



United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Information  
Management Division

B-279268

160211

April 7, 1998

Mr. Van Zeck  
Acting Commissioner  
Bureau of the Public Debt

Subject: Management Letter: Schedule of Loans Receivable Serviced by the Bureau of the Public Debt

Dear Mr. Zeck:

We contracted with the independent public accounting firm of KPMG Peat Marwick LLP (KPMG) to audit the Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt (BPD) at September 30, 1997. On February 27, 1998, we issued a letter<sup>1</sup> transmitting KPMG's auditors' report, dated January 23, 1998, which contained (1) an opinion on the Schedule of Loans Receivable, (2) an opinion on management's assertion about the effectiveness of related internal controls, and (3) conclusions on significant laws and regulations. In that letter, we noted that KPMG is responsible for the auditors' report and for the conclusions expressed therein.

The purpose of this letter is to advise you of an internal control matter included in the enclosed KPMG management letter, dated January 23, 1998. The matter relates to procedures in place to ensure the reasonableness of interest paid by federal entities on loans receivable. Although this matter was not determined to be a material weakness, KPMG believes that it warrants the attention of management. KPMG provided BPD officials with a draft of the enclosed letter and discussed the matter with them. They agreed with the finding and suggestion and stated that corrective action is being taken.

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<sup>1</sup>Financial Audit: Schedule of Loans Receivable Serviced by the Bureau of the Public Debt (GAO/AIMD-98-66R, February 27, 1998).

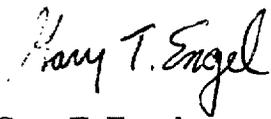
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We would appreciate receiving a description and the status of your planned corrective actions within 30 days from the date of this letter. We and KPMG appreciate the cooperation and assistance the BPD management and staff provided during the audit.

We are sending a copy of this letter to the Department of the Treasury Deputy Inspector General. If you have any questions or need assistance in addressing this matter, please contact me on (202) 512-3406 or J. Lawrence Malenich, Assistant Director, on (202) 512-9399.

Sincerely yours,



Gary T. Engel  
Associate Director  
Governmentwide Accounting and  
Financial Management Issues

Enclosure

Enclosure

**OTHER MATTER IDENTIFIED DURING  
THE AUDIT OF THE SCHEDULE OF LOANS RECEIVABLE**



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Telephone 202 467 3000

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January 23, 1998

The Acting Comptroller General  
United States General Accounting Office:

We have audited the Schedule of Loans Receivable from Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt (BPD) at September 30, 1997 (the Schedule), and have examined management's assertions regarding the effectiveness of the internal controls over financial reporting related to the Schedule that were in place as of September 30, 1997, and have issued our report thereon dated January 23, 1998. In planning and performing our audit, we considered BPD's internal controls to determine our auditing procedures for the purpose of expressing our opinions on the Schedule and on management's assertions regarding the effectiveness of BPD's internal controls over financial reporting as of September 30, 1997.

Our procedures were designed primarily to enable us to form opinions on the Schedule and on management's assertions regarding the effectiveness of internal controls over financial reporting, and therefore may not bring to light all weaknesses in internal control policies or procedures that may exist. We have attempted, however, to use our knowledge of BPD's organization gained during our work to make comments and suggestions related to internal controls we hope will be useful to BPD's management.

We noted a matter involving BPD's internal controls that we considered to be a reportable condition under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect BPD's ability to safeguard assets against loss from unauthorized acquisition, use, or disposition; execute transactions in accordance with applicable laws and regulations; and record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the Schedule. The reportable condition, involving unrecorded interest income earned on loans receivable, was reported in our Independent Auditors' Report dated January 23, 1998. Although not considered a reportable condition, we noted an additional matter during our audit which warrants the attention of BPD's management. This matter is reported in the attached Exhibit.

This report is intended solely for the information and use of BPD's management and the U.S. General Accounting Office. However, this report is a matter of public record and its distribution is not limited.

*KPMG Peat Marwick LLP*



**Enclosure: Other Matter Identified During the  
Audit of the Schedule of Loans Receivable**

Exhibit

BUREAU OF THE PUBLIC DEBT  
Schedule of Loans Receivable from Federal Entities  
and Related Interest Receivable  
Comment and Suggestion  
September 30, 1997

*Interest Payments on Loans Receivable*

Comment:

The Bureau of the Public Debt's (BPD) procedures in place to ensure the amount of interest paid by federal entities on outstanding loans is reasonable can be improved. The entities paying interest to the Treasury on intragovernmental loans send a certification to BPD with their interest payments attesting to the accuracy of the amount paid. The interest calculations are complex and the undisbursed loan proceeds must be considered in the computation. Information necessary to recalculate interest on these loans is not readily available to BPD for verification purposes.

Although BPD reviews the amounts received to identify obvious errors and inconsistencies, it primarily relies on the entities' representations about the correctness of the interest paid. In its capacity as servicer of the loans receivable, BPD should have procedures in place to ensure the interest paid by federal entities on these loans is reasonably accurate. Without such procedures, BPD cannot be assured that intragovernmental interest income on the loans receivable is reasonable.

Suggestion:

We suggest BPD implement more specific procedures to determine whether periodic interest payments received from borrowers are reasonable, such as comparing payment amounts from period to period for the same loan, comparing interest earned to interest paid by other entities with similar types of loans, or periodically requesting the entities to submit the actual calculation for BPD review and recalculation.

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