

Office of Inspector General



Office of Audits
Report No. AUD-11-003

**Verification of the FDIC's Data
Submissions through the Governmentwide
Financial Report System as of
September 30, 2010**

December 2010



DATE: December 14, 2010

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

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

SUBJECT: Attestation Report Entitled, *Verification of the FDIC's Data Submissions through the Governmentwide Financial Report System as of September 30, 2010* (Report No. AUD-11-003)

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, 2010, as discussed below. 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,¹ and was accurately entered into the GFRS financial statement modules as of September 30, 2010 and for the fiscal year then ended.² 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 The United States Office of Management and Budget (OMB) rescinded this requirement on August 25, 2008.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

¹ 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.

² The FDIC uses a calendar year for its annual financial statements.

(GAO), has concluded apply to each of the FDIC's funds for financial reporting and disclosure.

- (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 of 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 Act³ 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 1950⁴ requires each executive branch agency to furnish financial and operational information as the Secretary of the Treasury may stipulate.

On June 17, 2010, the Treasury issued Transmittal Letter No. 658, *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 year 2010 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-level⁵ financial statements to the FR. The Chief Financial Officer (CFO) of each verifying agency⁶ was required to prepare and submit the Closing Package data for fiscal year 2010 and fiscal year 2009 within the GFRS at the department level. Each CFO must verify the financial data submitted into the GFRS for consistency with each agency's 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 this 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, 2010 financial

³ 31 United States Code (U.S.C.) § 331(e)(1).

⁴ 31 U.S.C. § 3513(a).

⁵ The TFM requires that the GFRS capture each agency's Closing Package information and link the agency's comparative, audited consolidated, department-level financial statements to the FR. The FDIC is included among the agencies deemed to be departments in Figure 1 of the TFM.

⁶ 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.

information.⁷ 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.

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

In accordance with our engagement, we were able to verify that the FDIC's September 30, 2010 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, 2009 year end data submitted to the GFRS agreed with the FDIC's December 31, 2009 audited financial statements. The December 31, 2009 financial statements were audited by the GAO and received unqualified opinions.

We applied GAO's materiality threshold for its audit of the FDIC's financial statements for the year ending December 31, 2010 to the transactions reviewed during our attestation engagement. Two adjustments to the FDIC general ledger balances at September 30, 2010 exceeded the GAO materiality threshold of \$1.7 billion. The first was a \$42.6 billion adjustment made to reclassify the credit entries to the Net Receivable asset account into the Liabilities Due to Resolutions liability account. This entry was based on the specific identification of amounts owed by the FDIC to receiverships that were being accounted for through the Net Receivable asset account. The FDIC posts due-to and due-from amounts related to receiverships in the Net Receivable asset account, thus netting the amounts. This reclassification separates the FDIC assets generated in the form of amounts due to the FDIC from resolutions and the FDIC liabilities created when the FDIC assumes obligations in the course of resolution activities. We concluded that this entry was appropriate for GFRS reporting.

The second material amount involved a set of entries to reclassify Insurance and Guarantee Program Liabilities. These entries were made through the GFRS Line Reclassification Summary Report to ensure proper reporting of Insurance and Guarantee Program Liabilities separately, as distinguished from the general grouping in Accounts Payable and Other Liabilities account, for fiscal years 2009 and 2010. A \$10.3 billion adjustment was made to the previously reported September 30, 2009 Other Liabilities account, and a similar adjustment of \$7.9 billion was made to the September 30, 2010 Other Liabilities account. Both entries reclassified the Insurance and Guarantee Program Liabilities portion of the Other Liabilities account from Other Liabilities to the Insurance and Guarantee Program Liabilities account. In June 2010, the FDIC received Treasury FMS guidance that requires accounting for the Insurance and Guarantee Program Liabilities separately from Other Liabilities in the GFRS

⁷ 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. In accordance with Section 17 of the Federal Deposit Insurance Act (FDI Act), GAO audits the FDIC's financial transactions annually.

account. We reviewed the Treasury FMS correspondence and the reclassification entries and concluded that these adjustments were appropriate.

In our prior attestation engagement for the fiscal year ended September 30, 2009 GFRS submissions, we noted that two FRF general ledger accounts, FRF Contributed Capital and FRF Accumulated Deficit, required routine adjustments to correct the general ledger accounting records. These annual adjustments were reportedly required because system limitations precluded correcting the accounts in the general ledger. The adjustments in prior years brought these accounts to the appropriate balances for the FDIC's GFRS submissions and annual audited financial statement reporting. A \$7.5 billion amount had to be adjusted to each of the FRF Contributed Capital and FRF Accumulated Deficit accounts, through journal entry, to have the account balances properly reflected in the FDIC's general ledger. Subsequent to the September 30, 2009 fiscal year end attestation fieldwork, DOF initiated action to correct the general ledger balances in the two accounts, and the periodic \$7.5 billion adjustment was no longer needed. As part of our fieldwork for this current attestation, we verified that the two FRF accounts did not require adjusting to be stated appropriately, indicating that the corrective action had been completed.

MANAGEMENT COMMENTS

We provided DOF a draft of this attestation report on December 2, 2010. On December 9, 2010, DOF suggested two minor editorial changes to the report, which we incorporated, and advised us that it had no formal written comments.