Audit of the Financial Management Service's Fiscal Year 2001 Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

OIG-02-057

February 28, 2002

Office of Inspector General

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The Department of the Treasury

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 28, 2002

MEMORANDUM FOR RICHARD L. GREGG, COMMISSIONER
FINANCIAL MANAGEMENT SERVICE

FROM: William H. Pugh, William H. Pugh
Deputy Assistant Inspector General
for Financial Management and Information Technology Audits

SUBJECT: Audit of the Financial Management Service's Fiscal Year 2001 Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

I am pleased to transmit the audited Financial Management Service's (FMS) Fiscal Year (FY) 2001 Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedule). The Schedule was audited by Clifton Gunderson LLP, an independent public accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Independent Auditor's Report;
- Independent Auditor's Report On Internal Control; and
- Independent Auditor's Report On Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on the FMS' FY 2001 Schedule. The Independent Auditor's Report on Internal Control contained no reportable conditions. In addition, the Independent Auditor's Report on Compliance with Laws and Regulations contained no instances of noncompliance.

The IPA issued a management letter dated December 28, 2001, discussing various issues that were identified during the audit which were not required to be included in the audit reports.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
Washington, DC

INDEPENDENT AUDITOR'S REPORTS AND
SCHEDULE OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
September 30, 2001

DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE

INDEPENDENT AUDITOR'S REPORTS AND
SCHEDULE OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
September 30, 2001

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the accompanying Schedule of Non-Entity Assets as of September 30, 2001, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2001 (the Schedule) of the U. S. Department of the Treasury's Financial Management Service (FMS). This Schedule is the responsibility of FMS's management. Our responsibility is to express an opinion on this Schedule based on our audit.

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 applicable provisions of Office of Management and Budget (OMB) 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 Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the Non-Entity Assets as of September 30, 2001, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2001 of FMS in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued reports dated December 28, 2001, on our consideration of FMS' internal control over financial reporting relating to the amounts reflected in the Schedule and on our tests of FMS' compliance with certain provisions of laws and regulations relating to the amounts reflected in the Schedule. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Clifton Gunderson LLP

Calverton, Maryland
December 28, 2001

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Independent Auditor's Report On Internal Control

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Assets as of September 30, 2001, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2001 (the Schedule) of the U. S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated December 28, 2001. 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 applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered FMS' internal control over financial reporting for the amounts reflected in the Schedule by obtaining an understanding of relevant internal controls, determined whether these 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 Schedule. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. 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 the internal control over financial reporting for the amounts reflected in the Schedule would not necessarily disclose all matters in the internal control over financial reporting for the amounts reflected in the Schedule 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 FMS' ability to record, process, summarize, and report financial data consistent with the assertions by management in the Schedule. 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 in amounts that would be material in relation to the Schedule 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 internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted no matters involving the internal control and its operation that we consider to be a material weakness.

However, we noted other matters involving the internal control over financial reporting for the amounts reflected in the Schedule that we have reported to management of FMS in a separate letter dated December 28, 2001.

This report is intended solely for the information and use of the management of FMS, 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.

Clifton Gunderson LLP

Calverton, Maryland
December 28, 2001

Independent Auditor's Report On Compliance With Laws and Regulations

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Assets as of September 30, 2001, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2001 (the Schedule) of the U. S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated December 28, 2001. 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 applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of FMS is responsible for complying with laws and regulations applicable to the amounts reflected in the Schedule. As part of obtaining reasonable assurance about whether the amounts reflected in the Schedule are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the amounts reflected in the Schedule and certain other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to those provisions, and we did not test compliance with all laws and regulations applicable to FMS.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations described in the preceding paragraph that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

Clifton Gunderson LLP

Calverton, Maryland
December 28, 2001

DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
SCHEDULE OF NON-ENTITY ASSETS
AS OF SEPTEMBER 30, 2001 AND
NON-ENTITY COSTS AND CUSTODIAL REVENUE
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)

NON-ENTITY ASSETS	
Intra-governmental:	
Fund balance with Treasury (Note 2)	$ 785,026
Accounts receivable, net (Note 3)	666,225
Other	12,600
Total intra-governmental	1,463,851
With the public	
Receivable on deposit earnings, Federal Reserve System	405,230
Accounts receivable, net (Note 3)	3,909
Total with the public	409,139
TOTAL NON-ENTITY ASSETS	$ 1,872,990
NON-ENTITY COSTS (Note 4)	
Credit Reform - interest paid on uninvested funds	$ 4,708,083
Judgments	1,414,798
Money erroneously received and covered	147,220
Resolution Funding Corporation	463,812
Public Broadcasting Fund, Corporation for Public Broadcasting	360,000
Payment to legal services	321,207
Anti-terrorism judgments	231,645
Payment to the District of Columbia	39,427
Other	46,701
TOTAL NON-ENTITY COSTS	$ 7,732,893
CUSTODIAL REVENUE (Note 5)	
Deposit of earnings, Federal Reserve System	$ 26,123,722
Interest received from tax and loan depositaries	950,584
Recoveries from Federal Agencies for settlement of claims from contract dispute	310,410
General fund proprietary receipts, not otherwise classified, all other	136,467
Fines, penalties, and forfeitures, not otherwise classified	62,893
Other	30,838
Total cash collections	27,614,914
Accrual adjustment	(399,529)
TOTAL CUSTODIAL REVENUE	$ 27,215,385

The accompanying notes are an integral part of this Schedule.

DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULE OF NON-ENTITY ASSETS
AS OF SEPTEMBER 30, 2001 AND
NON-ENTITY COSTS AND CUSTODIAL REVENUE
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(Dollars in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

FMS is a bureau of the U. S. Department of the Treasury (Treasury). FMS' mission is to improve the quality of government financial management. FMS' commitment and responsibility is to help its customers achieve success. FMS does this by linking program and financial management objectives and by providing financial services, information, advice, and assistance to its customers. FMS serves taxpayers, Treasury, Federal program agencies, and government policy makers.

Non-Entity accounts are those accounts that FMS holds but are not available to FMS in its operations. For example, FMS accounts for certain cash that the Federal Government collects and holds on behalf of the U. S. Government or other entities. However, the Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedule) does not include Non-Entity Operating Cash of the Federal Government (commonly known as Government-wide Cash). This Schedule includes the activity of Non-Entity account symbols managed by FMS.

Some Non-Entity accounts receive appropriations for specific Federal programs. Some of the appropriations are permanent, indefinite appropriations. They are not subject to budgetary ceilings established by Congress. Other appropriations received are the result of public laws. Both types of appropriations are used for payments to Federal program agencies and others.

Some Non-Entity accounts receive cash collections. These types of accounts are miscellaneous receipt accounts. Examples of collections include interest payments, contributions, and collections of fines and penalties.

Basis of Presentation

The Schedule has been prepared from the accounting records maintained by FMS and are meant to report Non-Entity Assets, Non-Entity Costs and Custodial Revenue of the Financial Management Service (FMS) in accordance with generally accepted accounting principles. Such principles require the use of the accrual method of accounting to record transactions. Under the accrual method, revenues are recognized when earned and costs are recognized when a cost is incurred, without regard to receipt or payment of cash. This Schedule was prepared following accrual accounting.

The standards used in the preparation of the Schedule are issued by the Federal Accounting Standards Advisory Board (FASAB), as the body authorized to establish generally accepted accounting principles for Federal government entities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Balances reflected on this Schedule may differ from those on financial reports prepared by FMS pursuant to certain OMB directives that are primarily used to monitor and control FMS's use of budgetary resources.

Use of Estimates in Preparing Schedule

The preparation of the Schedule, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. These estimates affect the reported amounts of assets at the date of the Schedule and the amounts of revenues and costs during the reporting period for the Schedule. Actual results may differ from these estimates.

Fund Balance with U.S. Treasury

FMS does not maintain cash in commercial bank accounts and no balances are maintained outside of the U.S. Treasury. Treasury processes receipts and disbursements. The funds with Treasury are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchases.

Accounts Receivable

Accounts receivable is comprised of Intra-governmental and accounts with the Public. Over 99% of these amounts are Intra-governmental (i.e., due from other Federal agencies). FMS records an allowance for uncollectible accounts based on projections of future collections (based on prior year collection trends) and the aging of outstanding accounts receivable at September 30.

Receivable on Deposit of Earnings, Federal Reserve System

Reserve Banks are required by the Board of Governors of the Federal Reserve System to transfer to the U. S. Treasury excess earnings, after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid in. In the event of losses, or a substantial increase in capital, a Reserve Bank will suspend it payments to the U. S. Treasury until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U. S. Treasury may vary significantly. The Receivable on Deposit of Earnings, Federal Reserve System, represents the earnings due Treasury as of September 30, 2001.

Custodial Revenue

Custodial revenue is initially recorded on a cash basis when amounts are deposited into receipt accounts. However, an adjustment is reflected on the Schedule at September 30 to accrue for collections in fiscal 2001 relating to prior year Non-Entity Accounts Receivable and to account for other changes in the Non-Entity Accounts Receivable not resulting in a collection of cash in fiscal 2001 (i.e., new reimbursements and change in the allowance for uncollectible accounts).

Intra-governmental Financial Activities

The financial activities of FMS are affected by, and are dependent upon, those of Treasury and the Federal Government as a whole. Thus, the accompanying Schedule does not reflect the results of all-financial decisions and activities applicable to FMS as if it were a stand-alone entity.

NOTE 2 - FUND BALANCE WITH TREASURY

The Fund Balance with Treasury is funded through various sources depending on the specific legislative authority and purpose, and may be used only for specific purposes. Such amounts may be in escrow or other special accounts. These accounts are primarily funded through appropriations, collections, tax receipts, gifts to the Government, and settlements from foreign countries.

Obligated balances are funds against which budgetary obligations have been incurred, but disbursements have not been made. The Unobligated Available balance is the amount of funds available to FMS against which no claims have been recorded. The Unobligated Unavailable balance is the amount of unobligated funds remaining from appropriations that have expired. Fund balance with Treasury as of September 30, 2001 consisted of the following:

(Dollars in Thousands)

NOTE 2 - FUND BALANCE WITH TREASURY (CONTINUED)

Account Type	Obligated	Unobligated Available	Unobligated Unavailable	Total
Appropriated Funds	$ 238,028	$ 278,196	$ 3,003	$ 519,227
Revolving Funds	807	11,324	-	12,131
Trust Funds	10	79	-	89
Other Fund Types	-	-	253,579	253,579
Total	$ 238,845	$ 289,599	$ 256,582	$ 785,026

The fund balance unobligated available supports the budgetary resources available except for $310, which is invested. The fund balance, unobligated unavailable for appropriated funds supports the budgetary resources not available. The fund balance, unobligated unavailable for other fund types, includes only deposit funds and suspense accounts which do not have a budgetary impact.

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Intra-governmental Accounts Receivable, Net

Accounts receivable, intra-governmental, includes amounts Federal agencies owe to FMS for the payment of water and sewage service to the District of Columbia, and amounts Federal agencies are required to reimburse the Treasury's Judgment Fund for settlements paid on their behalf for contract disputes (pursuant to the Contracts Dispute Act) and fire fighting services. While the Contracts Dispute Act (CDA) requires Federal Agencies reimburse the Judgement Fund for payments, CDA does not authorize FMS collection action against those Agencies. Accordingly, FMS has historically had difficulty in collecting amounts owed to them under the CDA. An allowance for uncollectible accounts has been established to recognize losses on receivables that may not be collected under this Program, with a focus on accounts greater than three years outstanding.

(Dollars in Thousands)

NOTE 3 - ACCOUNTS RECEIVABLE, NET (CONTINUED)

Accounts receivable as of September 30, 2001 consisted of the following:

Claims for Contract Disputes and Fire Fighting Services	$ 1,412,980
Billings for Water and Sewage Services and Other	3,245
Gross Accounts Receivable	1,416,225
Less: Allowance for Uncollectible Accounts	(750,000)
Accounts Receivable, Net	$ 666,225

Accounts Receivable with the Public, Net

Accounts receivable with the public as of September 30, 2001 consisted of the following:

U.S. Treasury Check Forgery Insurance Fund Receivables	$ 5,277
Interest Payments from States	76
Gross Accounts Receivable	5,353
Less: allowance for uncollectible accounts	(1,444)
Accounts Receivable, Net	$ 3,909

The U.S. Treasury Check Forgery Insurance Fund was established to expedite payments on claims and provide a dependable source of funds to meet the Federal Government's responsibility for the payment of settlement checks issued to replace checks paid over forged endorsements. The receivable represents the amount due from banks that cashed the forged checks.

NOTE 4 - NON-ENTITY COSTS

Non-Entity Costs represent payments made for the year ended September 30, 2001 on behalf of other Federal agencies through various Treasury Managed Accounts (TMA) described below. In addition, Non-Entity Costs also include accruals for which FMS has made a commitment to make a payment for claims existing as of September 30, 2001.

Credit Reform: Interest Paid on Uninvested Funds - Direct loan and loan guarantee financing accounts receive various payments, repayments and fees, and make payments on defaults. When cash receipts exceed outlays or when an agency does not disburse all of its borrowings, these balances are held in the Treasury and earn interest. The interest earned on these balances is disbursed from this account.

NOTE 4 - NON-ENTITY COSTS (CONTINUED)

Payments to Claimants from the Judgment Fund - Payments from the judgment fund represent payments for certain judicially and administratively ordered monetary awards against the United States, as well as amounts owed under compromise agreements negotiated by the United States Department of Justice in settlement of claims arising under actual or imminent litigation.

Moneys Erroneously Received and Covered - This account is being used for expenditures that are made for collections or other receipts erroneously deposited into Treasury. These collections represent receipts that were not properly chargeable to any other appropriation.

Payments to the Resolution Funding Corporation - The Resolution Funding Corporation (REFCORP) account is maintained pursuant to the Federal Home Loan Bank Act. FMS provides payments to REFCORP to cover the interest expenses of REFCORP.

Payments to the Public Broadcasting Fund, Corporation for Public Broadcasting - This account is used to pay the Corporation for Public Broadcasting annually pursuant to the enacted Public Law. The payment is used to assist and facilitate the full development of public telecommunications in which programs of high quality, diversity, creativity, excellence, and innovations will be made available to public telecommunications.

Payments to the Legal Services Corporation - This account is used to pay the Legal Services Corporation through letter of credit drawdowns. The Legal Services Corporation distributes appropriated funds to local nonprofit organizations that provide free civil legal assistance, according to locally determined priorities, to people living in poverty. Congress chartered the corporation as a private, non-profit entity outside of the Federal Government.

Anti-Terrorism Judgments - This account was established by the authority of Section 2002 of the Victims of Trafficking and Violence Protection Act, Public Law 106-386, for the purpose of making payments to persons who hold certain categories of judgments against Iran in suits brought under 28 U.S.C. 1605(a)(7). For purposes of funding payments in connection with judgments against Iran, Section 2002 provides that the Department of the Treasury shall make payments from amounts paid and liquidated from (a) rental proceeds accrued on the date of the enactment of the Act from Iranian diplomatic and consular property located in the United States and (b) funds not otherwise made available in an amount not to exceed the total of the amount in the Iran Foreign Military Sales program account within the Foreign Military Sales Fund on the date of the enactment of the Act. FMS has received an appropriation to pay claims related to these judgments in the amount of \$ 400,179, of which \$ 231,645 has been disbursed or accrued through September 30, 2001.

(Dollars in Thousands)

NOTE 4 - NON-ENTITY COSTS (CONTINUED)

Payments to the District of Columbia - Payments to the District of Columbia cover certain operations of the District of Columbia. It includes payments for a program of management reform, for the administration and operation of correctional facilities, and for construction and repair of the District's infrastructure.

Other - The line item Other includes the following payments: Presidential Election Campaign Fund, Payments to the States, Payments to Agencies for Interest on Uninvested Funds, Payment to the Institute of American Indian and Alaskan Native Culture and Arts Development, Payments from the U.S. Treasury Check Forgery Insurance Fund, Payments to Individuals under Private and Public Relief Laws, and Payments from Biomass Energy Development.

NOTE 5 - COLLECTIONS OF CUSTODIAL REVENUE

FMS collects Custodial Revenue that is not related to its mission and distributes the full amount collected to the Treasury General Fund. See Note 1-Receivable on Deposit of Earnings, Federal Reserve System for definition of Federal Reserve Earnings. For the year ended September 30, 2001 cash collections were as follows:

	Tax Year		
	2000	**2001**	**Total**
Federal Reserve Earnings	$ 4,511,431	$21,612,291	$26,123,722
Interest Received from Tax and Loan Depositaries	291,233	659,351	950,584
Recoveries from Federal Agencies for Settlement of Claims from Contract Disputes	100,053	210,357	310,410
General Fund Proprietary Receipts	5,931	130,536	136,467
Fines, Penalties, and Forfeitures	-	62,893	62,893
Other	247	30,591	30,838
Total	$ 4,908,895	$22,706,019	$27,614,914

NOTE 6 - CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible payment to FMS. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or unasserted litigation, a liability/cost is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources can be reasonably estimated.

There are numerous legal actions pending against the United States in Federal courts in which claims have been asserted that may be based on action taken by FMS. Management intends to contest vigorously all such claims. Management believes, based on information provided by legal counsel, that losses, if any, for the majority of these cases would not have a material impact on the Schedule. There are other cases that could result in significant payouts; however, legal counsel is unable to determine the probability of an unfavorable outcome, or determine an estimate or range of potential loss, for these matters, if any. No loss accrual has been made for these cases outstanding at September 30, 2001. Below is one such case:

> *Cobell, et al. v. Norton, et al.*
> In this case, the plaintiffs allege that the Departments of the Interior and Treasury have breached trust obligations with respect to the management of the plaintiffs' Individual Indian Monies (IIM). The plaintiffs have not made claims for specific dollar amounts. However, their claims are complex, and if an unfavorable decision is rendered, a material loss could be incurred.

In addition, FMS manages several accounts that may be used for the payment of claims against other Federal agencies. Such payments are reflected in the following non-entity cost accounts reflected on Schedule: Judgments, Moneys Erroneously Received and Covered, and Anti-Terrorism Judgments. At September 30, 2001, such claims are in various stages of settlement. The following is a summary of those claims that have been settled and are pending payment by FMS, pursuant to its arrangements with such Federal Agencies, as of September 30, 2001:

- A case involving the U.S. Customs Service has been settled as of September 30, 2001 resulting in a plan to pay approximately $656,000. Of this amount approximately $44 million in claims has been approved for payment by the U.S. Customs Service, and FMS has accrued such claim amount in the Non-Entity Cost Section of the accompany Schedule at September 30, 2001. Future amounts will be accrued upon approval of claims by the U.S. Customs Service.

- While FMS has not yet received these Judgment Fund claims as of September 30, 2001, FMS Legal Counsel has been informed by the Department of Justice of two pending

NOTE 6 – CONTINGENCIES (CONTINUED)

Federal court claims that could result in an aggregate pay out of approximately \$582,000. Pursuant to the provisions of the Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, “Accounting for Treasury Judgment Fund Transactions”, claim amounts will be reflected in the Schedule upon completion of certain judicial procedures and FMS’s receipt of the Federal agency’s request for payment of these claims from the Judgment Fund. At September 30, 2001 these events have not yet occurred.

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