

# Independent Auditors' Report



CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

## Independent Auditors' Report on Financial Statements

The Comptroller of the Currency:

We have audited the accompanying balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2003, and the related statements of net cost, changes in net position, budgetary resources and financing for the year then ended. These financial statements are the responsibility of the management of the OCC. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying balance sheet of the OCC as of September 30, 2002, and the related statement of net cost, changes in net position, budgetary resources and financing for the year then ended were audited by KPMG LLP whose report dated November 1, 2002, expressed an unqualified opinion on those statements.

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 the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2003, and its net costs, changes in net position, budgetary resources, and the reconciliation of budgetary obligations to net costs for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management section of OCC's fiscal year 2003 Annual Report is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Appendices A, B, C, and D is presented for purposes of additional analysis and is not a required part of the financial statements. We did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 31, 2003, on our consideration of the OCC's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and these reports should be read in conjunction with this report in considering the results of our audit.

*Gardiner, Kanya & Associates, P.C.*

October 31, 2003

## **Independent Auditors' Report on Internal Control over Financial Reporting**

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2003, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated October 31, 2003. 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, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the OCC's internal control over financial reporting by obtaining an understanding of the OCC's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the OCC's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements 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 control, misstatements due to error or fraud may occur and not be detected.

However, we noted certain matters discussed in the following pages (Reportable Conditions 1 and 2) involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, we do not consider these reportable conditions to be material weaknesses.

In addition, with respect to internal control related to performance measures determined by management to be key and reported in the Management section of the OCC's Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving internal control and its operation that we have reported to the management of OCC in a separate letter dated October 31, 2003.

This report is intended solely for the information and use of the OCC's management, the Department of the Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Dardier, Kamy & Associates, P.C.*

October 31, 2003

## REPORTABLE CONDITION 1

### **Reportable Condition 1:**

**On three occasions during September and October 2003, OCC made duplicate TTRS batch payments to employees for travel reimbursements totaling about \$274,000.**

### **Condition**

On three occasions during September and October 2003, OCC made duplicate TTRS batch payments comprised of 705 payments to employees for travel reimbursements totaling about \$274,000. OCC took immediate action to recover the overpayments. Details are as follows.

#### *Duplicate TTRS Payment made on September 11, 2003*

On September 11, 2003, OCC made a duplicate TTRS batch payment comprised of 262 payments to employees for travel reimbursements totaling \$96,049.

On September 10, 2003 the PeopleSoft process scheduler that usually existed on the database server, was redirected to an application server to determine whether the process scheduler would perform better. The OCC employee who runs TTRS at night was not aware of the change, and placed the TTRS file on the database server. When the TTRS process was run, it pulled the previous night's TTRS file from the application server and loaded it into \$SMART.

\$SMART checks for duplicate invoices, and TTRS checks for duplicates based on pay period end date and employee identification number. Any duplicates discovered are placed in a recycle status. This process has successfully detected duplicates in the past, including two instances in July. However, in this instance, the system failed to detect the duplicates and the vouchers loaded as usual and were scheduled for payment.

On the morning of September 11, 2003, vouchers were selected in the system and a payment file was produced as is normally done. The certification process did not detect the discrepancy. On September 12, 2003, employees who reviewed their e-mails alerted OCC FM to the errors.

OCC subsequently restored the database on a separate server to research the issue and successfully replicated the event. The system did not generate a warning because a refund was included with the TTRS load in the staging tables (a normal, but infrequent event) and the duplicate invoice checking configuration for the refund is different from the duplicate

invoice checking configuration for TTRS vouchers. After numerous e-mails from OCC, PeopleSoft identified that the issue was previously reported and a fix was previously released. OCC has now applied the fix.

*Duplicate travel and check payments made on October 6, 2003*

On October 6, 2003, OCC made a duplicate batch payment comprised of 407 payments to employees for travel reimbursements totaling \$169,563.

On July 3, 2003, TTRS and other vouchers were selected for payment but subsequently cancelled when it was identified that some vouchers were missing (a normal, but infrequent process). When the payment schedule was cancelled, flags were set to indicate that these vouchers still needed to be paid. On the next payment cycle, the payment posting process selected these vouchers for payment, but failed to update the flags from pending status to paid status.

These flags had no impact until October 3, 2003 when the normal run of payment post failed in mid-process. When a failure in mid-process occurs, the system rolls back any data updates that have been partially processed. However, based on the pending flags, the process selected for payment the vouchers previously paid on July 3, 2003, and the roll back process did not correct the error. When the payment post process was run on October 6, it completed successfully, including the July 3 payments. Data checks and the certification process did not detect the discrepancy. OCC and PeopleSoft are working to determine the reason for which the software failed to correctly update the payment flags in the cancelled schedule.

*Duplicate TTRS payments made on October 20, 2003*

On October 20, 2003, OCC made a duplicate TTRS batch payment comprised of 36 payments to employees for travel reimbursements totaling \$8,544.

Effective October 15, 2003, an updated version of the TTRS process that pulls expenses payments from the mainframe system for transfer to \$SMART was put into production. The changes to the process reflected the new activity codes being used for TTRS in fiscal year 2004. The changes to the process also caused the software to skip the update of expense records in TTRS indicating that they had been downloaded for payment. This bug was missed during the testing process.

The updated TTRS nightly process pulled duplicate expenses for payment on October 20, which the \$SMART duplicate payment check did not detect. Data checks and new reports were not executed by ITS or FM and the duplicate TTRS expenses were paid. The TTRS

nightly process pulled additional duplicate expenses for payment on October 21. Data checks run by ITS identified the issue and these payments were not made.

The bug in TTRS was identified and corrected on October 21. Based on OCC's work with PeopleSoft regarding the September 11 issue, PeopleSoft supplied a software patch to correct the duplicate invoice detection bug. This patch was tested and applied to the SMART production system on October 21. Queries were developed and are being produced daily by Financial Management personnel and the production support contractor to identify and prevent potential duplicate payments. Additional queries are still being developed to provide further assurance to the Certifying Officers that controls are in place.

### **Criteria**

"Standards for Internal Control in the Federal Government", U.S. General Accounting Office (GAO), November 1999. GAO/AIMD-00-2.1.3.1 (11/99). Control Activities Specific for Information Systems. Application Control. This category of control is designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. Control should be installed at an application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed.

### **Cause**

These events were unrelated and resulted from different circumstances where software problems combined with the failure of data and other manual checks.

### **Effect**

OCC incurred costs to recover the duplicate payments and damaged its reputation with the affected payees.

### **Recommendations**

1. Continue to take immediate action to recover the overpayments.
2. Obtain and apply PeopleSoft software patches as they become available.
3. Re-emphasize the importance of certification and data checks with OCC personnel.
4. Provide certifying personnel with better information to enhance the accuracy of the process.

5. Develop a system development life cycle (SDLC) to be used uniformly throughout OCC.
6. Develop production controls to ensure communication of authorized server changes.

**Reportable Condition 2:**

**OCC did not independently verify the accuracy of the documentation of SMART System interfaces, and OCC did not review the security over SMART System interfaces.**

**Condition**

Our testing found that:

- OCC had no procedures to ensure that SMART system interconnection documentation was accurate.
- OCC did not review the security over the interfaces.
- OCC did not include accuracy or security in its scope of work for its independent verification and validation (IV & V) contractor who was tasked with reviewing SMART system interface documentation for completeness. The IV & V contractor did not review the accuracy of SMART interface documentation and did not review the security over the interfaces (see detail definition of security in the criteria section below).

**Criteria**

“Standards for Internal Control in the Federal Government”, U.S. General Accounting Office (GAO), November 1999. GAO/AIMD-00-2.1.3.1 (11/99). Monitoring: Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency’s operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. Separate evaluations of control can also be useful by focusing directly on the controls’ effectiveness at a specific time. The scope and frequency of separate evaluations should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. Separate evaluations may take the form of self-assessments as well as review of control design and direct testing of internal control. Separate evaluations also may be performed by the agency Inspector General or an external auditor.

Office of Management and Budget (OMB) Circular A-130, “Management of Federal Information Resources”, 8.b. (1) (b) (xi) Establish oversight mechanisms, consistent with



Appendix III of this Circular, to evaluate systematically and ensure the continuing security, interoperability, and availability of systems and their data.

OMB Circular A-130, 8.b. (3) (b) (vi) Identify additional security controls that are necessary to minimize risk to and potential loss from those systems that promote or permit public access, other externally accessible systems, and those systems that are interconnected with systems over which program officials have little or no control.

OMB Circular A-130, Appendix III, B. a. 3), Review of Security Controls. Reviews should assure that management, operational, personnel, and technical controls are functioning effectively. Security controls may be reviewed by an independent audit or a self review.

### **Cause**

Significant reliance has been placed on contractors to maintain \$SMART following implementation because OCC does not have in-house technical expertise in PeopleSoft software. As a result, OCC did not identify and fulfill all of its responsibilities for monitoring the \$SMART system and ensuring the continuing security, interoperability, and availability of the \$SMART system and its interfaces and their data.

### **Effect**

If the \$SMART system interface documentation is in fact inaccurate, it could conceal security issues over the \$SMART system, its interfaces, and their data.

### **Recommendation**

OCC management should establish controls to ensure that the accuracy of the documentation of \$SMART system interfaces is independently verified and that the security over interfaces is reviewed and tested (see detail definition of security in the criteria section above).

### **Status of Prior Year Findings:**

OCC's predecessor auditor recommended that \$SMART system controls should be strengthened, particularly in the areas of application security, infrastructure security, and IT operational controls such as program changes and disaster recovery testing. In addition, in FY 2001, the predecessor auditor recommended strengthening the controls over Time & Travel Reports (TTRS) disbursements and over timekeeping. Our FY 2003 review revealed that these issues are resolved and are closed.

## Independent Auditors' Report on Compliance with Laws and Regulations

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2003, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated October 31, 2003. 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, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the OCC is responsible for complying with laws and regulations applicable to the OCC. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the OCC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. 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 OCC. However, providing an opinion on compliance with 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, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the OCC's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the OCC's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the OCC's management, the Department of the Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Gardiner, Hanna & Associates, P.C.*  
October 31, 2003