



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

FEB 6 2003

MEMORANDUM

TO: Jack Martin  
Chief Financial Officer

FROM: Helen Lew *Helen Lew*  
Acting Assistant Inspector General for Audit Services

SUBJECT: FEDERAL INTRAGOVERNMENTAL ACTIVITY AND BALANCES  
AGREED-UPON PROCEDURES REPORT  
(ED-OIG/A17-D0002)

The enclosed report presents the results of the U.S. Department of Education's Federal Intragovernmental Activity and Balances agreed-upon procedures engagement. The purpose of the engagement was to perform certain procedures to compare and identify differences between the Department's reconciliation of intragovernmental transactions with its trading partners and the Department's audited financial statements for fiscal year 2002. The Office of Inspector General (OIG) contracted with Ernst & Young, LLP, Certified Public Accountants, to perform the engagement. The OIG monitored the progress and completion of the work to ensure compliance with *Government Auditing Standards* and standards established by the American Institute of Certified Public Accountants.

The auditors have discussed the findings with you or appropriate members of your staff during the engagement. This report is intended solely to assist the Department of the Treasury, Financial Management Service (FMS), the General Accounting Office (GAO), and the Office of Management and Budget (OMB), in evaluating Department management's assertions about its Federal Intragovernmental Activity and Balances. As such, no further action on your part is necessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this report have been provided to the persons shown on the distribution list.

Jack Martin  
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We appreciate the cooperation given us and Ernst & Young, LLP, during the engagement. Should you have any questions concerning the report, please contact me at 205-9604 or Todd Givens at 205-7945.

Attachment

Distribution List:

Mark Carney – OCFO  
Terry Bowie – OCFO  
Bill Flemming – OCFO

AGREED UPON PROCEDURES  
INTRAGOVERNMENTAL TRANSACTIONS  
U.S. Department of Education  
Year Ended September 30, 2002

**Independent Accountant's Report  
On Applying Agreed-Upon Procedures**

To the Inspector General  
U.S. Department of Education

We have performed the procedures enumerated in the attachment, which were agreed to by the Department of the Treasury, Financial Management Service (FMS), the General Accounting Office (GAO), and the Office of Management and Budget (OMB). These procedures were performed solely to assist them in evaluating the U.S. Department of Education (the Department) management's assertion that it reconciled Federal intragovernmental activity and balances for the fiscal year ended September 30, 2002, and compared the intragovernmental activity and balances per the financial records supporting the audited department consolidated financial statements for fiscal year 2002, as to amounts and USSGL accounts with the final amounts and USSGL accounts submitted to FMS (FACTS I and/or FACTS NOTES). This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of FMS, GAO and OMB. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment either for the purpose for which this report was requested or for any other purpose. The procedures performed and the related findings are enumerated in the attachment.

We were not engaged to and did not perform an examination, the objective of which would be an expression of an opinion on management's assertion. 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 those parties in this report and is not intended to be and should not be used by any one other than these specified parties.

*Ernst + Young LLP*

February 6, 2003  
Washington, D.C.

AGREED-UPON PROCEDURES AND E&Y FINDINGS

**Procedure 1**

Review the electronic file provided by the agency CFO of the responses to item 5 of the CFO Representations for Federal Intragovernmental Activity and Balances described in the Treasury Financial Manual (TFM), Section 4030.80, copies of the reconciliations, and confirmations. For each "Yes" response for "Fiduciary – Federal Intragovernmental Activity and Balances" reconciliations, perform the following steps:

- Compare the amounts in such reconciliations to supporting documentation. Indicate if no differences were found. Clearly explain any differences.
- Trace the adjustments, if any, identified in the reconciliation process that require recognition on the books of the reporting entity (rather than on the books of the trading partner) to documentation supporting recording of such amounts in the agency's financial records. Indicate if no differences were found. Clearly explain any differences.

Findings:

The following exceptions were noted:

1. Fiduciary balances were confirmed against balances in the general ledger. In some cases, the Department elected to accept the fiduciary balances reported by its trading partners that submitted requests for confirmation.
2. The amount (\$0) confirmed by the fiduciary trading partner and accepted by the Department does not agree with the amount (\$145,330) in the general ledger.
3. The fiduciary account balances were compared to the Department's trial balance during the confirmation process. However, intragovernmental balances from FACTS I could not be directly tied to the face of the financial statements due to 1) sector changes made for financial statement preparation purposes that are not reflected in the FACTS file and 2) trading partner code issues.
4. The total fiduciary transactions accepted (e.g. confirmation received from trading partners with balances, signed by the Department and returned to trading partners) by the Department do not agree with the intragovernmental balances reported in the audited consolidated financial statements. The following differences were noted (in thousands):

Intragovernmental Liabilities	\$2,331,292
Intragovernmental Costs	\$2,541

The Department represents to us that although they did not send confirmations to their trading partners or receive confirmation from all its trading partners, the Department performed other procedures to determine that intragovernmental balances in the financial statements are fairly stated. The differences noted above are substantially related to unconfirmed payable to Treasury, and guarantee agencies federal and restricted funds due to Treasury. Other intragovernmental activity and balances not related to Treasury are not material to the financial statements taken as a whole.

5. For SGL 2520 (G) \$669,883.75 in capitalized interest included in this amount as reported by FFB is not reflected in the Departmental balance per general ledger due to a difference in accounting methodology, per the Department.
6. As reflected on the Department's submission, for "No" responses to the question "was an adjustment recorded" the Department had listed certain differences.

**Procedure 2**

Review the electronic file provided by the agency CFO of the responses to item 6 of the CFO Representations for Federal Intragovernmental Activity and Balances described in the Treasury Financial Manual (TFM), Section 4030.80, copies of the reconciliations, and confirmations. For each "Yes" response for "Other – Intragovernmental Activity and Balances" reconciliations, perform the following steps:

- Compare the amounts in such reconciliations to supporting documentation. Indicate if no differences were found. Clearly explain any differences.
- Trace the adjustments, if any, identified in the reconciliation process that require recognition on the books of the reporting entity (rather than on the books of the trading partner) to documentation supporting recording of such amounts in the agency's financial records. Indicate if no differences were found. Clearly explain any differences.

Finding:

7. The Department did not confirm non-fiduciary transactions with its trading partners. The Department believes however that it received and responded to confirmation requests from its most significant trading partners and, in the case of the Department of Treasury, agreed balances to appropriate reports to and from the Department of Treasury.
8. The Department was unable to identify all its trading partners.
9. Except for two non-fiduciary trading partners, the Department elected to accept the balances reported by their non-fiduciary vendor agencies that submitted confirmations.

10. The Department was unable to confirm non-fiduciary activity and balances reported by trading partners as follows (amounts in thousands):

Intragovernmental Assets	\$26,323
Intragovernmental Revenue	\$ 1,225
Intragovernmental Cost	\$10,546

11. "Advances to Others", an asset account, of \$18.2 million was erroneously reported on the FACTS I as an expense. The Department represents to us that during the process of allocating the unidentified trading partner amount to the confirming non-fiduciary partners, \$18.2 million was allocated to expenses for Department of Commerce and Department of Defense. The allocation should have been to Advances to Others for these trading partners. The misclassification affects balances at trading partners level not at the Standard General Ledger level.
12. The total non-fiduciary transactions accepted (e.g. confirmation received from trading partners with balances, signed by the Department and returned to trading partners) by the Department do not agree with the intragovernmental balances reported in the audited consolidated financial statements. The following differences were noted (in thousands):

Intragovernmental Receivable	\$19,883
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The Department represents to us that although they did not send confirmations to their trading partners or receive confirmation from all its trading partners, the Department performed other procedures to determine that intragovernmental balances in the financial statements are fairly stated. Other intragovernmental activity and balances not related to Treasury are not material to the financial statements taken as a whole.

13. As reflected on the Department's submission, for "No" responses to the questions "was an adjustment recorded" the Department has listed certain differences.

**Procedure 3**

Review the electronic file provided by the agency CFO of the CFO Representations for Federal Intragovernmental Activity and Balances. For each "Yes" response, compare the amounts excluding intradepartmental activity and balances, in the agency audited consolidated financial statements to the amounts in the agency final FACTS I and/or FACTS I NOTES reports to the U.S. Department of Treasury Financial Management Service. Indicate if no differences were found. Clearly explain any differences.

Finding:

The Department responded "No" to this question.