

# Office of Inspector General



Office of Audits  
Report No. AUD-10-003

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**Verification of the FDIC's Data  
Submissions through the Governmentwide  
Financial Report System as of  
September 30, 2009**

January 2010



**DATE:** January 6, 2010

**MEMORANDUM TO:** Bret D. Edwards  
Director, Division of Finance

**FROM:** */Signed/*  
Russell A. Rau  
Assistant Inspector General for Audits

**SUBJECT:** *Verification of the FDIC's Data Submissions through the Governmentwide Financial Report System as of September 30, 2009 (Report No. AUD-10-003)*

This report presents the results of our agreed-upon procedures (AUP) attestation engagement related to the FDIC's financial data transmitted to the Department of the Treasury (Treasury) Governmentwide Financial Report System (GFRS) to satisfy requirements for data submissions as of September 30, 2009. The report is intended solely for use by the Treasury, the FDIC, and only those parties that have an adequate understanding of the criteria governing the procedures performed. The objective of the engagement was to verify that FDIC summary accounting information, prepared using United States Standard General Ledger (USSGL) accounts, agreed with summary information, prepared using the FDIC's general ledger accounts,<sup>1</sup> and was accurately entered into the GFRS financial statement modules as of September 30, 2009 and for the fiscal year then ended.<sup>2</sup> We conducted this engagement in accordance with standards for AUP attestation engagements included in generally accepted government auditing standards.

The AUPs were discussed with the Division of Finance (DOF) in our assignment's planning stage and were mutually acceptable to DOF and the Office of the Inspector General (OIG). We specified in those discussions that the following areas are not covered by our AUPs:

- (1) Intragovernmental material differences. The United States Office of Management and Budget (OMB) rescinded this requirement on August 25, 2008.
- (2) GFRS footnote disclosures, which are formatted to accommodate the Treasury's GFRS standard footnote template. The GFRS footnote template differs from the FDIC's December 31 year end footnote disclosures. The FDIC prepares footnotes for its calendar year end financial statements in accordance with U.S. generally accepted accounting principles, which the FDIC's independent auditor, the Government Accountability Office (GAO), has concluded apply to each of the FDIC's funds for financial reporting and disclosure.

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<sup>1</sup> The GFRS submissions are a consolidation of the FDIC Deposit Insurance Fund (DIF), Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), and FRF Resolution Trust Corporation (RTC) funds.

<sup>2</sup> The FDIC uses a calendar year for its annual financial statements.

- (3) Verification of the FDIC's cross-walk process for transferring the FDIC's general ledger amounts into the USSGL account structure to accommodate GFRS module reporting. We verified that summary amounts from the FDIC's general ledger were reflected in the GFRS but did not verify the cross-walk process used for determining which FDIC general ledger accounts are grouped and assigned new account classifications in the USSGL accounts.

## BACKGROUND

Section 405 of the Government Management Reform Act<sup>3</sup> of 1994 requires that the Secretary of the Treasury annually prepare and submit to the President and the Congress audited financial statements for the preceding fiscal year. Those statements must cover all accounts and associated activities of the executive branch of the Federal Government. Section 114 of the Budget and Accounting Procedures Act of 1950<sup>4</sup> requires each executive branch agency to furnish financial and operational information as the Secretary of the Treasury may stipulate.

On May 29, 2009, the Treasury issued Transmittal Letter No. 650, *Treasury Financial Manual (TFM)*, which describes how agencies provide data for the *Financial Report of the United States Government (FR)* using the GFRS. Among other things, the TFM includes the Financial Management Service's (FMS) fiscal 2009 Closing Package methodology and the federal intragovernmental transactions process.

The TFM requires all agencies to provide the FMS with fiscal year end data to be used to prepare the FR. All agencies, including the FDIC, were required to submit their financial data using the Closing Package process within the GFRS. The financial submissions are used to link the agencies' comparative, audited consolidated, department-level<sup>5</sup> financial statements to the FR. The Chief Financial Officer (CFO) of each verifying agency<sup>6</sup> was required to prepare and submit the Closing Package data for fiscal year 2009 and fiscal year 2008 within the GFRS at the department level. Each CFO must verify the financial data submitted into the GFRS for consistency with each agencies' comparative, audited consolidated, department-level financial statements. The IG of each verifying agency, except those agencies with a year end other than September 30, was required to opine on the Closing Package data entered into the GFRS by the CFO. The FDIC falls within the exception of having a year end other than September 30, and the FDIC OIG was not required to opine on the FDIC's unaudited September 30, 2009 financial information.<sup>7</sup> However, the TFM required the IGs to provide audit assurance on material line items. As the FDIC's principal auditor, the GAO agreed to perform this task for the FDIC.

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<sup>3</sup> 31 United States Code (U.S.C.) § 331(e)(1).

<sup>4</sup> 31 U.S.C. § 3513(a).

<sup>5</sup> Figure 1 of the TFM identifies agencies deemed departments.

<sup>6</sup> Verifying agencies are those required by the TFM to verify and submit a Closing Package and provide CFO representations for federal intragovernmental activity and balances. Note, however, that the Chief Financial Officers Act requires agency Inspectors General (IG), including the FDIC IG, to perform an annual audit of the agency's financial statements, unless the GAO performs the audit, as is the case with the FDIC's financial statements.

<sup>7</sup> According to Section 17 of the Federal Deposit Insurance Act (FDI Act), GAO is required to audit the FDIC's financial transactions annually. However, refer to footnote 6.

The TFM did not require the FDIC OIG to perform, and we did not perform, a financial statement audit, the objective of which is to provide an independent assessment of, and reasonable assurance about, whether an entity's financial condition, results, and use of resources are presented fairly in accordance with recognized criteria.

## **RESULTS OF ATTESTATION ENGAGEMENT**

We were able to verify that the FDIC's September 30, 2009 summary account information, prepared using the USSGL accounts, agreed with summary information from the FDIC's general ledger accounts and was accurately entered into the GFRS financial statement modules. Further, we were able to verify that the FDIC's December 31, 2008 year end data submitted to the GFRS agreed with the FDIC's December 31, 2008 audited financial statements. The December 31, 2008 financial statements were audited by the GAO and received an unqualified opinion.

We noted, however, two FRF general ledger accounts that required routine adjustments by the FDIC to correct the general ledger account balances. While having no effect on either the FDIC's final account balances submitted to the GFRS or the audited calendar year end financial reports, the FRF Contributed Capital and FRF Accumulated Deficit general ledger accounts were misstated by \$7.5 billion and required adjustment before the trial balance amounts could extend into the GFRS for the period ended September 30, 2009. The FDIC has routinely made this adjustment to the FRF general ledger account balances for all financial statement reporting periods since 2005.

In 2005, the FDIC's New Financial Environment (NFE) replaced the FDIC's previous general ledger software, the Financial Information Management System. The initial accounting system conversion improperly transferred \$7.5 billion from the FRF Accumulated Deficit balance to the Contributed Capital balance, resulting in an overstatement of the Contributed Capital general ledger account balance and a corresponding understatement of the Accumulated Deficit account balance. The FDIC was aware of the incorrect balances and initiated procedures to have the accounts fairly stated for reporting purposes. Specifically, the FDIC routinely processed a \$7.5 billion adjustment manually on a post-trial-balance basis, generally with other adjustments of trial balance amounts, to correct the balances in financial reports. However, the NFE internal controls related to the FDIC's general ledger processes have prevented the FDIC from posting adjusting entries directly to the Accumulated Deficit account in the general ledger or permanently correcting the account balances.

According to NFE general ledger account definitions, Contributed Capital is to be used to record the legislatively mandated funding for the RTC and FRF, while the Accumulated Deficit records the deficit derived from operations. To bring these general ledger accounts to appropriate balances, the \$7.5 billion adjusting journal entry to the Accumulated Deficit and Contributed Capital accounts must be recorded in the general ledger.

As of December 2009 and subsequent to our fieldwork, DOF was modifying NFE internal controls to allow a permanent adjustment to the general ledger to correct the account balances. The FDIC previously noted that pursuing such action was not a high priority because of efforts to result in dissolution of the FRF. However, the FRF was still active in 2009, and dissolution

does not appear imminent. Because DOF's actions will omit the need for periodic adjustments to the FRF Contributed Capital and FRF Accumulated Deficit accounts, we are not making recommendations.

During the next OIG attestation engagement of the GFRS submissions slated for the fall of 2010, we will verify that the FRF general ledger corrections discussed in this report were implemented.

## **MANAGEMENT COMMENTS**

We provided DOF a draft of this report on December 28, 2009. On December 29, 2009, DOF commended the OIG's work on this engagement and stated that it had no formal comments.