



# Audit Report



OIG-04-006

Report on the Schedule of Loans Receivable from Federal Entities  
and Related Interest Receivable Serviced by the Treasury Bureau  
of the Public Debt at September 30, 2003

November 17, 2003

Office of  
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 17, 2003

MEMORANDUM FOR VAN ZECK, COMMISSIONER  
BUREAU OF THE PUBLIC DEBT

FROM: William H. Pugh, *William H. Pugh*  
Deputy Assistant Inspector General  
for Financial Management and Information  
Technology Audits

SUBJECT: Report on the Schedule of Loans Receivable from  
Federal Entities and Related Interest Receivable  
Serviced by the Treasury Bureau of the Public Debt  
at September 30, 2003

I am pleased to transmit the attached Report on the Schedule of Loans Receivable from Federal Entities and Related Interest Receivable Serviced by the Treasury Bureau of the Public Debt (BPD) at September 30, 2003 (Schedule of Loans Receivable). We contracted with the independent certified public accounting firm of KPMG LLP, an Independent Public Accountant (IPA), to audit the Schedule of Loans Receivable at September 30, 2003. The Schedule of Loans Receivable 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. The BPD is responsible for the accounting and servicing of loans made to Federal entities. The audited Schedule of Loans Receivable presents the September 30, 2003, balances of Federal loans receivable and related interest receivable that are serviced by the BPD.

The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

The following IPA reports are incorporated in the attachment:

- Independent Auditors' Report on Schedule;

- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

In its audit of BPD's Schedule of Loans Receivable, KPMG LLP found:

- the Schedule of Loans Receivable presents fairly, in all material respects, the loans receivable from Federal entities and related interest receivable serviced by the BPD at September 30, 2003, 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 in internal control, and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG LLP's report 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 BPD's Schedule of Loans Receivable or conclusions about the effectiveness of internal control; or a conclusion on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report dated October 31, 2003 and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment



**U.S. Department of the Treasury**

**Schedule of Loans Receivable from Federal Entities and Related  
Interest Receivable**

**Serviced by the Bureau of the Public Debt**

**At September 30, 2003**

**U.S. Department of the Treasury**  
**Schedule of Loans Receivable**  
**from Federal Entities and Related Interest Receivable**  
**Serviced by the Bureau of the Public Debt**  
**At September 30, 2003**

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2001 M Street NW  
Washington, DC 20036

## **Independent Auditors' Report on Schedule**

Inspector General, U.S. Department of the Treasury and  
Commissioner, Bureau of the Public Debt:

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, 2003 (the Schedule). The Schedule is the responsibility of BPD's management. Our responsibility is to express an opinion on the Schedule based on our audit.

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. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 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 audit provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the loans receivable from Federal entities and related interest receivable serviced by the BPD at September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 31, 2003, on our consideration of the BPD's internal control over financial reporting related to the Schedule and BPD's compliance with certain provisions of laws and regulations related to the Schedule. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

**KPMG LLP**

October 31, 2003





2001 M Street NW  
Washington, DC 20036

## **Independent Auditors' Report on Internal Control over Financial Reporting**

Inspector General, U.S. Department of the Treasury and  
Commissioner, Bureau of the Public Debt:

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, 2003 (the Schedule) and have issued our report thereon dated October 31, 2003. We have 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. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered BPD's internal control over financial reporting by obtaining an understanding of BPD's internal controls related to the Schedule, determining whether internal controls had been placed in operation, assessing control risk, and performing 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. 01-02, as applicable to the Schedule, and *Government Auditing Standards*. We did not test all internal controls as relevant to operating objectives as broadly defined by the *Federal Manager's Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on the internal controls over financial reporting related to the Schedule. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are 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, 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 any internal controls, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving internal control and its operation that we considered to be material weaknesses as defined above.





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

KPMG LLP

October 31, 2003



2001 M Street NW  
Washington, DC 20036

## **Independent Auditors' Report on Compliance with Laws and Regulations**

Inspector General, U.S. Department of the Treasury and  
Commissioner, Bureau of the Public Debt:

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, 2003 (the Schedule) and have issued our report thereon dated October 31, 2003. We have 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. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of BPD is responsible for complying with laws and regulations applicable to the Schedule. 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 related to the Schedule, noncompliance with which could have a direct and material effect on the determination of the Schedule amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Schedule. However, providing an opinion on compliance with applicable provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

***Federal Financial Management Improvement Act (FFMIA) of 1996.*** Based on discussions with the Office of Management and Budget, the preparation of the Schedule referred to above is not subject to the requirements of FFMIA and, accordingly, our test work did not encompass the FFMIA requirements.

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

**KPMG LLP**

October 31, 2003



**U.S. Department of the Treasury**  
**Schedule of Loans Receivable**  
**from Federal Entities and Related Interest Receivable**  
**Serviced by the Bureau of the Public Debt**  
**At September 30, 2003**

(Dollars in Millions)

Loans Receivable from Federal Entities	\$224,468
Interest Receivable from Federal Entities	\$1,357

The accompanying notes are an integral part of this schedule.

**U.S. Department of the Treasury**  
**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, 2003**

**Note 1. Significant Accounting Policies**

**A. Reporting Entity**

Loans and interest receivable from federal entities represent intragovernmental receivables. These receivables arise from certain federal entities who have been granted specific legislative authority to borrow from the U.S. Department of the Treasury (Treasury). Using the funds borrowed, these entities make loans to nonfederal borrowers, such as students and farmers.

**B. Basis of Presentation**

The Schedule of Loans Receivable from Federal Entities and Related Interest Receivable serviced by the Bureau of the Public Debt (Schedule) has been prepared to report the balance outstanding at September 30, 2003 of amounts loaned by Treasury to federal entities and the related interest receivable. The Schedule has been prepared in accordance with accounting principles generally accepted in the United States of America.

**C. Basis of Accounting**

The amounts included in the accompanying schedule are presented on the accrual basis of accounting. Under the accrual basis of accounting, loan borrowings are recognized when they are issued, loan repayments are recognized when they are received, and interest is recognized when it is earned.

**D. Loans Receivable Write-offs / Forgiveness**

When a federal entity borrows from Treasury, the federal entity records an intragovernmental payable and Treasury records an intragovernmental receivable. In some cases, federal entities are unable to fully repay such loans. When this occurs, the federal entity requests an appropriation to repay the debt or obtains Congressional approval to forgive the debt. If the debt is forgiven, Treasury's intragovernmental receivable is written down, as well as the federal entity's intragovernmental payable. Since agencies have permanent indefinite budget authority, an allowance for uncollectible loans and interest receivable is unnecessary.

**U.S. Department of the Treasury**  
**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, 2003**

**Note 2. Loans Receivable from Federal Entities**

At September 30, 2003, loans receivable from various federal entities related to the following programs and funds (dollars in millions) are as follows:

<u><b>Agency/Entity</b></u>	<u><b>Program/Fund</b></u>	<u><b>Balance</b></u>
Education:	Federal Direct Student Loan Program	\$91,787
Treasury:	Federal Financing Bank Revolving Fund	\$36,657
Agriculture:	Farm Service Agency: Commodity Credit Corporation	\$20,126
Housing and Urban Development:	Federal Housing Administration and Housing for the Elderly	\$11,434
Agriculture:	Rural Housing Service: Rural Housing Insurance Fund	\$10,300
	Rural Utilities Service: Rural Electrification and Telecommunications Fund	\$10,093
Export-Import Bank:	Export-Import Service: Export-Import Bank	\$7,281
Small Business Administration:	Disaster Loan Fund	\$5,081
Federal Communications Commission:	Federal Communications Commission	\$5,065
Other:	Other programs and funds	\$26,644
Total loans receivable from federal entities		<u>\$224,468</u>

**U.S. Department of the Treasury**  
**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, 2003**

**Note 3. Interest Revenue**

During the year ended September 30, 2003, interest earned on loans from federal entities totaled \$13,130 million. Netted in this amount is a realized loss of \$519 million from an exchange transaction between the Bureau of the Public Debt (BPD) and the Federal Financing Bank (FFB). This realized loss resulted from BPD exchanging \$15,045 million of Specified Treasury Special Securities issued by BPD at par value with related interest of \$139 million as payment for \$15,412 million of loans receivable and \$291 million of interest receivable due from FFB.