



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

M-04-22

July 27, 2004

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND
AGENCIES, CHIEF FINANCIAL OFFICERS AND
INSPECTORS GENERAL

FROM:

Joshua B. Bolten
Director

SUBJECT:

Amendments to OMB Bulletin No. 01-02,
Audit Requirements for Federal Financial Statements

The Administration is committed to improving financial management and performance in the Federal government and its accountability to the citizens of the country. As Federal agencies are making significant progress in improving their financial management, the consolidated financial statements of the United States Government remain a challenge. To address this challenge, a new process for compiling the Government-wide financial statements is being used in this year's closing process to assist in resolving the material deficiencies in those statements.

To implement this new process, OMB is amending OMB Bulletin No. 01-02, Audit Requirements for Federal Financial Statements (Oct. 16, 2000), which provides guidance on the financial statement audits of federal agencies. Beginning in fiscal year 2004, agencies will be required to submit audited financial statement information for the compilation of the Financial Report of the United States Government (FR). In addition, the procedures agencies are required to follow for the Retirement, Health Benefits and Life Insurance Withholdings/Contributions and the Supplemental Semiannual Headcount Report submitted to OPM have changed. More detailed information on these amendments can be found in the attachment. In addition, the attachment contains an updated listing of agencies subject to the Accountability of Tax Dollars Act of 2002 (originally issued in a memorandum from OMB Director Daniels, December 6, 2002).

In preparing this guidance, we have worked closely with and incorporated comments from the Chief Financial Officer and Inspector General communities. For any questions about this guidance, contact Dana James, Office of Federal Financial Management, telephone (202) 395-7480, e-mail: DMJames@omb.eop.gov

Attachment

1. Summary.

New Audit Requirement.

(a) Insert new Section 12 and Appendices J and K into OMB Bulletin No. 01-02, dated October 16, 2000.

Beginning with FY 2004, the significant entities to the FR will be required to submit special-purpose financial statements to the Financial Management Service (FMS) for the compilation of the FR¹. The special-purpose financial statements must be submitted no later than November 18 following the end of the fiscal year for which the financial statements were prepared. The special-purpose financial statements are the result of a new compilation process designed to provide a direct linkage between the agencies' audited, consolidated department-level financial statements and the FR. This new process will aid in resolving material deficiencies of the FR cited by the U.S. Government Accountability Office (GAO, formerly the U.S. General Accounting Office). The significant entities' auditors will opine on the special-purpose financial statements, including the reclassified balance sheet, statement of net cost, statement of changes in net position, and the accompanying notes.

Clarification and Technical Amendments.

(b) Replace Appendices A and B of OMB Bulletin No. 01-02, dated October 16, 2000.

This document provides clarification of the applicability of OMB Bulletin No. 01-02 to include the revised listing of executive departments and agencies required to prepare financial statements under the requirements of the Accountability of Tax Dollars Act of 2002 (Appendix A) and the revised listing of components of executive departments and agencies required to prepare financial statements (Appendix B). In a memorandum from the Director of OMB dated December 6, 2002 and clarified in a memorandum from the Deputy Director for Management dated March 20, 2003, agencies subject to the Accountability of Tax Dollars Act of 2002 are required to follow OMB Bulletin No. 01-09 Form and Content of Agency Financial Statements, as amended. Agencies subject to the Form and Content of Agency Financial Statements are also subject to OMB Bulletin No. 01-02 Audit of Federal Financial Statements, as amended.

¹ The significant entities to the Financial Report of the U.S. Government (FR) are identified in the Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, <http://www.fms.treas.gov/factsi/v1p2c470.pdf>. The significant entities to the FR are referenced in the TFM as the "verifying agencies," in relation to their responsibilities within the Governmentwide Financial Report System (GFRS).

(c) Replace Section 10 and Appendix I-2 of OMB Bulletin No. 01-02, dated October 16, 2000.

This document revises the instructions for the OPM agreed upon procedures (AUPs). Under the e-Payroll initiative, agencies no longer continuing to provide payroll service will migrate to one of the four selected providers: Department of Agriculture's National Finance Center, Department of the Interior's National Business Center, Department of Defense's Defense Finance and Accounting Service and General Services Administration. The migrations are occurring on a phased approach; therefore, the auditor of the payroll provider as of March 31 should be the entity conducting the AUPs.

The auditor of the payroll provider shall combine the results of the AUPs into a single report. The auditor of the payroll provider shall apply the AUPs separately to all CFO Act agencies and to other entities consisting of 30,000 or more employees that it services. The report shall be due to OPM by October 1.

2. Applicability. The amendments to OMB Bulletin No. 01-02 apply to audits of financial statements of executive departments and agencies and certain components of these agencies, listed in the revised Appendices A and B, respectively, unless otherwise specified. The new requirement for the audit of the special-purpose financial statements applies only to the significant entities to the FR².

3. Effective Date. The new requirement for an opinion on the special-purpose financial statements and accompanying notes summarized in paragraph 1(a) is effective for fiscal year 2004 and beyond. The clarification in paragraph 1 (b) is effective immediately. The technical amendments described in paragraph 1 (c) are effective for financial statements prepared for fiscal year 2004 and beyond.

4. Copies. Individual copies of this memorandum may be obtained from the OMB home page on the Internet at <http://www.whitehouse.gov/OMB/>. Copies of OMB Bulletin No. 01-02, as amended, may also be obtained from the OMB home page.

² The significant entities to the Financial Report of the U.S. Government (FR) are identified in the Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, <http://www.fms.treas.gov/factsi/v1p2c470.pdf>. The significant entities to the FR are referenced in the TFM as the "verifying agencies," in relation to their responsibilities within the Governmentwide Financial Report System (GFRS).

(Revised, July 2004)

10. AGREED-UPON PROCEDURES: RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE WITHHOLDINGS/CONTRIBUTIONS AND SUPPLEMENTAL SEMIANNUAL HEADCOUNT REPORT SUBMITTED TO THE OFFICE OF PERSONNEL MANAGEMENT (OPM). The Agreed-Upon Procedures (AUPs) enumerated in Appendix I-1 shall be performed annually in accordance with Statements of Standards for Attestation Engagements, AT Section 201, "Agreed-Upon Procedures Engagements." The AUPs are designed to assist OPM in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance withholdings/contributions as well as semiannual headcount information submitted by agencies. The sufficiency of the procedures is solely the responsibility of the Inspector General and the Associate Director for Management and Chief Financial Officer of OPM and shall be applied to the 11 months ended August 31 of each year.

- a. The auditor of each payroll provider shall apply the AUPs separately (1) for each entity designated as subject to the CFO Act in Appendix A; (2), the Department of Homeland Security; and (3) each entity not designated as subject to the CFO Act that has 30,000 or more employees.
- b. Although the auditor must perform the AUPs separately for each applicable entity, the auditor shall combine the results into a single report.
- c. The auditor of the payroll provider is the principal auditor for the purpose of performing the AUPs. The auditors of customer agencies shall participate to the extent necessary to ensure that the AUPs are performed effectively and within the established timeframes.
- d. In light of the migration of payroll servicing responsibilities under the e-Payroll initiative, the payroll provider as of March 31 shall be responsible for assuring that the AUPs are performed and reported upon.
- e. The report on the performance of the AUPs shall be submitted no later than *October 1*. To the extent practical, management's comments on the auditor's findings shall be included in the report.
- f. If a specific AUP cannot be performed, the auditor must propose to OPM's Office of the Inspector General (OIG) in writing no later than *July 15* at the address in 10. g. an alternative procedure that would accomplish the AUPs' objectives. In addition, auditors shall notify OPM's OIG by *September 1* of any other anticipated difficulties in completing the procedures and submitting the required report by October 1.

- g. Agencies shall submit three copies of the report on the application of these procedures to OPM's OIG at the address below or, alternatively, may email the report as a PDF attachment to MREsser@opm.gov, with a cc: to Finance@opm.gov.

U.S. Office of Personnel Management
Office of Inspector General
Room 6400
1900 E Street, N.W.
Washington, DC 20415

12. AUDIT OF THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

The Government Management Reform Act of 1994 requires the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), to annually prepare and submit to the President and the Congress an audited financial statement for the preceding fiscal year for the executive branch of the United States Government.

Beginning with fiscal year 2004, the Department of the Treasury's Financial Management Service (FMS) will prepare the FR using special-purpose financial statements and accompanying notes submitted by the significant entities to the FR³ and adjusted trial balances from the remainder of the entities included in the FR. In addition to submitting the special-purpose financial statements, the significant entities to the FR are also required to submit intragovernmental balance information by trading partner. The intragovernmental balance information by trading partner is required to be subjected to agreed upon procedures as defined by the FMS in the Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700 (hereinafter referred to as the TFM Chapter 4700).

The special-purpose financial statements include the reclassified balance sheet, statement of net cost and statement of changes in net position and the accompanying notes. The special-purpose financial statements are required to be audited and audit reports are to be submitted to the FMS, OMB and General Accounting Office. An illustrative auditor's report is provided in Appendix J.

- a. Frequency of Audits. Audits shall be performed annually. For FY 2004, the audit shall apply only to the FY 2004 special-purpose financial statements and accompanying notes.
- b. Responsibility of Audit. For purposes of this section, the significant entities to the Financial Report of the U.S. Government, as identified in the TFM Chapter 4700, shall subject their special-purpose financial statements to an audit by the Inspector General (IG) of the agency or by an independent auditor as determined by the IG.
- c. Communication. There shall be open and timely communication between agency management, including the CFO, and the Inspector General (and the audit firm, if the audit is contracted out) throughout the audit process. The purpose of this communication is to ensure that all parties are kept up

³ The significant entities to the Financial Report of the U.S. Government (FR) are identified in the Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, <http://www.fms.treas.gov/factsi/v1p2c470.pdf>. The significant entities to the FR are referenced in the TFM as the "verifying agencies," in relation to their responsibilities within the Governmentwide Financial Report System (GFRS).

to date on the progress and results of the audit to avoid "surprises" at the end. Matters that should be communicated include, but are not limited to, the following:

- (1) The audit timetable and changes thereto,
- (2) Issues or problems arising in the conduct of the audit, including the inability or difficulty in gaining access to records or lack of cooperation of agency personnel, and
- (3) Potential audit findings as they are developed, including indications of materially misstated or unsupported amounts in the special-purpose financial statements and accompanying notes, reportable conditions and material weaknesses in internal control, and material noncompliance with TFM Chapter 4700.

d. **Scope of Audit.** The special-purpose financial statements shall be audited in accordance with Government Auditing Standards and the provisions of this bulletin. The audit of the special-purpose financial statements shall encompass and leverage the audit work performed relative to the general purpose financial statements (referred to as "principal statements and related notes" elsewhere in the bulletin). The purpose of the audit of the special-purpose financial statements is not to duplicate the audit work performed relative to the general purpose financial statements, but to provide an additional level of assurance on the process of reclassifying the agencies audited general purpose financial statements to the formats of the special-purpose financial statements, pursuant to the presentation requirements set forth in the TFM Chapter 4700, and the accompanying notes.

- (1) The auditor shall determine whether the special-purpose financial statements and accompanying notes fairly present, in all material respects, in conformity with the accounting principles generally accepted in the United States of America and the presentation requirements set forth in the TFM Chapter 4700, the financial position, net costs and changes in net position.
- (2) If the auditor is unable to determine whether the special-purpose financial statements are fairly presented, the auditor shall, to the extent practicable, obtain sufficient evidence about closing balances to enable the auditor to opine on the subsequent year's special-purpose financial statements.
- (3) The auditor shall perform the procedures described in AU Section 558, "Required Supplementary Information," of the Codification of Statements on Auditing Standards for the Other Data information

as required and defined in the TFM Chapter 4700. The auditor shall assess whether the Other Data (Stewardship Information and Supplementary Information) is materially consistent with the information in the special-purpose financial statements.

- (4) The internal control relating to the special-purpose financial statements reporting shall encompass the internal control relating to the general purpose financial statements, upon which the special-purpose financial statements are based. The auditor shall also obtain an understanding of the internal control over the financial reporting process for the special-purpose financial statements and perform tests of those controls. Providing an opinion on the internal control relating to the special-purpose financial statements reporting is not an objective of this audit.
 - (5) The reporting on compliance with laws and regulations shall encompass the compliance reporting related to the general purpose financial statements upon which the special-purpose financial statements are based. In addition, with respect to compliance with the TFM Chapter 4700, the auditor shall perform tests of compliance with that chapter that could have a direct and material effect on the special-purpose financial statements. Providing an opinion on the compliance with the TFM Chapter 4700 requirements is not an objective of this audit.
 - (6) The auditor shall obtain written representation from management as part of an audit conducted in accordance with this bulletin. It is encouraged that the audit of the financial reporting process for the special-purpose financial statements be conducted simultaneously with the audit of the general purpose financial statements. In this circumstance, management may combine its representations for the audits of the special-purpose financial statements and the general purpose financial statements. See Appendix K: Illustrative Management Representation Letter for the Special-Purpose Financial Statements.
- e. Audit report. An audit report on the special-purpose financial statements, internal control over the financial reporting process for the special-purpose financial statements, and compliance with TFM Chapter 4700 shall be prepared at the completion of the audit in accordance with Government Auditing Standards. The audit report shall be submitted to the agency head in sufficient time to enable the agency head to meet the due date for submitting the audited special-purpose financial statements no later than November 18 following the end of the fiscal year for which the financial statements were prepared. The audit results shall be discussed with

management as soon as practicable but, in any case, prior to issuance of the audit report.

- (1) The audit report shall state that the audit was made in accordance with Government Auditing Standards and the provisions of this bulletin.
- (2) The audit report shall include:
 - (a) An opinion as to whether the reporting entity's special-purpose financial statements are fairly presented in all material respects in conformity with accounting principles generally accepted in the United States and the presentation pursuant to the requirements of the TFM Chapter 4700. See AU Section 623.25 of the Codification of Statements on Auditing Standards.
 - (i) If the special-purpose financial statements are materially affected by a departure from the presentation requirements of the TFM Chapter 4700, the auditor shall issue a qualified or adverse opinion and include an explanatory paragraph that describes the departure(s) from those standards and, if practicable, the effects of the departure(s) on assets, liabilities, and net position; net costs and changes in net position. If the effects of the departure(s) are disclosed in a note to the special-purpose financial statements, the explanatory paragraph may be shortened by referring that note.
 - (ii) If the auditor disclaims an opinion, the report shall describe why the auditor was unable to conduct the audit in accordance with Government Auditing Standards and this bulletin. If material weaknesses and other reportable conditions prevented the conduct of the audit in accordance with Government Auditing Standards and this bulletin, such conditions shall be included in the report on internal control described in paragraph 12.e.(2)(b), along with recommendations for correcting the condition(s).
 - (iii) With respect to reporting on other data referred to in paragraphs 12.d.(3), the auditor shall follow AU Section 551.15 of the Codification of Statements on Auditing Standards.

- (b) A section on internal control, which shall at a minimum:
 - (i) State that, with respect to internal control over the financial reporting process for the special-purpose financial statements as described in paragraph 12.d.(4) of this bulletin, the auditor obtained an understanding and performed tests of the reporting entity's internal controls.
 - (ii) State that providing an opinion on internal control over the special-purpose financial statements reporting was not an objective of the audit.
 - (iii) Describe reportable conditions and material weaknesses identified during the audit of the special-purpose financial statements.
 - (iv) Reference the report on internal control and compliance with laws and regulations that was issued as part of the audit of the general purpose financial statements.
- (c) A section on the reporting entity's compliance with the TFM Chapter 4700 requirements.
 - (i) The auditor shall report noncompliance with the TFM Chapter 4700 disclosed by audit, except for those instances of noncompliance that, in the auditor's judgment, are immaterial.
 - (aa) Include all facts pertaining to the noncompliance, including the nature and extent of the noncompliance, the primary reason or cause of the noncompliance, and any relevant comments from reporting entity management or employees responsible for the noncompliance.
 - (bb) Provide recommended remedial actions.
 - (ii) In the event the audit disclosed no reportable instances of noncompliance, the report shall state that the audit disclosed no reportable instances of noncompliance with the TFM Chapter 4700.

- (iii) With respect to the objectives of tests of compliance generally, the auditor's report on compliance shall state that providing an opinion on compliance was not an objective of the audit.
 - (iv) Reference the report on internal control and compliance with laws and regulations that was issued as part of the audit of the general purpose financial statements.
 - (3) In preparing the reports in paragraph 12.e.(2), the auditor shall report the status of known but uncorrected material findings and recommendations from prior audits that affect the current audit objectives. See Chapter 4, paragraphs 4.14, 4.15 and 4.16 of Government Auditing Standards.
 - (4) The reporting entity shall provide comments on the auditor's findings and recommendations included in the audit report, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings. To the extent practical, these comments shall be included in the audit report, as applicable. If corrective actions are not necessary, an explanatory statement shall be included in the applicable audit report.
 - (5) Copies of the audit report shall be distributed no later than November 18 to the head of the executive department or agency and simultaneously submitted to the Department of the Treasury's Financial Management Service, the Office of Management and Budget and the U.S. General Accounting Office.
- f. Management Letter. Other deficiencies in internal control, that are not required to be included in the audit report, but that the auditor considers necessary to communicate, should be separately communicated to management of the reporting entity in a management letter as required by paragraph 6.35 of Government Auditing Standards. If a management letter containing other deficiencies in internal control over the financial reporting process for the special-purpose financial statements is issued, the auditor shall refer to that management letter in the auditor's report (see paragraph 5.16 of Government Auditing Standards).

APPENDIX A (Revised, July 2004)

**EXECUTIVE DEPARTMENTS AND AGENCIES REQUIRED TO PREPARE
FINANCIAL STATEMENTS**

Departments and Agencies Subject to the Chief Financial Officers (CFO) Act of 1990

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Department of Veterans Affairs
Agency for International Development
Environmental Protection Agency
General Services Administration
National Aeronautics and Space Administration
National Science Foundation
Nuclear Regulatory Commission
Office of Personnel Management
Small Business Administration
Social Security Administration

Agencies Subject to the Accountability of Tax Dollars Act of 2002

Advisory Council on Historic Preservation
African Development Fund
Appalachian Regional Commission
Architectural and Transportation Barriers Compliance Board
Armed Forces Retirement Home
Barry Goldwater Scholarship and Excellence in Education Fund
Broadcasting Board of Governors
Central Intelligence Agency
Chemical Safety and Hazard Investigation Board
Christopher Columbus Fellowship Foundation
Commission on Civil Rights
Commission of Fine Arts
Commission on Ocean Policy

Commission for the Preservation of America's Heritage Abroad
Committee for Purchase from People Who Are Blind or Severely Disabled
Commodities Futures Trading Commission
Consumer Product Safety Commission
Court Services and Offender Supervision Agency for DC
Defense Nuclear Facilities Safety Board
Delta Regional Authority
Denali Commission
Department of Homeland Security
Equal Employment Opportunity Commission
Farm Credit Administration
Farm Credit System Financial Assistance Corporation
Farm Credit System Insurance Corporation
Federal Communications Commission
Federal Election Commission
Federal Financial Institutions Examination Council Appraisal Subcommittee
Federal Housing Finance Board
Federal Labor Relations Authority
Federal Mediation and Conciliation Service
Federal Mine Safety and Health Review Commission
Federal Retirement Thrift Investment Board
Federal Trade Commission
Harry S. Truman Scholarship Fund
Institute of American Indian and Alaska Native Culture and Arts Development
Institute of Museum and Library Services
Inter-American Foundation
James Madison Memorial Fellowship Foundation
Japan-U.S. Friendship Commission
Marine Mammal Commission
Merit Systems Protection Board
Morris K. Udall Scholarship and Excellence in National Environmental
Policy Foundation
National Archives and Records Administration
National Capital Planning Commission
National Commission on Libraries and Information Science
National Council on Disability
National Credit Union Administration
National Endowment for the Arts
National Endowment for the Humanities
National Labor Relations Board
National Mediation Board
National Transportation Safety Board
National Veterans Business Development Corporation
Nuclear Waste Technical Review Board
Occupational Safety and Health Review Commission
Office of Government Ethics

Office of Navajo and Hopi Indian Relocation Commission
Office of Special Counsel
Peace Corps
Presidio Trust
Railroad Retirement Board
Securities and Exchange Commission
Selective Service System
Smithsonian Institution (SI)
SI/John F. Kennedy Center for the Performing Arts
SI/National Gallery of Arts
SI/Woodrow Wilson International Center for Scholars
Trade and Development Agency
U.S. Court of Appeals for Veterans Claims
U.S. Holocaust Memorial Museum
U.S. Interagency Council on Homelessness
U.S. International Trade Commission
Vietnam Education Foundation
White House Commission on the National Moment of Remembrance

APPENDIX B (Revised, July 2004)

**COMPONENTS OF EXECUTIVE DEPARTMENTS AND AGENCIES
REQUIRED TO PREPARE FINANCIAL STATEMENTS**

Department of Agriculture

Food and Nutrition Service
Forest Service
Rural Development Mission Area

Department of Defense

Department of Army General Funds
Department of Navy General Funds
Department of Air Force General Funds
Military Retirement Fund
U.S. Army Corps of Engineers Civil Works Program
Department of Army Working Capital Fund
Department of Navy Working Capital Fund
Department of Air Force Working Capital Fund

Department of Health and Human Services

Centers for Medicare & Medicaid Services

Department of Transportation

Federal Aviation Administration
Highway Trust Fund

Department of the Treasury

Internal Revenue Service

Office of Personnel Management

Civil Service Retirement and Disability Fund
Federal Employees Health Benefits Program
Federal Employees Life Insurance Program

**ILLUSTRATIVE INDEPENDENT ACCOUNTANT'S REPORT ON THE
APPLICATION OF AGREED-UPON PROCEDURES**

To the Inspector General
U.S. Office of Personnel Management:

We have performed the procedures described below (or in the attachment), which were agreed to by the Inspector General and Chief Financial Officer of the U.S. Office of Personnel Management (OPM), solely to assist with respect to the employee withholdings and employer contributions reported on the Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement for the payroll periods ended [state dates] and Semiannual Headcount Report as of [state date]. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Inspector General and Chief Financial Officer of OPM. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Insert the following unless the procedures and findings are in an attachment.

The procedures and the associated findings are as follows:

[Insert procedures and findings]

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the withholdings and contributions for Health Benefits, Life Insurance, and Retirement, and the Headcount Report of the [name of agency or agencies]. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Inspector General and Chief Financial Officer of OPM and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

[Signature]

[Date]

cc: Chief Financial Officer of OPM

ILLUSTRATIVE INDEPENDENT AUDITOR'S REPORT ON SPECIAL-PURPOSE FINANCIAL STATEMENTS

We have audited the accompanying reclassified balance sheet as of September 30, [*insert year*] and the related reclassified statements of net cost and changes in net position for the year then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of [*name of Federal Agency*]. These special-purpose financial statements are the responsibility of [*name of Federal Agency*]'s management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, as described in note X, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. General Accounting Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of [*name of Federal Agency*]'s financial statements.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of [*name of Federal Agency*] as of September 30, [*insert year*], and its net costs and changes in net position for the year then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain

limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in [name of federal agency]'s financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with Government Auditing Standards and OMB Bulletin No. 01-02, we have also issued reports⁴ dated [insert date] on our consideration of [name of Federal Agency]'s internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general purpose financial statement reporting performed in accordance with Government Auditing Standards and OMB Bulletin No. 01-02, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered [name of Federal Agency]'s internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process 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 over financial reporting that, in our judgment, could adversely affect the [name of Federal Agency]'s ability to record, process, summarize, and report financial data consistent with the assertions made by management in the special-purpose 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, in amounts that would be material in relation to the special-purpose 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.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700

⁴ If an agency's auditor issues a combined report that includes the audit report on the financial statements, the report on internal control over financial reporting and compliance with certain provisions of laws and regulations, then the language in this section should be modified accordingly.

requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

This report is intended solely for the information and use of [*name of Federal Agency*], the U.S. Department of the Treasury, the Office of Management and Budget and the U.S. General Accounting Office in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]

[*Date*]

Notes to the Special-Purpose Financial Statements

Note X - Special-Purpose Financial Statement Requirements

The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the President and the Congress to comply with the Government Management Reform Act of 1994 (GMRA), which requires the Secretary of the Treasury to prepare and submit annual audited financial statements of the executive branch. The Secretary of the Treasury developed guidance in the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700 to provide agencies with instructions to meet the requirements of GMRA. The TFM Chapter 4700 requires agencies to:

1. Reclassify all items and amounts on the audited consolidated, department-level balance sheet, statements of net cost, changes in net position/income statement and custodial activity, if applicable, to the special-purpose financial statements;
2. Disclose special-purpose financial statement line item amounts identified as Federal by trading partner and amount (amounts should be net of intra-agency and intra-departmental eliminations);
3. Disclose notes required by Balance Sheet line items and other notes required in the Financial Report of the U.S. Government (FR); and
4. Disclose other data not contained in the primary FR financial statements and notes required to meet GAAP requirements.

**ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER
FOR THE SPECIAL-PURPOSE FINANCIAL STATEMENTS**

[Entity Letterhead]

[Date of auditor's report]

[Name and title of head of audit organization]

[Address of audit organization]

Dear [name of head of audit organization]:

This letter is in connection with your audits of the [name of Federal agency]'s special-purpose financial statements, including the reclassified balance sheet as of [end of year covered by special-purpose financial statements] and the related statements of net cost and changes in net position for the year then ended for the purpose of expressing an opinion as to whether the special-purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles and the presentation requirements set forth in the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits, that these representations are as of the date of your auditor's report, and pertain to the period covered by the special-purpose financial statements.

1. We are responsible for the fair presentation of the special-purpose financial statements in conformity with the accounting principles generally accepted in the United States of America and the presentation requirements set forth in the TFM Chapter 4700.
2. The special-purpose financial statements are fairly presented in conformity with the accounting principles generally accepted in the United States of America and the presentation requirements set forth in the TFM Chapter 4700.

If there are instances of departures from generally accepted accounting principles or noncompliance with the requirements set forth in the TFM Chapter 4700, this statement should be modified to disclose all known instances of departure or noncompliance.

3. We have made available to you, all financial records and related data relevant to the reclassification of [name of Federal agency]'s audited, consolidated department-level financial statements to the reclassified special-purpose financial statements and accompanying notes as prescribed in the TFM Chapter 4700.

4. There are no material transactions that have not been properly reclassified in the special-purpose financial statements or disclosed in the notes to the financial statements.
5. We are responsible for establishing and maintaining internal control over the special-purpose financial statement reporting process and complying with the requirements set forth in the TFM Chapter 4700.
6. Those controls in place on September 30, 20XX [or date of latest audited financial statements] provided reasonable assurance that the foregoing objectives are met.

If there are material weaknesses in internal control over the special-purpose financial statement reporting process, the foregoing representation should be modified to read: “Those controls in place on September 30, 20XX, provided reasonable assurance that the foregoing objectives are met except for the effects of the material weaknesses discussed below (or in the attachment),” or a statement that “internal controls are not effective” or “do not meet the foregoing objectives.”

[Signed by Agency Head]

[Signed by Chief Financial Officer]