



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

June 4, 2002

MEMORANDUM FOR GENERAL COUNSELS, CHIEF FINANCIAL OFFICERS, AND
INSPECTORS GENERAL

FROM: Mark Everson
Controller

SUBJECT: Legal and Management Representation Letters

In light of the accelerated due dates for the fiscal years 2002 and 2003 financial statements, the Office of Management and Budget (OMB), the Departments of Justice and the Treasury, and the U.S. General Accounting Office (GAO) have modified the due dates for the interim and final legal representation letters and management schedule. We believe these new due dates, as provided below, will permit agency General Counsels to prepare an interim and final legal representation letter that meets both agency and government-wide auditing requirements. We have also modified the due date for the management representation letter to coincide with the submission of agency financial statements. In addition, we also provide guidance for preparing the legal and management representation letters and the management schedule.

Legal Representation Letters and Management Schedules

The interim and final legal representation letters and management schedule should be submitted by the Inspector General to GAO no later than **September 30** and **February 1**, respectively. The interim and final legal representation letters and management schedule should be effective no earlier than July 31 and December 31, respectively.

Due to delays in mail delivery, agencies have two options for submitting the legal representation letters and management schedule. They may submit the legal representation letters and management schedule electronically to GAO at clipperc@gao.gov. Submissions via e-mail must contain electronic signatures or Inspectors General may fax pages containing signatures to Cherry Clipper at (202) 512-9193. OMB recognizes that some agencies may have concerns about the security of electronic submissions. Towards this end, we are working with GAO to ensure that receipt of electronic submissions is secured. Agencies who prefer e-mail should also work with their computer security to ensure that electronic transmissions are also secured when sent. Or, if agencies prefer, they may have a Federal employee with government identification hand-deliver three (3) copies of the legal representation letters and schedule to GAO. Please contact Ms. Clipper at (202) 512-8232 prior to delivery.

When preparing the legal representation letters, General Counsel should reference the guidance found in Appendix H-2 of OMB Bulletin No. 01-02, *Audit of Federal Financial Statements*. Cases and claims should be reported using the format found at <http://www.usdoj.gov/civil/forms/forms.htm>. In addition to reporting the status of pending contingent liabilities, the interim legal representation letters should also include the status of cases reported in the previous year's legal representation letters that are no longer pending. The final representation letter should be limited to new information (i.e., new cases that arise subsequent to the interim letter or changes in the status of cases that were reported in the interim letter). The final letter should not repeat information from the interim letter that has not changed.

When preparing the management schedule, which documents how the information contained in the legal counsel's response was considered in preparing the financial statements, the Chief Financial Officer should follow the format provided in Appendix H-3 of OMB Bulletin No. 01-02. The schedule should agree to information presented in the legal representation letters and the footnotes to the financial statements. An assessment as to whether pending, threatened litigation and unasserted claims should be reported or disclosed in the financial statements must be made by management. This determination extends to cases in which legal counsel has classified the likelihood of loss as "unknown." The name and telephone number of the individual who is able to answer questions regarding the presentation of legal claims and assessments in the financial statements should also be provided.

Management Representation Letters

Three (3) copies of the management representation letter should be submitted by the Chief Financial Officer to the Office of Management and Budget with the delivery of the agency financial statements on or before **February 1**. Please contact Kim Geier at (202) 395-6905 or Ginger Moench at (202) 395-3995 prior to delivery.

As required by Statement of Auditing Standard No. 89, *Audit Adjustments*, the management letter should include a representation regarding the materiality of uncorrected financial statement misstatements aggregated by the auditor(s). A list of any uncorrected misstatements, including those audit adjustments waived at the component-level, should be attached to the management representation letter and follow the format in the GAO/President's Council on Integrity and Efficiency *Financial Audit Manual*, Section 595D.

You may direct any questions regarding the requirements of this memorandum to Joseph Kull, Deputy Controller, at (202) 395-3993. Additional copies of this memorandum may be obtained at www.whitehouse.gov/omb/financial/index.html.