

**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, 2002**

OIG-03-022

November 25, 2002



Office of Inspector General

The Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 25, 2002

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, 2002

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, 2002 (Schedule of Loans Receivable). We contracted with KPMG LLP, an Independent Public Accountant (IPA), to audit the Schedule of Loans Receivable at September 30, 2002.

The IPA issued the following reports, which are included 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.

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, 2002, balances of Federal loans receivable and related interest receivable that are serviced by the BPD.

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The IPA rendered an unqualified opinion on the Schedule of Loans Receivable at September 30, 2002. The IPA's Report on Internal Control over Financial Reporting contained no reportable conditions. In addition, the IPA's Report on compliance with Laws and Regulations disclosed no instances of noncompliance.

The IPA issued a management letter dated November 8, 2002, discussing one matter identified during the audit, but which was not required to be included in the audit report.

My staff's review of the IPA's working papers determined that the work was performed in accordance 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 Louis C. King, Director, Financial Audits at (202) 927-5774.

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, 2002

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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, 2002 (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 Bureau of the Public Debt at September 30, 2002, 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 November 8, 2002, 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

November 8, 2002





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, 2002 (the Schedule) and have issued our report thereon dated November 8, 2002. 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 the 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 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.





We noted one matter involving internal control and its operation that we have reported to the management of BPD in a separate letter dated November 8, 2002.

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

November 8, 2002



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, 2002 (the Schedule) and have issued our report thereon dated November 8, 2002. 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

November 8, 2002

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, 2002

(Dollars in Millions)

Loans Receivable from Federal Entities	\$213,551
Interest Receivable from Federal Entities	\$1,965

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, 2002

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 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, 2002 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 and applicable provisions of Office of Management and Budget Bulletin 01-09, *Form and Content of Agency Financial Statements*.

C. Basis of Accounting

The Schedule was prepared in accordance with accounting principles generally accepted in the United States of America. The amounts included in the accompanying schedule are presented on the accrual basis of accounting.

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 Schedules of Loans Receivable
from Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 2002

Note 2. Loans Receivable from Federal Entities

At September 30, 2002, loans receivable from various federal entities related to the following programs and funds (dollars in millions) are as follows:

<u>Agency/Entity</u>	<u>Program/Fund</u>	<u>Balance</u>
Department of Education	Federal Direct Student Loan Program	\$ 89,498
Department of the Treasury	Federal Financing Bank Revolving Fund	24,693
Department of Agriculture	Farm Service Agency:	
	Commodity Credit Corporation	19,234
	Agricultural Credit Insurance Fund	5,550
Department of Agriculture	Rural Utilities Service:	
	Rural Electrification and Telecommunications Fund	11,070
Department of Housing and Urban Development	Federal Housing Administration and Housing for the Elderly	10,193
Small Business Administration	Disaster Loan Fund	9,742
Department of Agriculture	Rural Housing Service:	
	Rural Housing Insurance Fund	9,708
Export-Import Bank	Export-Import Service:	
	Export-Import Bank	6,657
Federal Communications Commission	Federal Communications Commission	5,771
Other	Other Programs and Funds	<u>21,435</u>
Total loans receivable from Federal entities		<u>\$ 213,551</u>

Note 3. Interest Revenue

During the year ended September 30, 2002, interest earned on loans from federal entities totaled \$12,943 million.