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March 17, 2022

Mr. Timothy E. Gribben
Commissioner
Bureau of the Fiscal Service
Department of the Treasury

Management Report: Improvements Needed in the Bureau of the Fiscal Service's Information System Controls Related to the Schedule of Federal Debt

Dear Mr. Gribben:

In connection with our audit of the consolidated financial statements of the U.S. government,¹ we audited and reported on the fiscal year 2021 and 2020 Schedules of Federal Debt managed by the Department of the Treasury's Bureau of the Fiscal Service.² As part of these audits, we assessed key information system controls over Fiscal Service financial systems that are relevant to the Schedules of Federal Debt.

As we reported in connection with our audits of the fiscal year 2021 and 2020 Schedules of Federal Debt, although internal controls could be improved, Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2021, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act. Those controls provided reasonable assurance that Fiscal Service would prevent, or detect and correct, misstatements material to the Schedules of Federal Debt on a timely basis.

However, during our fiscal year 2021 audit, we determined that information system control deficiencies identified in prior audits that remained unresolved as of September 30, 2021, collectively represent a significant deficiency in Fiscal Service's internal control over financial reporting.³ Although the deficiencies are not a material weakness, they warrant the attention of

¹31 U.S.C. § 331(e)(2). In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, we audited and reported on the Schedules of Federal Debt because of the significance of the federal debt to the federal government's consolidated financial statements. Because the Bureau of the Fiscal Service is a bureau within the Department of the Treasury, federal debt and related activity and balances managed by it are also significant to Treasury's financial statements (see 31 U.S.C. § 3515(b)).

²GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2021 and FY 2020 Schedules of Federal Debt*, [GAO-22-104592](#) (Washington, D.C.: Nov. 9, 2021).

³A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

those charged with governance of Fiscal Service.⁴ While the significant deficiency in internal control did not affect our opinion on Fiscal Service's fiscal year 2021 Schedule of Federal Debt, misstatements may occur in other financial information that Fiscal Service reported that it may not prevent, or detect and correct, on a timely basis because of this significant deficiency.

While this significant deficiency in internal control over financial reporting continued to exist as of September 30, 2021, Fiscal Service made some progress in addressing information system general control weaknesses during fiscal year 2021. However, most of the target dates Fiscal Service established for fully addressing the remaining previously identified control deficiencies related to security management, access controls, and configuration management extend beyond fiscal year 2021. Consequently, nearly all of the deficiencies that contributed to the significant deficiency we reported as of fiscal year 2020 remained unresolved.

Further, based on our review of the corrective action plans for the unresolved deficiencies, the actions Fiscal Service has proposed to address many of these deficiencies do not appear sufficient to fully resolve the weaknesses. It will be important for Fiscal Service management to build on the progress made to improve existing processes for remediating control deficiencies. In fiscal year 2021, a good first step was Fiscal Service forming an executive audit committee comprising senior executives charged with overseeing the agency's audit finding remediation efforts. Strengthening this committee's role and ensuring that its members collectively have the technical expertise needed to oversee, question, and evaluate the corrective actions that management proposes and executes will be essential to addressing this significant deficiency and improving Fiscal Service's information system general controls.⁵

This report presents the results of our follow-up on the status of Fiscal Service's corrective actions to address control deficiencies contained in our prior years' reports that Fiscal Service had not remediated as of September 30, 2020. We did not identify any new reportable information system control deficiencies in the financial systems relevant to the Schedule of Federal Debt during our fiscal year 2021 audit; therefore, we do not make any new recommendations for executive action.

We also assessed key information system controls over financial systems that the Federal Reserve Banks (FRB) maintained and operated that are relevant to the Schedule of Federal Debt. While we identified one continuing deficiency in such controls, this deficiency did not contribute individually or collectively to the significant deficiency we identified.

This report is a public version of a LIMITED OFFICIAL USE ONLY report that we issued concurrently.⁶ Fiscal Service deemed much of the information in our concurrently issued report to be sensitive information, which must be protected from public disclosure. Therefore, this report omits sensitive information about the information system control deficiencies we

⁴A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

⁵General controls are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation. General controls are applied at the entity-wide, system, and business process application levels. The effectiveness of general controls is a significant factor in determining the effectiveness of application controls, which are applied at the business process application level.

⁶GAO, *Management Report: Improvements Needed in the Bureau of the Fiscal Service's Information System Controls Related to the Schedule of Federal Debt*, GAO-22-105568SU (Washington, D.C.: Mar. 17, 2022).

identified. Although the information provided in this report is more limited, the report addresses the same objectives as the LIMITED OFFICIAL USE ONLY report and uses the same methodology.

Results in Brief

During our fiscal year 2021 audit, we determined that information system control deficiencies collectively represent a significant deficiency in Fiscal Service's internal control over financial reporting. Though we identified recurring conditions associated with previously reported information system control deficiencies, we did not identify any new reportable information system control deficiencies in financial systems relevant to the Schedule of Federal Debt.

We determined that Fiscal Service completed corrective actions to close one of 24 recommendations to address information system control deficiencies from our prior audits that remained open as of September 30, 2020. Fiscal Service's corrective actions were still in progress for 23 open recommendations related to security management, access controls, and configuration management. In the LIMITED OFFICIAL USE ONLY report, we communicated detailed information regarding actions Fiscal Service has taken to address control deficiencies contained in our prior years' reports that were not remediated as of September 30, 2020.

These continuing information system control deficiencies, which collectively represent a significant deficiency, increase the risk of unauthorized access to, modification of, or disclosure of sensitive data and programs and disruption of critical operations. Fiscal Service mitigated the potential effect of these deficiencies on financial reporting for fiscal year 2021 with compensating management and reconciliation controls designed to detect potential misstatements on the Schedule of Federal Debt.

In commenting on a draft of the separately issued LIMITED OFFICIAL USE ONLY report, Fiscal Service stated that it will further enhance corrective action plans and corrective action completion evidence to ensure that the open prior-year findings are resolved.

Background

Congress has authorized Treasury to borrow money backed by the full faith and credit of the United States to fund federal operations. Treasury is responsible for prescribing the debt instruments and otherwise limiting and restricting the amount and composition of the debt. Treasury is also responsible for issuing and redeeming debt instruments, paying interest to investors, and accounting for the resulting debt. In addition, Treasury maintains an investment program for federal government accounts, including trust funds that have statutory authority to invest temporary cash reserves not needed for current benefits and expenses.

As of September 30, 2021, and 2020, federal debt managed by Treasury's Fiscal Service totaled \$28,423 billion and \$26,938 billion, respectively, primarily for borrowings to fund the federal government's operations. These balances consisted of approximately (1) \$22,283 billion as of September 30, 2021, and \$21,019 billion as of September 30, 2020, of debt held by the public and (2) \$6,140 billion as of September 30, 2021, and \$5,919 billion as of September 30, 2020, of intragovernmental debt holdings. Total interest expense on federal debt that Fiscal Service managed for fiscal years 2021 and 2020 was about \$575 billion and \$527 billion, respectively.

Treasury relies on a number of interconnected financial systems and electronic data to process and track the money it borrows, to account for the securities it issues, and to manage the

federal debt. Many of the FRBs, as the government's fiscal agents, provide services on behalf of Treasury, which primarily consist of issuing, servicing, and redeeming Treasury securities held by the public and handling the related transfers of funds. FRBs use a number of financial systems to process, summarize, and electronically forward debt-related transactions to Treasury's data center for matching, verification, and posting to Fiscal Service's general ledger.

Federal law requires federal agencies to provide information security protections for (1) information collected or maintained by or on behalf of the agency and (2) information systems⁷ used or operated by the agency or by a contractor or other organization on the agency's behalf.⁸ Federal law also requires agencies to comply with information security standards developed by the National Institute of Standards and Technology.⁹ Further, federal law requires each agency to develop, document, and implement an agency-wide information security program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source.¹⁰

Information system general controls are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls help ensure the proper operation of information systems by creating the environment for effective operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.¹¹

Effective information system general controls

1. provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls (security management);
2. limit or detect access to computer resources, such as data, programs, equipment, and facilities, thereby protecting against unauthorized modification, loss, or disclosure (logical and physical access);
3. prevent unauthorized changes to information system resources, such as software programs and hardware configurations, and provide reasonable assurance that systems are configured and operating securely and as intended (configuration management);
4. include policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations (segregation of duties); and

⁷Under federal law, an information system is defined broadly as a "discrete set of information resources organized for the collection, processing, maintenance, use, sharing, dissemination, or disposition of information." 44 U.S.C. § 3502(8).

⁸Federal agency information security responsibilities are provided by the Federal Information Security Modernization Act of 2014 (FISMA 2014), Pub. L. No. 113-283, 128 Stat. 3073 (Dec. 18, 2014), *codified at* 44 U.S.C. §§ 3551–3558, which largely superseded the similar Federal Information Security Management Act of 2002, Title III of the E-Government Act of 2002, Pub. L. No. 107-347, 116 Stat. 2899, 2946 (Dec. 17, 2002). In particular, the federal agency responsibilities noted in this report are codified at 44 U.S.C. § 3554.

⁹FISMA 2014, *codified at* 44 U.S.C. § 3554(a).

¹⁰FISMA 2014, *codified at* 44 U.S.C. § 3554(b).

¹¹GAO, *Government Auditing Standards: 2018 Revision*, [GAO-21-368G](#) (Washington, D.C.: Apr. 2021).

5. protect critical and sensitive data and provide for critical operations to continue without disruption or be promptly resumed when unexpected events occur (contingency planning).

Objectives, Scope, and Methodology

Our objectives were to (1) evaluate key information system controls over financial systems that Fiscal Service maintained and operated that are relevant to the Schedule of Federal Debt and (2) determine the status of Fiscal Service's corrective actions to address information system control deficiencies identified in our prior years' reports that it had not remediated as of September 30, 2020.

We performed this work in connection with our audit of the Schedules of Federal Debt for the fiscal years ended September 30, 2021, and 2020, and of Fiscal Service's internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2021.

To evaluate information system controls, we identified and reviewed Fiscal Service's information system control policies and procedures; observed controls in operation; conducted tests of controls; and held discussions with officials to determine whether such controls were designed, implemented, and operating effectively. We evaluated information system controls using the *Federal Information System Controls Audit Manual*.¹²

The scope of our information system general controls work for fiscal year 2021 included (1) following up on the status of Fiscal Service's corrective actions to address open information system control deficiencies from our prior years' reports and (2) using a risk-based approach to assess the design, implementation, and operating effectiveness of the five general control areas related to the systems in which the applications operate and other critical control points in the systems or networks that could have an impact on the effectiveness of the controls at Fiscal Service as they relate to financial reporting relevant to the Schedule of Federal Debt.

We determined whether Fiscal Service properly designed and implemented relevant application controls and then performed tests to determine whether the controls were operating effectively. We reviewed four key Fiscal Service applications relevant to the Schedule of Federal Debt to determine whether Fiscal Service properly designed, implemented, and effectively operated application controls to provide reasonable assurance that

- transactions that occurred were input into the system, accepted for processing, processed once and only once by the system, and properly included in output;
- transactions were properly recorded, with the correct amount and on a timely basis (in the proper period), key data elements input for transactions were accurate, data elements were processed accurately by applications that produced reliable results, and output was accurate;
- recorded transactions actually occurred, were related to the organization, and were properly approved in accordance with management's authorization, and output contained only valid data;

¹²GAO, *Federal Information System Controls Audit Manual (FISCAM)*, [GAO-09-232G](#) (Washington, D.C.: Feb. 2009).

- application data and reports and other output were protected against unauthorized access; and
- application data and reports and other relevant business information were readily available to users when needed.

We used an independent public accounting firm (IPA), under contract, to assist with information system controls testing, including follow-up on the status of Fiscal Service's corrective actions to address control deficiencies contained in our prior years' reports that were not remediated as of September 30, 2020. We agreed with the IPA on the scope of work, monitored and reviewed all aspects of the work, and determined that the work was sufficient to satisfy our audit objectives.

During the course of our work, we communicated our findings to Fiscal Service management. We plan to follow up to determine the status of corrective actions taken to address control deficiencies not remediated as of September 30, 2021, during our audit of the fiscal year 2022 Schedule of Federal Debt.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe that our audit provides a reasonable basis for our findings and recommendations in our separated issued LIMITED OFFICIAL USE ONLY report.

Corrective Actions Under Way or Planned in Three Areas of Previously Reported Information System General Control Deficiencies

During our fiscal year 2021 audit, we determined that information system control deficiencies collectively represented a significant deficiency in Fiscal Service's internal control over financial reporting. Though we identified recurring conditions associated with previously reported information system control deficiencies, we did not identify any new reportable control deficiencies in financial systems relevant to the Schedule of Federal Debt.

We determined that Fiscal Service completed corrective actions to close one of 24 recommendations to address information system control deficiencies from our prior audits that remained open as of September 30, 2020. Specifically, Fiscal Service strengthened certain segregation of duties controls to close this recommendation. Fiscal Service's corrective actions were still in progress for 23 open recommendations related to (1) security management, (2) access controls, and (3) configuration management. These continuing information system control deficiencies, which collectively represent a significant deficiency, increase the risk of unauthorized access to, modification of, or disclosure of sensitive data and programs and disruption of critical operations. Fiscal Service mitigated the potential effect of these deficiencies on financial reporting for fiscal year 2021 with compensating management and reconciliation controls designed to detect potential misstatements on the Schedule of Federal Debt.

In the LIMITED OFFICIAL USE ONLY report, we communicated detailed information regarding actions that Fiscal Service took to address control deficiencies contained in our prior years' reports that were not remediated as of September 30, 2020.

Agency Comments

Fiscal Service provided comments on the separately issued LIMITED OFFICIAL USE ONLY report. In those comments, Fiscal Service stated that it continues its commitment to having effective internal controls for its information technology systems. Fiscal Service further stated that it understands the need for consistent management commitment to address the existing

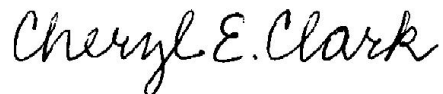
significant deficiency. Additionally, Fiscal Service stated that it will further enhance corrective action plans and corrective action completion evidence to ensure that the open prior-year findings are resolved. We plan to follow up to determine the status of actions taken to address these deficiencies during our audit of the fiscal year 2022 Schedule of Federal Debt.

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We are sending copies of this report to interested congressional committees, the Secretary of the Treasury, the Inspector General of the Department of the Treasury, and the Director of the Office of Management and Budget. In addition, this report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-3406 or clarkce@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report include Nicole M. Burkart (Assistant Director), Randy Voorhees, and Ivy Wu.

Sincerely yours,



Cheryl E. Clark
Director
Financial Management and Assurance

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