controls. Logical access controls require users to authenticate themselves using 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 officials.

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. Configuration management controls should prevent unauthorized or untested changes to critical

[20]Department of the Treasury, Office of Inspector General, *Financial Management: Management Report*.

information system resources at each system sublevel (i.e., network, operating systems, and infrastructure applications) and provide reasonable assurance that systems are securely configured and operating as intended. In addition, 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 authorized, documented, tested, and independently reviewed.

Segregation of duties includes policies and procedures to ensure that work responsibilities are segregated so that one individual does not control all critical stages of a process. Segregation of duties is achieved by splitting responsibilities between two or more organizational groups. In addition, dividing duties this way diminishes the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other.

In the separately issued LIMITED OFFICIAL USE ONLY report, we communicated to the Commissioner of Fiscal Service detailed information regarding the six new information system control deficiencies and made six recommendations to address these control deficiencies. In addition, Treasury OIG issued a management report to Treasury containing 17 deficiencies, 10 of which are new information system deficiencies that are relevant to the General Fund. Those 10 deficiencies are also included in the LIMITED OFFICIAL USE ONLY report.

Status of Corrective Actions Taken on Recommendations from Our Prior Year Report

During our follow-up on the status of Fiscal Service's corrective actions to address control deficiencies contained in our prior year report that were not remediated as of September 30, 2018, we determined that corrective actions were complete for three of the 14 prior recommendations. We also determined that corrective actions were in progress for 11 prior recommendations. Although Fiscal Service made progress in addressing the deficiencies, additional actions are needed to resolve seven deficiencies related to access controls, two deficiencies related to segregation of duties, one deficiency related to contingency planning, and one deficiency related to business process controls. In the LIMITED OFFICIAL USE ONLY report, we communicated detailed information regarding actions Fiscal Service has taken to address the control deficiencies contained in our prior year report that were not remediated as of September 30, 2018.

In addition, although we did not issue recommendations related to information system control–related deficiencies relevant to the Schedules of the General Fund that were reported by Treasury OIG in fiscal year 2018, we tracked the status of Fiscal Service's corrective actions to address them. Treasury OIG reported that corrective action was complete for five of the 12 deficiencies and corrective actions were in progress for the remaining seven deficiencies. The status of those deficiencies is also included in the LIMITED OFFICIAL USE ONLY report.

Until these information system control deficiencies are fully addressed, there is an increased risk of unauthorized access to, modification of, or disclosure of sensitive data and programs; unauthorized configuration changes; and disruption of critical operations. We will follow up to determine the status of actions taken in response to these information system control deficiencies and associated recommendations during our audit of the fiscal year 2020 Schedules of the General Fund.

Agency Comments

Fiscal Service provided comments on the detailed findings and recommendations in the separately issued LIMITED OFFICIAL USE ONLY report. In those comments, Fiscal Service stated that it continues to work to address all prior year recommendations that remained open as of September 30, 2019, and has established plans to address the six new recommendations made in this year's report.

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 or planned on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Reform, the congressional committees with jurisdiction over the agency programs and activities that are the subject of our recommendations, and GAO not later than 180 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 180 days after the date of that report.

We are sending copies of this report to interested congressional committees, the Fiscal Assistant Secretary of the Department 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 or your staff have any questions regarding this report, please contact me at (202) 512-2623 or davisbh@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 Anne Sit-Williams (Assistant Director), Megan McGehrin, and Werner Miranda-Hernandez.

Sincerely yours,

Beryl H. Davis
Director
Financial Management and Assurance

(Job Code 103965)