



Office of Inspector General

January 2008
Report No. AUD-08-004

**Verification of the FDIC's Data
Submissions through the
Governmentwide Financial Report
System as of September 30, 2007**

AUDIT REPORT





DATE: January 28, 2008

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, 2007* (Report No. AUD-08-004)

This report presents the results of our attestation engagement related to the FDIC's financial data transmitted to the Department of the Treasury (Treasury) to satisfy submissions for the September 30, 2007 governmentwide financial statements. The FDIC's Office of Inspector General (OIG) was requested, and agreed, to assist with the FDIC's submission of financial data for the governmentwide financial statements. For this engagement, we performed procedures that were agreed-upon by the FDIC's Division of Finance (DOF), which was responsible for preparing the FDIC's financial statements. The attestation objective was to verify, through the agreed-upon procedures, whether financial data, submitted by the FDIC through the Governmentwide Financial Report System (GFRS) as of the September 30, 2007 yearend, were recorded in accordance with the FDIC's policies and procedures. This yearend is used for the financial statements of the U.S. Government that include certain FDIC data. The agreed-upon procedures we performed were to:

1. Verify the financial amounts submitted in the GFRS to source FDIC records. The source for unaudited data (that is, other than the FDIC's audited calendar-yearend information) was the FDIC's New Financial Environment (NFE), which incorporates the FDIC's general ledger.
2. Review the FDIC's identification of all federal trading partners and verify that any differences between the FDIC's records and the trading partners' records are noted and evaluated for materiality.
3. Review the FDIC-provided footnotes to the GFRS financial statement data.
4. "Lock" the GFRS financial statement data submissions after the FDIC submits its data. The "lock" is based on the items we reviewed using procedures 1 through 3.

5. Obtain the FDIC's interim management and legal representation letters for the fiscal year ended September 30, 2007.
6. Summarize OIG work and conclusions formally through an attestation report.

BACKGROUND

Over the years, various federal statutes have been enacted regarding the preparation of financial statements by federal agencies, including the FDIC. The statutes require federal agencies to provide financial information to the Secretary of the Treasury for the preparation of governmentwide financial reports. The procedures for providing financial data to the Treasury are described in the *Treasury Financial Manual* (the Manual), which describes how agencies are to submit data through the GFRS. The Manual requires the Inspector General of each verifying agency, except those agencies with a yearend other than September 30, to opine on data entered into the GFRS, regarding their consistency with the audited consolidated, department-level financial statements. The verifying agencies with a yearend other than September 30 are subject to all requirements of the Manual except for the requirement for an audit of the agencies' GFRS data. The FDIC falls within this exception because the Corporation reports annual financial results on a December 31 yearend basis. Therefore, the OIG developed agreed-upon procedures to perform a validation function, called "locking," of the data the FDIC entered into various modules within the GFRS as of the September 30, 2007 yearend.

ATTEST ENGAGEMENT SCOPE

We performed this engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards*, issued by the Comptroller General of the United States. The procedures we performed and our associated conclusions are presented in the Appendix to this report. The sufficiency of the agreed-upon procedures is solely the responsibility of DOF. Additionally, FDIC management is responsible for the proper accounting, presentation, and reporting of (1) its consolidated financial statements and (2) the information in the GFRS.

We were not engaged to, and did not perform, an audit of the matters addressed herein, the objective of which would be the expression of an opinion on such information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the United States Office of Management and Budget (OMB), Government Accountability Office (GAO), Treasury, and the FDIC and is not intended to, and should not, be used by anyone other than these specified parties.

VERIFICATION OF THE FDIC'S DATA SUBMISSIONS THROUGH THE GOVERNMENTWIDE FINANCIAL REPORT SYSTEM AS OF SEPTEMBER 30, 2007

Procedure 1

Verify the financial amounts submitted in the GFRS to source FDIC records. The source for unaudited data (that is, other than the FDIC's audited calendar-year-end information) was the FDIC's New Financial Environment (NFE), which incorporates the FDIC's general ledger.

Conclusions:

- 1) The financial amounts submitted in the GFRS were supported by the FDIC's general ledger balances maintained in the NFE.
 - 2) The FDIC's September 30, 2007 financial information, which included unaudited calendar-year-end information, must be modified to include routine FDIC-generated year-end adjustments that bring the FDIC's financial statements into compliance with the federal government financial reporting standards. Necessary adjustments totaling over \$700 million were required for fair financial presentations at September 30, 2007 and for the fiscal year then ended and exceeded our testing materiality threshold. We reviewed the adjustments to ensure they were appropriate.
 - 3) The September 30, 2007 fiscal year-end financial information included audited FDIC data for one quarter--October 1, 2006 through December 31, 2006. Any adjustments proposed and posted by the FDIC's external auditor, GAO, could impact the September 30, 2007 fiscal-year-end data submitted into GFRS. GAO did not propose audit adjustments for the December 31, 2006 calendar year-end.
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Procedure 2

Review the FDIC's identification of all federal trading partners and verify that any differences between the FDIC's records and the trading partners' records are noted and evaluated for materiality.

Conclusions:

- 1) We traced the FDIC's trading partner activities/balances from the GFRS intragovernmental transactions trading partner data (data submitted by the verifying agencies) to the FDIC's supporting reconciliation schedules. We noted only immaterial differences.
- 2) The FDIC had contacted all of its trading partners in an effort to explain noted differences in intragovernmental activity, but in a number of instances, responses

from the applicable trading partners were not received. Without cooperation from the other trading partners, the FDIC cannot completely reconcile its intragovernmental activities.

- 3) The FDIC was not able to reconcile all of its intragovernmental activities and balances reported in the GFRS trading partner data to the transactions reported by its trading partners. GAO noted this as an internal control weakness dating to 2003 and further noted that the FDIC had increased the number of reconciliations performed in an effort to reconcile intergovernmental activity. The trading partner balances not successfully reconciled as of September 30, 2007 were well under our testing materiality thresholds and were insignificant to the overall FDIC balance sheet, and, therefore, had no material impact on the September 30, 2007 fiscal-yearend GFRS data submissions.
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Procedure 3

Review the FDIC-provided footnotes to the GFRS financial statement data.

Conclusion:

The FDIC properly provided footnote data in the GFRS.

Procedure 4

“Lock” the GFRS financial statement data submissions after the FDIC submits its data. The “lock” is based on the items we reviewed using procedures 1 through 3.

Conclusion:

The OIG locked the FDIC’s GFRS data submissions for financial information as of September 30, 2007 and the fiscal year then ended, in accordance with GFRS requirements as defined in the *Treasury Financial Manual*.

Procedure 5

Obtain the FDIC’s interim management and legal representation letters for the fiscal year ended September 30, 2007.

Conclusion:

We obtained the FDIC's management and legal representation letters for the FDIC financial representations at September 30, 2007 and the fiscal year then ended. DOF provided copies to OMB and GAO in accordance with the *Treasury Financial Manual*. There were no disclosures in either of these documents that would impact the financial data submitted into GFRS for the fiscal-yearend September 30, 2007.

Procedure 6

Summarize OIG work and conclusions formally through an attestation report.

This report presents the results of our attestation engagement.