

**PROTECTING THE PUBLIC:
Financial Management Service's Control
Over Computers Needs To Be Improved**

OIG-02-119

September 11, 2002



Office of Inspector General

The Department of the Treasury

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Abbreviations

FMS	Financial Management Service
FY	Fiscal Year
GAO	General Accounting Office
OIG	Office of Inspector General
RFC	Regional Finance Center

*The Department of the Treasury
Office of Inspector General*

September 11, 2002

Richard L. Gregg
Commissioner
Financial Management Service

We conducted an audit of the Financial Management Service (FMS) controls over selected property items that, if lost or stolen, might compromise national security, the public's safety, or ongoing investigations. Sensitive property at FMS included computers only. Based on our audit, we judged that the risk that these property items could be lost or stolen was moderate. FMS had written guidance, directives, and procedures for managing and safeguarding computers. FMS required reporting, administrative review, and a determination of liability for all lost or stolen computers. However, we noted that FMS' annual physical inventory of computers did not provide evidence of personnel independent of the custodial function participated. This provided inadequate internal control against loss or theft.

We conducted this audit at the request of Senator Charles E. Grassley, member of the Senate Committee on Finance. Our specific objectives were to answer the following questions:

1. Are Treasury's inventory regulations sufficient to prevent loss or theft of its inventory?
2. Which Treasury bureaus are most susceptible to inventory loss or theft and why?
3. Have any Treasury inventory items been identified as lost or stolen within the last 3 fiscal years?
4. Does Treasury have a sufficient plan to recoup inventory that cannot be located?

The audit fieldwork was performed from February to August 2002. We interviewed FMS officials and evaluated records and

procedures. The scope of the review covered FY 1999 to FY 2001. See Appendix 1 for a more detailed description of the audit objectives, scope, and methodology.

Results in Brief

FMS reported one computer lost or stolen during fiscal years (FY) 1999 through 2001, having a value of \$2,300. Our assessment of the risk that computers could be lost or stolen was moderate (●).¹ FMS had written guidance, directives, and procedures for managing and safeguarding computers. It required reporting, administrative review, and a determination of liability for all lost or stolen computers. Although FMS generally conducted periodic physical inventories of its property, they were not independent of the custodial function. Property custodial personnel conducted physical inventories of the property over which they were responsible. Therefore, the physical inventories provided inadequate internal control against loss or theft.

We made one recommendation in the draft report recommending that the Commissioner ensure personnel independent of the custodial function conduct a complete annual physical inventory of computers.

FMS concurred with the recommendation. As a result, FMS will establish a schedule for conducting independent inventories of FMS computers in the headquarters facilities and Regional Financial Centers.

Background

FMS disburses more than \$1.2 trillion for nearly 950 federal payments, like Social Security, veterans' benefits and income tax refunds to more than 100 million people, collects more than \$2 trillion in federal revenues; oversees a daily cash flow of \$10 billion; provides centralized debt collection services to most federal agencies; and provides government-wide accounting and

¹ Office of Inspector General (OIG) judgment (● Low ● Moderate ● High)

reporting. FMS is comprised of about 2,100 employees, one-third of whom are located in four Regional Financial Centers (RFC) and one Debt Collection Center where electronic funds transfer and paper check payments are issued. The RFCs are located in: Austin, Texas; Kansas City, Missouri; Philadelphia, Pennsylvania; and San Francisco, California.

Finding And Recommendation

● FMS Lacked Evidence of Independent Physical Inventories

For FY 2001, FMS reported that it had 4,156 computers (3,580 desktops, 525 laptops, and 51 handheld). It also reported that one laptop computer, having a value of \$2,300, had been lost or stolen during the audited period. A subsequent investigation did not find any employee financially liable for the missing computer. We judged the risk of loss or theft of computers to be moderate. FMS had written policies and procedures that addressed the proper management and safekeeping of computers. This factor reduced the risk of loss or theft. However, FMS had no evidence of independent physical inventories of all computers. This factor increased the risk of loss or theft. In addition, because there was no evidence of an independent physical inventory, there was no reasonable assurance that the information FMS reported was reliable. FMS did have controls that limited access to computer files and its computer network. Those controls decreased the risk that sensitive data would be compromised, if a computer were lost or stolen.

Written policies

FMS had written policies that provided guidance on the control and management of computers. These policies included conducting physical inventories; reporting lost or stolen items; determining employee accountability; obtaining computers from departing employees; and disposing of excess computers.

Physical inventories

FMS conducted and documented annual physical inventories of all computers. However, these inventories did not meet accepted internal control standards because they did not involve personnel independent of the property custodial function. Therefore, the results of these physical inventories are subject to question. The General Accounting Office's (GAO) *Standards for Internal Control in the Federal Government* stated, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud."² In a recent study, GAO stated, "the strongest control employed by leading-edge locations was to exclude those with asset custody from the counting activity."³

Data security

FMS had sensitive and limited official use information.⁴ Accessing a computer or the FMS network required unique access rights and a related password. All users of FMS information technology resources had to receive security training at least annually. FMS procedures required that hard drives of computers that were to be disposed of or transferred to a third-party be cleaned of information.

These controls over data security decreased the risk that sensitive information would be compromised, even if a computer was lost or stolen.

Reporting, investigating, and recouping lost or stolen computers

FMS employees were required to immediately report lost, stolen, or damaged computers. During the audited period, one laptop computer was reported lost or stolen. The value of this computer

² *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), November 1999.

³ *Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property* (GAO-02-447G), March 2002.

⁴ FMS defined sensitive information as data that supports high level (e.g., Congressional, Federal Agency) decision processes, is critical to federal programs, and/or its corruption will have a serious impact on operations. It also includes data covered by the Privacy Act or is exempted from disclosure under the Freedom of Information Act.

was \$2,300. It was stolen from an office/cubicle. The loss was reported to the Federal Protective Service for investigation. No one was held accountable for this loss.

Recommendation

We recommend that the Commissioner ensure that:

1. Personnel independent of the custodial function complete the physical inventory of computers.

Management Comments

FMS concurred with the recommendation; however, management disputed the control environment risk factor of moderate. FMS will establish a schedule for conducting independent inventories of FMS computers in the headquarters facilities and Regional Financial Centers.

OIG Comments

We consider this recommendation to have a management decision with a target completion date of September 30, 2002.

* * * * *

We appreciate the cooperation we received from FMS officials during this audit. If you wish to discuss this report, you may contact me at (312) 886-6300, ext. 118.

/s/

Roberta N. Rickey
Regional Inspector General for Audit

The overall objective of this audit was to address concerns Senator Charles E. Grassley, member of the Senate Committee on Finance, raised regarding Treasury-wide inventory practices for items that if lost or stolen, might compromise the public's safety, national security, or ongoing investigations. Our specific objectives were to answer the following questions:

- (1) Are the bureau's policies and practices sufficient to prevent loss and theft?
- (2) What items have been lost or stolen during FY 99 – 01?
- (3) Does the bureau have a sufficient plan to recoup lost items?
- (4) What improvements can be made to prevent future losses?

At FMS, we considered computers to be a sensitive property item. Our audit scope covered FY 1999, 2000, and 2001 (from October 1, 1998 through September 30, 2001). To accomplish our objectives, we requested data on inventory levels at or near the end of FY 2001⁵ and computers reported lost/stolen during FY 1999 – FY 2001; reviewed pertinent laws and regulations; reviewed written bureau policies; reviewed the latest physical inventory reports; and reviewed reports/ investigations related to lost/stolen computers.

To assess the risk of loss or theft of sensitive items, we examined elements related to six factors: Policies, Physical Controls, Inventory Records, Physical Counts, Quantity, and Threat.

Policies - establish management guidelines and standards.

Physical Controls - limit access.

Property Records - identify accountability.

Physical Counts - assure reliability of records.

Quantity - impacts the opportunity for loss or theft.

Threat - includes ease of loss and harm of unauthorized use.

Having weighed these factors and the resulting overall control environment, we assigned a risk factor of low (●), moderate (●), or high (●).

⁵ The date of the reported inventory levels for the computers was from August 2001.

We conducted our audit between February and August 2002 in accordance with generally accepted government auditing standards.



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

September 9, 2002

MEMORANDUM FOR ROBERTA N. RICKY
REGIONAL INSPECTOR GENERAL FOR AUDIT

FROM: RICHARD L. GREGG *Richard L. Gregg*

SUBJECT: Financial Management Service's Control Over Computers

This is in response to your draft audit report dated August 23, 2002, "Protecting the Public: Financial Management Service's Control Over Computers Needs To Be Improved." FMS concurs with the recommendation; however, we dispute that our control environment is a risk factor of moderate.

We believe the agency has created a strong control environment over inventory of computers and, therefore, the risk factor should be reported as low, not moderate. As acknowledged in your report, FMS has written policies that provide guidance on the control and management of computers. These policies include conducting physical inventories, placing custodial accountability at the management level, and requiring semi-annual certification of each organization's inventory. Regular certification of each organization's inventory by management is key to establishing sound internal controls. Additionally, guidelines are established for reporting lost or stolen items, determining employee accountability, obtaining computers from departing employees, and disposing of excess computers. The effectiveness of the policies, guidelines, and certification processes is demonstrated by our exemplary record of one computer loss reported in the three-year time frame of this report.

Management recognizes the value of periodic independent reviews of the agency's inventory. Prior to the receipt of this report, the Administrative Program Division (APD), the organization responsible for tracking FMS' non-capitalized inventory, had initiated efforts to establish a schedule for conducting independent inventories in the headquarters and Regional Financial Center facilities. In response to your recommendation, we will take the following action:

Recommendation: Personnel independent of the custodial function should complete the physical inventory of computers.

1. Establish a schedule for conducting independent inventories of FMS' computers in the headquarters facilities and Regional Financial Centers. (Sept. 13, 2002)
2. Conduct the first scheduled program area inventory and evaluate the results. (Sept. 30, 2002)

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While we believe that strong internal controls over the computer inventory are in place, we support improving our current policies and procedures and will take the appropriate corrective actions as indicated above. I am available to discuss this matter further, if necessary.

cc: Donald V. Hammond

Central Region

Roberta N. Rickey, Regional Inspector General
Charles Allberry, Audit Manager
Bradley Mosher, Audit Manager
Claire Schmidt, Auditor

Department of the Treasury

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