MEMORANDUM

TO: Jack Martin  
Chief Financial Officer

FROM: Helen Lew  
Assistant Inspector General for Audit

SUBJECT: FEDERAL INTRAGOVERNMENTAL ACTIVITY AND BALANCES AGREED-UPON PROCEDURES REPORT  
(ED-OIG/A17E0004)

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 2003. 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.
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 Fleming - OCFO
AGREED UPON PROCEDURES
INTRAGOVERNMENTAL TRANSACTIONS
U.S. Department of Education
Year Ended September 30, 2003
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 U.S. Department of the Treasury’s Financial Management Service (FMS), the U.S. 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, 2003, and compared the intragovernmental activity and balances per the financial records supporting the audited department consolidated financial statements for fiscal year 2003, 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.

January 23, 2004
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 the intragovernmental reciprocal account categories of the CFO representations for fiduciary and non-fiduciary transactions as described in the Treasury Financial Manual (TFM), Section 4060.70. For each “Yes” response, perform the following steps:

- Compare the amounts in such reconciliations to supporting documentation. Indicate if no differences were found. Explain in detail 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 the recording of such amounts in the agency’s financial records. Indicate if no differences were found. Explain in detail any differences.

Findings:

The following exceptions were noted:

1. The Department did not send confirmations to all of its non-fiduciary trading partners.

2. The Department did not receive responses to most confirmations requests for non-fiduciary intragovernmental transactions.

3. The Department was unable to perform reconciliations for non-fiduciary transactions since most trading partners confirm non-fiduciary intragovernmental transactions at a summary level. According to the Department, reconciliations can only be performed for these transactions when balances are confirmed on an award level basis.

4. The Department was unable to identify trading partners for the following account balances:

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2110</td>
<td>$(4,178)</td>
</tr>
<tr>
<td>2400</td>
<td>$7,067</td>
</tr>
<tr>
<td>5990</td>
<td>$308</td>
</tr>
<tr>
<td>6100</td>
<td>$(145,726,453)</td>
</tr>
</tbody>
</table>

5. For USSGL Account 2520(F), we were informed by the Department that $2,046,058 in capitalized interest was not included in the Department’s general ledger, but was included in the amount reported by the Federal Financing Bank.
6. For USSGL Account 6310(F), a total of $1,588,138 was not included in the Department’s general ledger; however, it was included in the amount reported by the Federal Financing Bank. We were informed by the Department that this difference is composed of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalized Interest</td>
<td>$1,428,146</td>
</tr>
<tr>
<td>Missing SF 1081</td>
<td>167,095</td>
</tr>
<tr>
<td>Interest Expense Adjustment</td>
<td>706,659</td>
</tr>
<tr>
<td>Reversal of Accrual</td>
<td>(713,762)</td>
</tr>
</tbody>
</table>

Procedure 2

Review the electronic file provided by the agency CFO of the responses to the CFO Representations for reconciliation of intragovernmental activity and balances. For each “Yes” response, perform the following step:

- Compare the amounts, excluding intradepartmental activity and balances, in the audited agency consolidated financial statements to such amounts in the agency final FACTS I and/or FACTS I NOTES reports. Indicate if no differences were found. Explain in detail any differences.

Findings:

The following exceptions were noted:

7. Intragovernmental balances from FACTS I could not be directly tied to the face of the audited consolidated financial statements primarily 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.

8. The FACTS I trial balance reported a total of $100,268,720,168 for Intragovernmental Liabilities. However, the amount reported on the audited consolidated financial statements was $100,267,200,000, which is a difference of $1,520,168.

9. The FACTS I trial balance reported a total of $6,891,117,406 for Intragovernmental Costs. However, the amount reported on the audited consolidated financial statements was $6,828,113,000, which is a difference of $63,004,406.
Procedure 3

Review the “Status of Disposition of Identified Differences” form on intragovernmental activity reported in FACTS I (provided by CFO). Comment indicating your agreement, or disagreement, with the data provided by the CFO.

Finding:

We noted that the Department adequately reported the status of identified differences based upon the balances reported on the “Agency by Reciprocal Category Detail” and in accordance with the threshold set by FMS of $400 million.