



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

THE CONTROLLER

July 22, 2004

M-04-20

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS, INSPECTORS GENERAL  
AND GENERAL COUNSELS OF EXECUTIVE  
DEPARTMENTS AND OTHER ENTITIES

FROM:

Linda M. Springer  
Controller

SUBJECT:

FY 2004 Performance and Accountability Reports and  
Reporting Requirements for the *Financial Report of the  
United States Government*

Agencies continue to make steady progress toward achieving the accelerated financial reporting requirements of the President's Management Agenda (PMA). During the fiscal year (FY) 2003 reporting cycle, eight agencies issued their Performance and Accountability Reports (PARs) by the mid-November due date, one year in advance of the accelerated reporting requirement. Ten additional agencies issued their PARs by the end of December, two months earlier than the statutory due date. Also, beginning with the second quarter of FY 2004, agencies accelerated their quarterly financial reporting, submitting their unaudited financial statements to the Office of Management and Budget (OMB) 21 days after the end of the quarter.

As all agencies work diligently to submit their FY 2004 PAR to OMB, this memorandum provides guidance for agency FY 2004 PARs, due November 15, 2004, and for submitting the PAR to OMB (see Attachment 1). This memorandum also reminds agencies of key due dates for the *Financial Report of the United States Government* (FR) and provides guidance on submitting legal and management representation letters as part of this process (see Attachment 4). Building upon agency efforts, the FR will be issued by December 15, 2004. It is important that agencies adhere to the interim dates provided in Attachment 5 to ensure that this date is met.

We appreciate your efforts to improve financial and performance reporting in the Federal government. You may direct any questions regarding the requirements of this memorandum to David M. Zavada, Chief, Financial Standards and Grants Branch, Office of Federal Financial Management (OFFM), at (202) 395-3993.

## **Agency Performance and Accountability Reports**

### ***PAR Presentation***

To ensure consistency between PARs, agencies should continue to follow the guidance provided in OMB's memorandum titled "FY 2002 Financial and Performance Reporting," Attachment B, dated October 18, 2002. Under this guidance, the PAR should be presented in three parts: Management's Discussion and Analysis, Performance Section, and Financial Section. Copies of this memorandum may be obtained at [www.whitehouse.gov/omb/financial/fm\\_statements](http://www.whitehouse.gov/omb/financial/fm_statements).

### ***PAR Highlights***

Agencies are also encouraged to develop a brief highlights version of the annual PAR. The PAR Highlights should exist as a standalone document, presenting key findings and relevant financial and performance data. Agencies should prepare the highlights document in a manner and writing style appropriate for the general public. Agencies may find it useful to prepare a PAR Highlights with a CD of the entire PAR document included as an alternative to distributing numerous printed copies of the entire PAR document.

### ***Financial and Performance Integration***

Agencies are reminded of their financial reporting responsibilities under OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, Section 11.1C, "Performance Goals, Objectives and Results," and are encouraged to describe in the PAR how they are currently integrating performance and financial information to help the reader in assessing the relative effectiveness and efficiency of agency programs/operations. In addition to current assessments, agency information descriptions should include a strategic vision for enhancing the integration of financial and performance information in future PARs. Agencies should prepare these descriptions in a presentation manner that is most appropriate.

### ***Improper Payments***

OMB Memorandum M-03-13, *Improper Payments Information Act of 2002 (P.L. No. 107-300)*, requires agencies to report annually the estimated amount of improper payments and its progress in reducing them in the PAR. The reporting should describe whether the targets for reducing erroneous payments were met and provide an explanation if the targets were not met, along with any other relevant information. See Attachments 2 and 3 for required reporting format.

### ***Financial Management Plans and Corrective Actions***

To streamline reporting requirements and provide a more succinct description of each agency's financial management activities, the requirement to provide descriptions of financial

management plans and corrective actions with the annual budget submission is no longer required. Instead, each agency should address its efforts to accomplish the PMA by summarizing its financial management plans in the annual PAR beginning with FY 2004, i.e., the agency's CFO Financial Management 5-Year Plan prepared under OMB memorandum "Guidance for Developing CFO Financial Management 5-Year Plans," dated July 2, 1992, the Agency-wide Financial Management System Plans prepared under OMB A-127, *Financial Management Systems*, and Federal Financial Management Improvement Act (FFMIA) remediation plans. Section 52.4 of OMB Circular A-11 describes, in more detail, the financial management corrective action plan information required to be summarized in each agency's PAR.

### ***Federal Information Security Management Act***

Agencies should be aware of definitional clarifications OMB will make in its guidance concerning reporting under the Federal Information Security Management Act (FISMA). FISMA requires management and independent reviewers to report the status of IT security. This report is separate from the PAR. Weaknesses found under FISMA are to be identified as either: significant deficiency, reportable condition, or other weakness. Only FISMA weaknesses that fall into the category of "significant deficiency" as reported in the 2004 FISMA Annual Report should be reported as a material weakness under the Federal Managers' Financial Integrity Act and discussed in the agency PAR. For additional information on FISMA and Computer Security, see <http://www.whitehouse.gov/omb/inforeg/infopoltech.html#cs>.

### ***Submission of Agency PARs***

To allow for adequate review, a draft of the PAR should be submitted to OMB's OFFM and the appropriate Resource Management Office (RMO) ten working days before agencies issue the final PAR. The draft should be submitted electronically to the OMB addresses provided in Attachment 7, and should include all sections of the PAR.

Due to the accelerated timeframes for producing the FR, Offices of the Chief Financial Officer should submit the final PARs electronically in PDF format to OMB's OFFM and appropriate RMO, Department of the Treasury (Main), Financial Management Service (FMS), and the Government Accountability Office (GAO) using the electronic addresses provided in Attachment 7. To be considered final, the electronic files must include all required signatures. In addition, four (4) hard copies of the PAR should also be mailed to OMB as soon as they are available.

Also, by November 15, 2004, copies of the reports must be provided to the Speaker of the House of Representatives, the President and the President pro tempore of the Senate, the Chairmen and ranking minority member of the Senate Committee on Governmental Affairs and the House Committee on Government Reform, and the chairmen and ranking minority member of the budget committees, relevant authorization and oversight committees, and appropriation subcommittees.

## Attachment 2

*[To satisfy the reporting requirements of the Improper Payments Information Act (IPIA) for fiscal year (FY) 2004, a brief summary of what agencies have accomplished, and plan to accomplish, must be included in the Management Discussion and Analysis (MD&A) portion of the FY 2004 Performance and Accountability Report. This summary, not to exceed 2 pages, shall be entitled as indicated below. All other required information, as provided in Attachment 3, should be included in an Appendix to the report. ]*

### **Improper Payments Information Act of 2002**

#### **Narrative Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005 – FY 2007**

*[IPIA reporting format for agency details, as detailed below, must be included in an Appendix to the PAR.]*

**IPIA Reporting Details**

- I. Describe your agency’s risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.**
  
- II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.**
  
- III. Explain the corrective actions your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.**
  
- IV. The table below is required for each reporting agency:**

**Improper Payment Reduction Outlook FY 2003 – FY 2007**  
(show \$ in millions)

| Program | FY 04<br>Outlays | FY 04<br>IP % | FY 04<br>IP \$ | FY 05<br>IP % | FY 06<br>IP % | FY 07<br>IP % |
|---------|------------------|---------------|----------------|---------------|---------------|---------------|
|         |                  |               |                |               |               |               |
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**NOTE: Over- and under-payments should be indicated if this information is available. The absolute value of the dollars and the rates should be shown—do not net the figures.**

- V. Discuss your agency’s recovery auditing effort, if applicable, including the amount of**

recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)

- VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.**

*PLEASE NOTE: Agency responses to section VII and VIII are vitally important if we hope to gain improved Congressional understanding and assistance in our efforts to implement IPIA in a meaningful way.*

- VII. A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.**

**B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2005 budget submission to Congress to obtain the necessary information systems and infrastructure.**

- VIII. A description of any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments.**

- IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.**

## Financial Report of the United States Government

### *Adherence to Key Dates*

Since the FR will be issued 30 days after agencies submit their PARs to OMB and the Congress, it is important that agencies adhere to the dates published in Treasury's Financial Manual, Chapter 4700, and Attachment 5 of this memorandum. Agencies are reminded that these are "no later than dates." Earlier submissions are encouraged.

### *Legal and Management Representations*

The audit of the FR builds upon the audit work performed at the agency-level. In addition to relying on agencies' audited financial statements, FMS and GAO have identified 35 agencies (see Attachment 6) that must provide copies of the legal and management representation letters and management schedules prepared as part of their financial statement audit process. These agencies have been selected because they have some activity that is material to at least one financial statement line item or footnote disclosure. The interim and updated year-end legal representation letters are required to be submitted no later than August 27, 2004, and November 15, 2004, respectively. Management representation letters are required to be submitted at year-end only but no later than November 15, 2004.

#### A. Legal Representation Letters and Management Schedule

When preparing the legal representation letters, General Counsel should reference the guidance found in Appendix H-2 of OMB Bulletin 01-02, *Audit of Federal Financial Statements*, as amended (<http://www.whitehouse.gov/omb/bulletins>). 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., 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 shows 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 01-02. The schedule should be consistent with information presented in the legal representation letters, the footnotes to the financial statements, and the Closing Package for the FR (Closing Package). An assessment as to whether pending, threatened litigation or 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.

## B. Management Representation Letters

OMB and the Department of the Treasury rely on the written representations obtained from agency management as part of their audit. Therefore, it is important that management representations include all representations that are required by generally accepted auditing standards and OMB Bulletin 01-02, Appendix E. General representations must, however, be modified to be consistent with findings reported by the auditor.

In accordance with the Statement on Auditing Standards No. 85, "Management Representations," management's representations may be limited to matters that are considered either individually or collectively material to the financial statements, provided management and the auditor have reached an understanding on materiality for this purpose. Materiality may be different for different representations. A discussion of materiality may be included explicitly in the representation letter, in either qualitative or quantitative terms. Materiality considerations would not apply to those representations that are not directly related to amounts included in the financial statements. In addition, because of the possible effects of fraud on other aspects of the audit, materiality would not apply to management or those employees who have significant roles in internal control.

Also in accordance with the Statement on Auditing Standards No. 85, the management representation letter should be signed by those members of management with overall responsibility for financial and operating matters that the auditor believes are responsible for and knowledgeable about, directly or through others in the organization, the matters covered by the representations. Such members of management normally include the agency head and the Chief Financial Officer.

As required by Statement on Auditing Standard No. 89, "Audit Adjustments," the management letter should include a representation regarding the materiality of uncorrected financial statement misstatements aggregated by the auditors. A list of any uncorrected misstatements, including those audit adjustments waived at the component-level, should be attached to the management representation letter. In addition, the Office of the Chief Financial Officer must submit uncorrected misstatements electronically with the Closing Package following the format in the Treasury Financial Manual, Chapter 4700, Appendix 4.

## C. Delivery of Representation Letters and Management Schedule

To facilitate the delivery of the legal representation letters and the management schedules, the Offices of the Inspector General should submit these documents electronically in PDF format, including required signatures, to the Department of Justice (DOJ), FMS, and GAO at their electronic addresses provided in Attachment 7. The interim legal representation letter and management schedule should be submitted as soon as they are available but no later than August 27, 2004. The final legal representation letter and management schedule should be



submitted as soon as the letters and schedules have been completed but no later than November 15, 2004.

The Offices of the Chief Financial Officer should submit the management representation letter electronically in PDF format, including required signatures, to OMB/OFFM, the Department of the Treasury (Main), and GAO at the addresses provided in Attachment 7. The management representation letter should be submitted as soon as it is available but no later than November 15, 2004.

## Key Dates for the FR

| Key Due Date                    | Who Should Submit                   | Requirement  | Recipient                                 |
|---------------------------------|-------------------------------------|--|---|
| 7/21/04                         | CFO Act and ATDA agencies*          | CFO submits 3 <sup>rd</sup> quarter financial statements   | OMB OFFM and RMO                          |
| When available but NLT 8/27/04  | Agencies in Attachment 6            | IG submits interim Legal Representation Letter and Management Schedule   | DOJ, FMS, GAO                             |
| 10/1/04                         | Payroll Providers                   | IG submits Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report | OPM                                       |
| 10/18/04                        | All                                 | CFO submits intragovernmental fourth quarter 2004 data files   | FMS                                       |
| 10/26/04                        | All                                 | CFO submits 4 <sup>th</sup> quarter Status of Disposition Certification  | FMS                                       |
| 11/1/04                         | All                                 | CFO submits draft Performance and Accountability Report  | OMB OFFM and RMO                          |
| 11/15/04                        | All                                 | CFO submits 2004 Performance and Accountability Report   | OMB OFFM and RMO, Main Treasury, FMS, GAO |
| When available but NLT 11/15/04 | Agencies in Attachment 6            | CFO submits Management Representation Letter   | OMB OFFM, Main Treasury, GAO              |
| When available but NLT 11/15/04 | Agencies in Attachment 6            | IG submits final Legal Representation Letter and Management Schedule   | DOJ, FMS, GAO                             |
| 11/18/04                        | Agencies in Attachment 6            | CFO submits Closing Package and Approval   | FMS                                       |
| 11/18/04                        | Agencies in Attachment 6            | IG submits Opinion on Closing Package  | OMB/OFFM, FMS and GAO                     |
| 11/18/04                        | Agencies excluded from Attachment 6 | CFO submits Adjusted Trial Balances through FACTS I and Notes through GFRS   | FMS                                       |
| 11/23/04                        | Agencies in Attachment 6            | CFO submits Representation on Intragovernmental Activity and Balances  | FMS and GAO                               |
| 11/30/04                        | Agencies in Attachment 6            | CFO submits Adjusted Trial Balances through FACTS I  | FMS                                       |
| 12/2/04                         | Agencies in Attachment 6            | IG submits Agreed-upon Procedures Report on the Closing Package Intragovernmental Activity and Balances                            | FMS and GAO                               |

\* - See OMB's Amendments to OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, dated July 2004, for agencies subject to the Accountability of Tax Dollars Act.

**Agencies Required to Prepare Closing Packages and to Submit Management and Legal Representation Letters**

Department of Agriculture  
Department of Commerce  
Department of Defense  
Department of Education  
Department of Energy  
Department of Health and Human Services  
Department of Homeland Security  
Department of Housing and Urban Development  
Department of Interior  
Department of Justice  
Department of Labor  
Department of State  
Department of Transportation  
Department of Treasury  
Department of Veterans Affairs  
U.S. Agency for International Development  
Environmental Protection Agency  
General Services Administration  
National Aeronautics and Space Administration  
Nuclear Regulatory Commission  
National Science Foundation  
Office of Personnel Management  
Small Business Administration  
Social Security Administration  
Export-Import Bank of the United States  
Farm Credit System Insurance Corporation  
Federal Communications Commission  
Federal Deposit Insurance Corporation  
National Credit Union Administration  
Pension Benefit Guaranty Corporation  
Railroad Retirement Board  
Securities and Exchange Commission  
Smithsonian Institution  
Tennessee Valley Authority  
U.S. Postal Service

**Contacts**

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Office of Management and Budget  
New Executive Office Building  
Resource Management Office  
725 17<sup>th</sup> Street, NW  
Washington, DC 20503  
(Office number, e-mail,  
telephone and fax should be  
obtained from respective RMO.)

Department of the Treasury  
Financial Management Services, Room 509B  
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950 Pennsylvania Avenue, NW, Room 3138  
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