
SECTION 900

Substantive Testing

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Substantive Testing

902 - RELATED PARTIES, INCLUDING INTRAGOVERNMENTAL ACTIVITY AND BALANCES

- .01 This section provides detailed guidance on the procedures that the auditor should perform with respect to related parties, as described in FAM sections 280 and 550. AU 334 (SAS No. 45) provides general guidance on the procedures that should be performed to identify related party relationships and transactions so that the auditor may satisfy him or herself that they are appropriately accounted for and disclosed. In addition, the American Institute of Certified Public Accountants (AICPA) has issued a toolkit for accountants and auditors titled, *Accounting and Auditing for Related Parties and Related Party Transactions*¹. This toolkit includes selected authoritative accounting and auditing literature, an illustrative audit program, disclosure checklist, confirmation letter, and letter to other auditors and is available at the AICPA's website:
<http://www.aicpa.org/news/relpty1.htm>.
- .02 The federal government in its entirety is an economic entity. Federal entities are components of the U.S. government; therefore, transactions between federal entities are considered intragovernmental. Within the federal government, many reporting entities rely on other federal entities to help them achieve their missions and fulfill their operating objectives. These arrangements may be voluntary, stipulated by law, or established by mutual agreement of the entities involved and may not be carried out on an arm's-length basis. In many cases, the entity receiving goods or services will reimburse the providing entity in accordance with some agreed-upon price, which may or may not represent market value. Often, however, one entity provides goods or services to another entity free of charge (without reimbursement). For example, the General Services Administration, in some cases, provides property management services and contract award and administration to other entities without charge.
- .03 In addition, certain federal entities can significantly influence the operating policies of the transacting entities. For example, the Office of Management and Budget (OMB) provides policy and/or general management guidance to other federal entities, and the Office of Personnel Management (OPM) helps federal entities recruit nationwide and sets human resources management rules with the

¹ These tools are based on the best practices guidance received from the participating accounting and auditing firms and the AICPA publication, Practice Alert No. 95-3, *Auditing Related Parties and Related Party Transactions*, which is available at <http://www.aicpa.org/members/div/secps/lit/practice/953.htm>.

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federal entities' involvement; administers the systems for setting federal compensation and benefits; manages federal employee health and life insurance programs; and operates the retirement program for federal employees.

- .04 Thus, in the federal government, the most significant related parties are other federal government entities. Other possible related parties outside of the federal government include states, members of the entity's management, and individuals and firms with which members of management may be related.
- .05 The auditor should consider the possible existence of related parties with material activity and balances that could affect the financial statements, including intragovernmental activity and balances. The identification of related parties and activity and balances is important because of (1) the requirement under U.S. generally accepted accounting principles to disclose material related-party transactions and certain control relationships, (2) the instances of fraudulent financial reporting and misappropriation of assets that have been facilitated by the use of an undisclosed related party, and (3) the potential for distorted or misleading financial statements in the absence of adequate disclosure.
- .06 The reason for disclosing related party information is that financial statement users may need that information to make informed judgments. As stated above, if parties are related, the transactions between them may not be based on an arm's-length relationship. For example, certain goods or services may be donated or be at an amount that does not represent market value, thus affecting the cost of the receiving entity's operations. In addition, if the entity has transactions with another entity based on a common control situation, such as when the entity controls or can significantly influence the management or operating policies of the transacting entity, the users of financial statements should know the nature of the relationship since this control relationship could result in operating results or financial positions significantly different from those that would have been achieved in the absence of such relationship.
- .07 Disclosures generally should include the nature of the relationship between the entity and its related parties, a description of the transactions, including donations, dollar amounts of transactions that occurred during the period, and amounts due to or from related parties as of the end of the period. Disclosures could include aggregation of similar transactions by type. In cases of common control relationships, the nature of the control relationship generally should be disclosed even if there are no transactions between the entities. Disclosure of related party transactions is not required for transactions between components of the audited entity that are eliminated in consolidation. However, if separate statements of the components are issued, the disclosures should be presented in the separate component statements.

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- .08 The following paragraphs discuss intragovernmental activity and balances, then other related parties.

INTRAGOVERNMENTAL ACTIVITY AND BALANCES

- .09 Intragovernmental amounts represent activity and balances within or between federal entities. Intradepartmental amounts are activity and balances within the same department (a department here means any department, agency, administration or other entity designated by OMB as a financial reporting entity that is not part of a larger financial reporting entity other than the government as a whole). Interdepartmental amounts are activity and balances between two different departments. The intradepartmental and interdepartmental amounts are subsets of intragovernmental activity and balances.
- .10 Intragovernmental activity includes:
- Intragovernmental fiduciary transactions such as
 - Transactions with the Department of Labor (Labor) relating to the Federal Employee's Compensation Act, including routine payments to Labor;
 - Transactions with the OPM relating to employee benefit programs (the Federal Employees' Retirement System, the Civil Service Retirement System, and federal employees' life insurance and health benefits programs) including routine payments, imputed financing, and accruals;
 - Investments in federal securities issued by Treasury's Bureau of the Public Debt, including interest accruals, interest income and expense, and amortization of premiums and discounts; and
 - Borrowings from the Treasury and the Federal Financing Bank, including interest accruals, interest income, and expenses;
 - Goods and services provided from one federal entity to another (trade transactions) including any related revenues earned, costs incurred, and reimbursable costs (including both interdepartmental and intradepartmental activity);
 - Transfers between entities based on agreements or legislative authority, expended appropriations, taxes and fees collected, collections for others, accounts receivable from appropriations, transfers payable, and custodial

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revenue (including both interdepartmental and intradepartmental activity);
and

- Imputed costs such as fiduciary transactions with OPM and Labor mentioned above and costs of litigation paid by the judgment fund (including both interdepartmental and intradepartmental activity).
- .11 Activity and balances between federal entities (interdepartmental transactions) should be eliminated at the U.S. Government's Consolidated Financial Statements level, while the activity and balances within the same department (intradepartmental) should be eliminated at the department's consolidated financial statements level.

Accounting and Reporting Guidance

- .12 In accounting for and reporting of related parties, including intragovernmental activity and balances, the entity should refer to Statements of Federal Financial Accounting Standards (SFFAS), Statements of Financial Accounting Standards, OMB guidance, and Treasury guidance. The following paragraphs illustrate these relevant documents.
- .13 SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*, and related interpretations address the accounting standards for interentity cost activities. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, addresses interentity liabilities, including federal debt, pensions and retirement benefits. Also, SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, addresses interentity revenue and requires disclosure of the nature of intragovernmental exchange transactions in which an entity provides goods or services at a price less than full cost or does not charge a price at all. The reporting entities should also consult with the funding and administering agencies, such as OPM, for information needed to properly record interentity costs. Note that SFFAS No. 4 directs OMB to designate the costs of goods and services received from other departments that should be recognized, which it has done in the guidance mentioned below.
- .14 Statement of Financial Accounting Standards No. 57, *Related Party Disclosures*, defines related parties and provides examples of related party transactions and general guidance on disclosures of transactions between related parties. Footnote disclosures generally should include disclosure of the nature of the relationship between the entity and its related parties, a description of the transactions, including donations, dollar amounts of transactions that occurred during the period, and amounts due to or from related parties as of the end of the period.

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- .15 The OMB bulletin titled *Form and Content of Agency Financial Statements* indicates that federal entities should:
- Present intragovernmental amounts by trading partner (reciprocal federal entity) as required supplementary information (RSI). Intragovernmental asset and liability categories reported as RSI should agree with the intragovernmental asset and liability line items reported on the balance sheet. The intragovernmental RSI may be limited to the consolidated departmentwide financial statements of the Chief Financial Officers (CFO) Act departments and agencies covered by the form and content bulletin. The intragovernmental RSI reporting requirement does not extend to federal components that are required to prepare financial statements. All amounts should be net of intraentity transactions.
 - Reconcile intragovernmental asset, liability, and revenue amounts reported as RSI with their trading partners; and
 - Report intragovernmental gross cost to generate earned revenue from trade transactions, as well as total entity gross cost and earned revenue, by budget functional classification.

OMB also has issued a memorandum titled *Business Rules for Intragovernmental Transactions* that requires agencies to use the same methodology in accounting for certain intragovernmental transactions, which should help in reconciliation.

- .16 To emphasize the agency management's responsibility for identifying intragovernmental activity and balances and reconciling data with relevant trading partners, the entity should include specific representations in the management representation letter that intragovernmental, including intradepartmental, transactions have been properly accounted for, reconciled with trading partners, and disclosed (see FAM section 1001). If such disclosure is included in the financial statements and the auditor believes that the disclosure is not supported by management, or if management refuses to disclose related party transactions, the auditor generally should give a qualified or adverse opinion because of the inadequate disclosure, depending on materiality, and include the necessary disclosures in a separate paragraph in the audit report.
- .17 *Treasury Financial Manual* (TFM) section "Federal Intragovernmental Transactions Process" and the *Federal Intragovernmental Transactions Accounting Policies Guide* (Guide) provide governmentwide procedures for federal entities to account for and reconcile transactions occurring within and between each other. The procedures in these guides do not apply to transactions

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between federal entities and nonfederal entities. The TFM and the Guide are available at the Treasury/Financial Management Service's (FMS) websites (<http://fms.treas.gov/tfm/voll/v1p2c400.html> and <http://www.fms.treas.gov/cfs/dev/index.html>).

- .18 The TFM includes procedures for CFO Act departments to reconcile and confirm with their trading partners intragovernmental activity and balances as of and for the fiscal year ended September 30. Each department's CFO is to provide the department Inspector General (IG) with representations indicating whether the department completed the reconciliation. In addition, the department is to describe noncompliance with the reconciliation requirements. (See TFM.) These CFO representations should be included in the management representation letter (see above).
- .19 The Guide provides detailed guidance on accounting and reconciling intragovernmental balances. According to the Guide, federal entities should identify trading partners² for all intragovernmental transactions and accumulate detail and summary information for each activity by trading partner from their accounting records. The trading partner code may be incorporated (1) as part of account coding classification or (2) in the customer/vendor identification code in accounts receivable and payable systems. These codes are the same as the Treasury index agency code used by the Treasury to prepare the governmentwide consolidated financial statements. If the two-digit Treasury index agency code is not adequate to identify the trading partner, entities may expand the partner code to components below the department level and communicate these codes to their trading partners.
- .20 Federal entities also should use *Standard General Ledger* (SGL) account attributes to indicate the nature of account balances and to identify intragovernmental transactions. For example, the federal "F" and nonfederal "N" attributes used in conjunction with an SGL account in the Federal Agencies' Centralized Trial Balance System (FACTS) I submissions enable Treasury/FMS to prepare elimination entries for the governmentwide financial statements. When the federal attribute "F" is used with an SGL account, a trading partner should be designated for each transaction posted to the account.

Audit History

- .21 Prior years' audits of several federal entities' financial statements have identified instances where entities did not identify, summarize, or reconcile

² Trading partners are agencies, bureaus, programs or other entities (within or between entities) participating in transactions with each other.

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intragovernmental activity and balances by trading partner. Controls over the intragovernmental transactions were not adequate. For example, one department instructed its components to make buyer's intragovernmental transaction amounts agree with seller's information without requiring an adequate reconciliation or verification if goods or services were provided. Similar issues were also identified concerning activity and balances within the same entity (intradepartmental). Accordingly, there was no assurance that the entity records contained fairly stated balances.

Intragovernmental Payment and Collection (IPAC) System³

- .22 IPAC is the primary method used by most federal entities to electronically bill and/or pay for services and supplies within the government, and to communicate to the Treasury and the trading partner agency that the online billing and/or payment for services and supplies has occurred. IPAC, however, is not intended to be a control over the intragovernmental transactions (reciprocal accounts). The auditor should understand that IPAC was not designed as an accounting system and does not require trading partners to record transactions at the same time or in the same amounts. In addition, unreconciled IPAC differences could affect the existence and completeness of intragovernmental activity and balances.
- .23 The IPAC billing entity initiates an IPAC transaction either as a collection or a payment. The IPAC customer entity receives an IPAC transaction either as a payment or a collection. Monthly, the Treasury compares the customer and billing entities' Statement of Transactions with the IPAC data. If there is a difference, a Statement of Differences, including a detailed list of all transactions charged or credited to a particular agency location code, is generated monthly. Entities should investigate the differences and make any necessary corrections on their next Statement of Transactions.
- .24 The auditor should examine the entity's IPAC reconciliation procedures to determine if the entity performs the reconciliation and researches and resolves differences reflected on the statement of differences properly and timely. The auditor may coordinate with the Fund Balance with Treasury (FBWT) procedures to assess the effectiveness of the entity's IPAC reconciliation.
- .25 The auditor should also design procedures to understand whether the entity uses other systems (standard forms used to transfer funds between appropriations, credit cards, and others) in addition to the IPAC system to process intragovernmental activity and balances. The auditor should determine whether

³ The Intragovernmental Payment and Collection (IPAC) system replaced the Online Payment and Collection (OPAC) system in December 2001.

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these systems affect the fairness of intragovernmental activity and balances. (See audit procedures below and FAM section 902 C.)

Audit Procedures

- .26 The auditor should consider audit risk and materiality in determining the nature, timing, and extent of procedures for auditing intragovernmental activity and balances and in evaluating the results of these procedures. Throughout the audit, the auditor should consider the possible existence of material intragovernmental activity and balances that could affect the financial statements. The auditor should evaluate all the information available concerning material intragovernmental activity and balances and determine that the financial statement disclosures are adequate and appropriate.
- .27 During the planning phase, the auditor should assess inherent, fraud, and control risk. In assessing the inherent risk related to intragovernmental activity and balances, there are several conditions that the auditor should consider. For example, inherent risk may exist because of the nature of the intragovernmental activity, such as a significant volume of transactions and number of trading partners or complex transactions. The auditor should assess the impact of inherent and control risk on control testing and substantive testing. The auditor should determine whether similar conditions continue to exist and understand management's response to such conditions.
- .28 In assessing inherent and control risk, the auditor should obtain an understanding of management responsibilities and the relationship of each component to the total department and of each department to other departments. The auditor should obtain an understanding of the entity's operations to identify, respond to, and resolve accounting and auditing problems early in the audit. For example, the auditor should know what trading partners the entity has, the nature of intragovernmental transactions that occur, the volume and dollar amount of transactions, and management's attitude and awareness with respect to reconciliations of intragovernmental activity and balances.
- .29 The auditor should assess the effectiveness of the entity's internal control over intragovernmental activity and balances. The auditor should identify the policies and procedures that pertain to the entity's ability to record, process, summarize, and report intragovernmental activity and balances by trading partner. The agency should emphasize the importance of identifying and classifying intragovernmental transactions by trading partner when they are initiated and on all documentation thereafter; without this initial identification, the system will not be able to keep track of them.

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- .30 Without proper and timely reconciliation of intragovernmental activity and balances, misstatements in these account balances at the component and/or department level could materially affect the balances at the governmentwide level (as well as at the department or component level). In addition, when preparing consolidated financial statements, the preparer must eliminate intragovernmental activity and balances within and between departments or components. Because the amounts reported for entity trading partners for certain intragovernmental accounts could be significantly out of balance, the preparer would not be able to eliminate these accounts in the consolidated financial statements. The auditor may advise the entity about the need for monthly confirmation and reconciliation of these transactions with trading partners. Annual or quarterly reconciliations are generally not sufficient to detect and resolve misstatements promptly.
- .31 If the auditor determines that the entity's reconciliation control for intragovernmental transactions is not effectively designed and placed in operation, the auditor should consider the effect on the financial statements. Where intragovernmental transactions are or could be material, significant additional work is usually necessary to express an unqualified opinion. In some cases where the auditor finds material weaknesses in the intragovernmental reconciliation control and no other mitigating controls exist, the auditor may decide to modify the audit opinion (see FAM section 580).
- .32 The TFM contains agreed-upon procedures for the department inspectors general to perform for federal intragovernmental activity and balances. These procedures are intended to assist with accounting for and eliminating intragovernmental activity and balances in the preparation of department and governmentwide financial statements and reports. The IG should perform these procedures regardless of the opinion on the department consolidated financial statements.
- .33 To avoid duplicate procedures, the auditor should consider the agreed-upon procedures contained in the TFM when designing the tests for intragovernmental activity and balances. Examples of the account risk analysis (ARA), specific control evaluation (SCE), and audit procedures for the audit of intragovernmental activity and balances are in sections 902 A, 902 B, and 902 C. The ARA, SCE(s), and audit procedures generally should be customized for the particular entity. For example, if the auditor determines that the intragovernmental accounts receivable line item is significant, the auditor generally should prepare a separate ARA, SCE(s), and audit procedures for the intragovernmental accounts receivable account and its related accounting applications. (Note that a single SCE for a line-item/account-related accounting application is presented. There are likely transaction-related accounting applications listed on the ARA that also would have SCEs.) In addition, to improve efficiency, the auditor may coordinate tests

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of intragovernmental activity and balances with tests of nonfederal activity and balances.

OTHER RELATED PARTIES

- .34 To effectively plan and perform an audit, the auditor should understand the entity's organization and its characteristics. The auditor should consider the possible existence of other related parties and other related party transactions throughout the audit to satisfy him or herself that they are properly accounted for and disclosed (see paragraph 902.07). Other related parties may include states that federal entities made payments to in carrying out or executing their federal programs. Examples of these programs are Department of Health and Human Services grants to states for Medicaid,⁴ Department of Transportation Federal Highway Administration programs such as federal aid for highways and highway safety construction programs, and Department of Labor State Unemployment Insurance and Employment Service Operations.
- .35 The auditor may attempt to detect these relationships by inquiry of management, reviewing major contracts/agreements, and reading financial disclosure statements. The documentation generally should include the names of related parties so all audit staff may become aware of transactions with them. Work done to test transactions with such parties may be coordinated with sensitive payments work, as discussed in paragraph 280.05.
- .36 In addition to the procedures on related parties, the auditor also generally should inquire about other parties that may not be related parties, but that the agency may wish to disclose because of a public perception that they might be related, although professional standards do not require disclosure if the parties are not related (as defined in AU 334). Section 902 C shows examples of audit procedures for other related parties as well as for intragovernmental activity and balances. The steps should be customized for the particular audited entity.

PRACTICE AIDS

- .37 The following practice aids are appended:
- Section 902 A – Example Account Risk Analysis (ARA),
 - Section 902 B – Example Specific Control Evaluation (SCE), and
 - Section 902 C – Example Audit Procedures

⁴ Medicaid assists states in providing medical care to their low-income populations by granting federal matching payments under the Social Security Act to states with approved plans.

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902 A - EXAMPLE ACCOUNT RISK ANALYSIS FOR INTRAGOVERNMENTAL ACTIVITY AND BALANCES

Entity: Agency	ACCOUNT RISK ANALYSIS FORM	Preparer:
Date of Financial Statements: September 30, 20xx		Region:
Line Item: Intragovernmental balances	File: _____	Date: _____ Page 1 of 7

PLANNING PHASE			INTERNAL CONTROL PHASE			TESTING PHASE				
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Control risk	Combined risk	Timing I/F	Nature & extent	W/P ref. & audit step
Name	Balance									
Intragovernmental assets, liabilities, revenues, expenses		Existence or occurrence Recorded intragovernmental balances do not exist.	Inherent risk arises from (1) the nature of intragovernmental transactions, which is susceptible to errors because of the significant high volume of transactions (and dollar amounts) and number of multiple reporting entities/ trading partners, and (2) prior years' significant	<u>Cycles</u> Revenues, Expenses, various <u>Accounting applications</u> Receipts, Disbursements, Accounts Receivable,				F	Confirm balances with trading partners. Review the reconciliation of intragovernmental accounts by trading partners and reconciling items. Verify that	III.A & B.1.c III.A

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902 A - Example Account Risk Analysis for Intragovernmental Activity and Balances

Entity: Agency	ACCOUNT RISK ANALYSIS FORM	Preparer:
Date of Financial Statements: September 30, 20xx		Region:
Line Item: Intragovernmental balances	File: _____	Date: _____ Page 2 of 7

PLANNING PHASE			INTERNAL CONTROL PHASE			TESTING PHASE				
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
			audit adjustments relating to intragovernmental transactions. Control risk arises from (1) prior years' material weaknesses in accounting and reporting where the agency was not able to identify, classify, and summarize intragovernmental transactions by trading partners, and (2) management's attitude in not enforcing the reconciliation procedures.	Accounts Payable, various					the reconciliation was reviewed. Determine if adjustments made to accounts are proper and timely. Review elimination entries and verify that they were reviewed. Review pre-arranged trading partner agreements.	III.E I.4

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902 A - Example Account Risk Analysis for Intragovernmental Activity and Balances

Entity: Agency	ACCOUNT RISK ANALYSIS FORM	Preparer:
Date of Financial Statements: September 30, 20xx		Region:
Line Item: Intragovernmental balances	File: _____	Date: _____ Page 3 of 7

PLANNING PHASE			INTERNAL CONTROL PHASE			TESTING PHASE				
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
		Completeness	Same as existence above, and control risk also arises from the lack of management's oversight relating to the intragovernmental transactions and balances adjustments made to the financial statements and required supplementary information.	Same as existence above				F	Same as existence above. Review customer and vendor files and receipt/ disbursement records for related parties. Test cut-off: search for unrec-orded trans-actions (e.g., review trans-actions after yearend to	Same as above. I.4 & III.B to D III.B.1. d

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902 A - Example Account Risk Analysis for Intragovernmental Activity and Balances

Entity: Agency

Preparer:

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region:

Line Item: Intragovernmental balances

File: _____

Date: _____ Page 4 of 7

PLANNING PHASE			INTERNAL CONTROL PHASE			TESTING PHASE				
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
									determine if they were recorded in the correct fiscal year). Review the results of FBWT accounts reconciliation, specifically with unreconciled IPAC transactions and suspense accounts. Review results of AUP related to	III.B.1. d IV.5

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902 A - Example Account Risk Analysis for Intragovernmental Activity and Balances

Entity: Agency	ACCOUNT RISK ANALYSIS FORM	Preparer:
Date of Financial Statements: September 30, 20xx		Region:
Line Item: Intragovernmental balances	File: _____	Date: _____ Page 5 of 7

PLANNING PHASE		INTERNAL CONTROL PHASE			TESTING PHASE					
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
									employee benefits and FACTS I verification.	
		<p>Valuation or allocation</p> <p>Intragovernmental balances are not valued accurately or on an appropriate basis in the financial statements.</p>	Same as existence above	Same as existence above				F	<p>Same as existence and completeness.</p> <p>Review basis of pricing significant intragovernmental transactions for appropriate disclosure.</p>	<p>Same as above.</p> <p>I.4.a.ii & iii & IV.1 & 2</p>

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902 A - Example Account Risk Analysis for Intragovernmental Activity and Balances

Entity: Agency	ACCOUNT RISK ANALYSIS FORM	Preparer:
Date of Financial Statements: September 30, 20xx		Region:
Line Item: Intragovernmental balances	File: _____	Date: _____ Page <u>6</u> of <u>7</u>

PLANNING PHASE				INTERNAL CONTROL PHASE			TESTING PHASE			
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
		<p>Rights and obligations</p> <p>The agency does not have rights to recorded intragovernmental balances.</p>	Same as existence above	Same as existence above				F	<p>Review confirma-tions for indica-tion of any disputes.</p> <p>Review pre-arranged agree-ments between trading partners.</p> <p>Review manage-ment and legal representation letters to determine if any obligations are not properly disclosed.</p>	<p>I.4.a.ii & III.A-B</p> <p>I.4.a.iv</p> <p>IV.3</p>

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902 A - Example Account Risk Analysis for Intragovernmental Activity and Balances

Entity: Agency	Preparer:
Date of Financial Statements: September 30, 20xx	ACCOUNT RISK ANALYSIS FORM
Line Item: Intragovernmental balances	Region:
File: _____	Date: _____ Page 7 of 7

PLANNING PHASE		INTERNAL CONTROL PHASE			TESTING PHASE					
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref. & audit step
Name	Balance									
		<p>Presentation and disclosure</p> <p>Intragovernmental balances are not properly classified or disclosed in the financial statements, or based on a consistent application of accounting guidance.</p>	Same as existence and completeness above	Same as existence above				F	Determine if the agency appropriately classifies, summarizes, and discloses, intra-governmental accounts in financial statements, related disclosures, and RSI, in accordance with SFFAS (GAAP) and OMB and Treasury guidance for intra-governmental accounting.	I.2 & IV

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902 B - EXAMPLE SPECIFIC CONTROL EVALUATION FOR INTRAGOVERNMENTAL ACCOUNTS

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page <u>1</u> of <u>11</u>
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
Existence or occurrence	various	various	Substantiation 1. Recorded intragovernmental assets and liabilities do not exist at a given date.	1a. Recorded intragovernmental assets and liabilities should exist at a given date.	1. Quarterly, intragovernmental balances recorded in the agency's general ledgers are confirmed and reconciled with trading partners. 2. The agency and trading partners work together to exchange data/ correct errors promptly concerning the intragovernmental balances.	N N		II.1.g-i II.1.g-i

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902 B - Example Specific Control Evaluation for Intragovernmental Accounts

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page 2 of 11
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
					3. Reconciliation adjustments and supporting documents are reviewed and approved by authorized personnel before being entered in the general ledgers.	N		III.A.1-7
					4. Reconciliation between intragovernmental general ledger balances and subsidiary ledger balances are performed quarterly and reviewed by supervisory personnel.	Y		III.A.1-7

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902 B - Example Specific Control Evaluation for Intragovernmental Accounts

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page <u>3</u> of <u>11</u>
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
				1b. Recorded intragovernmental assets and liabilities of the entity, at a given date, should be supported by appropriate detailed records that are accurately summarized and reconciled to the account balance.	1. Same as 1a. above. 2. The agency maintains the transaction logs and detailed records of transactions to facilitate the reconciliation process and to provide sufficient information for the location of the supporting documents.	Y		Same as above. II.1.1
				1c. Access to intragovernmental assets, critical forms, records, and processing and storage areas should be permitted only in accordance with laws, regulations, and management's policy.	1. The agency's critical forms and records are protected by safes and locks, guards, cameras, alarm systems, and backup of electronic data. 2. Changes made to the trading partner codes file are restricted to authorized accounting personnel.	Y		Example control tests are omitted from the example audit procedures.

Substantive Testing

902 B - Example Specific Control Evaluation for Intragovernmental Accounts

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page 4 of 11
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
Complete-ness	various	various	Account Completeness 2. Intragovernmental assets and liabilities of the entity exist but are omitted from the financial statements.	2. All intragovernmental accounts that belong in the financial statements should be so included. There should be no undisclosed assets or liabilities.	Same as existence above. 1. The agency reviews all transactions to identify and properly code intragovernmental transactions. 2. The agency reconciles and resolves IPAC differences (and differences from other systems/ methods, if any, used to process intragovernmental transactions) promptly and records adjustments properly. 3. Supervisory personnel review and approve monthly account analyses of intragovernmental accounts and examine budget-to-actual and trend analyses.	Y Y Y		Same as above. II.1.a-f II.2 & III.B.1.c II.1.m

Substantive Testing

902 B - Example Specific Control Evaluation for Intragovernmental Accounts

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page 5 of 11
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
					4. Elimination journal entries and supporting documentation are reviewed and approved by authorized personnel.	N		II.1.k & III.E
					5. Elimination entries are supported by schedules summarizing the SGL accounts that are combined to total the amounts eliminated.	Y		II.1.k & III.E

Substantive Testing

902 B - Example Specific Control Evaluation for Intragovernmental Accounts

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	<p>SPECIFIC CONTROL EVALUATION</p> (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page 7 of 11
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
			Measurement 4. Intragovernmental revenues and expenses included in the financial statements are measured improperly.	4. Intragovernmental revenues and expenses included in the financial statements should be properly measured.	Same as existence and completeness above.			Same as above.
Rights and obligations	Rights and obligations	Rights and obligations	Ownership 5. Recorded intragovernmental assets are owned by others because of sale, or other contractual arrangements.	5. Recorded intragovernmental assets should be owned by the entity.	Same as existence and completeness above.			Same as above.

Substantive Testing

902 B - Example Specific Control Evaluation for Intragovernmental Accounts

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	<p>SPECIFIC CONTROL EVALUATION</p> (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page <u>8</u> of <u>11</u>
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
			<p>Rights</p> <p>6. The entity does not have certain rights to recorded intragovernmental assets because of certain restrictions.</p>	6. Intragovernmental assets should be the entity's rights at a given date.	Same as existence and completeness above.			Same as above.
			<p>Obligations</p> <p>7. The entity does not have an obligation for recorded intragovernmental liabilities at a given date.</p>	7. Intragovernmental liabilities should be the entity's obligations at a given date.	Same as existence and completeness above.			Same as above.

Substantive Testing

902 B - Example Specific Control Evaluation for Intragovernmental Accounts

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page <u>9</u> of <u>11</u>
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
Presentation and disclosure	Presentation and disclosure	Presentation and disclosure	Account classification 8. Intragovernmental accounts are not properly classified and described in the financial statements.	8. Intragovernmental accounts should be properly classified and described in the financial statements.	1. The agency uses trading partner codes to identify and track trading partners when the intragovernmental transactions are initiated and on all documentation thereafter.	Y		II.1
					2. The agency uses SGL account attributes to identify the nature of account balances and to identify intragovernmental transactions by trading partner.	Y		II.1
					3. The agency classifies, summarizes, and reports intragovernmental accounts by trading partner and presents them as required supplementary information (RSI).	Y		IV.1

Substantive Testing

902 B - Example Specific Control Evaluation for Intragovernmental Accounts

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Intragovernmental accounts	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page 11 of 11
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
			Disclosure 10. Required information is not disclosed in the financial statements or in the notes thereto.	10. The financial statements or notes should contain all information required to be disclosed.	See # 8 above.			Same as above.

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Substantive Testing

902 C -EXAMPLE AUDIT PROCEDURES FOR INTRA-GOVERNMENTAL AND OTHER RELATED PARTIES' ACTIVITY AND BALANCES

Entity _____

Period of financial statements _____

Job code _____

Audit Procedures ¹	Done by/date	W/P ref.
<p>I. Planning Phase</p> <p>Obtain an understanding of the entity's operations that are significant to the audit of intragovernmental and other related party activity and balances (see FAM section 220).</p> <p>1. To obtain an understanding of significant accounting and auditing issues, read the entity's prior year's accountability and auditors' reports.</p>		
<p>2. To identify the entity's accounting and reporting requirements and applicable auditing standards for intragovernmental and other related party activity and balances, read the following:</p> <p>a. SFFAS No. 4, <i>Managerial Cost Accounting Concepts and Standards</i>; SFFAS No. 5, <i>Accounting for Liabilities of the Federal Government</i>; SFFAS No. 7, <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i>; Statement of Financial Accounting Standards No. 57, <i>Related Party Disclosures</i>; AU Section 334, <i>Related Parties</i>; AU Section 558, <i>Required Supplementary Information</i>; OMB bulletin on <i>Form and Content of Agency Financial Statements</i>; Treasury/ Financial Management Service's (FMS) <i>Federal Intragovernmental Transactions Accounting Policies Guide</i>; and <i>Treasury Financial Manual</i> section "Federal Intragovernmental Transactions Process."</p>		

¹ These procedures are applicable for intragovernmental (including interdepartmental and intradepartmental) and other related parties' activity and balances.

Substantive Testing

902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
b. The entity's internal procedures for identifying, accounting, reconciling and reporting intragovernmental and other related party activity and balances.		
c. The entity's process for identifying, classifying, and reporting intragovernmental activity and balances requiring elimination at the consolidated departmentwide or governmentwide level.		
3. To identify the impact of systems/methods for processing, accounting and financial reporting of intragovernmental and other related party activity and balances, a. Interview the entity's key management about, for example, the systems/methods that are used to process intragovernmental and other related party activity and balances (e.g., IPAC, credit cards, standard forms used to transfer funds between appropriations, and others).		
b. Obtain estimates of the approximate number and dollar amount of intragovernmental and other related party activity and balances (this could be based on the prior year) that are processed by each significant system/method (see FAM section 270).		
c. Consider coordinating this work with the audit of like nonfederal activity and balances (i.e., similar transactions by the entity with parties other than other federal entities).		
4. To identify the intragovernmental and other related party activity and balances a. Ask the entity management: i. Names of all related parties (intragovernmental and others) and whether there were transactions with them during the period. Other possible related parties outside of government might be states, management, and individuals and firms with which members of management may be related or otherwise be able to significantly influence the management or operating policies.		

Substantive Testing
902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
ii. The nature and terms of all significant activities and balances. For example, <ul style="list-style-type: none"> • for a seller entity, <ul style="list-style-type: none"> •• Obtain information on the types of significant revenues, any markup percentage(s) over full cost, and the settlement/payment due date. •• Inquire as to how the full cost of products and services sold is determined. 		
<ul style="list-style-type: none"> • for a buyer entity, <ul style="list-style-type: none"> •• Inquire about the minimum requirements (business rules) that must be met <i>before</i> an intragovernmental trading partner may provide goods or services. 		
<ul style="list-style-type: none"> • Inquire as to amounts, if any, that are in dispute at year-end. 		
iii. Whether the audited entity receives services without reimbursement or for less than full reimbursement, for example, donated services, such as space or detailed employees. If so, ask if the entity is complying with GAAP and/or OMB requirements with respect to accounting and reporting treatment of these transactions. Also, if applicable, ask about the approximate fair value and/or financial statement disclosure for such goods and/or services.		
iv. Whether the entity centrally maintains contracts, agreements, and support for the terms of all significant transactions with related parties.		
b. Review, if any: <ul style="list-style-type: none"> i. The entity policy for advance approval of related party transactions by senior management. 		
<ul style="list-style-type: none"> ii. The entity policy for requiring disclosure by employees to appropriate officials of potential conflicts of interest, such as related party transactions by employees of the entity. Also determine if summaries of such transactions are communicated to financial management for its consideration. 		

Substantive Testing

902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
iii. Vendor and customer master file listings, major contracts, and IPAC activity for intragovernmental or other related parties.		
c. Ask Treasury/FMS regarding entities historically reporting intragovernmental transactions with the audited entity.		
5. Provide audit staff with the names of known intragovernmental and other related party trading partners, a description of the nature of significant transactions with each, and such other information as considered necessary to assist them in planning and performing other sections of the audit.		
6. Summarize the results.		
7. Document the auditor's preliminary assessment of risks related to the intragovernmental and other related party activity and balances in the ARA form or equivalent.		
<p>II. Internal Control Phase</p> <p>Understand the internal control the entity has in place for identifying, accounting for, eliminating, and reporting intragovernmental and other related party activity and balances (existence, completeness, valuation, rights and obligations, presentation and disclosure) (see FAM section 320).</p> <p>1. Determine through inquiry of management, walkthroughs, review of prior years' documentation and other means, how and when the entity identifies intragovernmental and other related party transactions.</p> <p>a. Whether the entity identifies the transactions by trading partner when they are initiated and on all documentation thereafter.</p>		
b. If the entity uses trading partner codes, the relationship of such codes to other document identifiers such as vendor codes. For example, trading partner codes may be integral to each vendor code, or it may be necessary to crosswalk vendor codes to a file of trading partner codes.		

Substantive Testing
902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
c. If the entity does not use trading partner codes, determine how the entity identifies, analyzes, and accumulates intragovernmental activity and balances. For example, the entity may derive such amounts through off-line manual processes after the fact.		
d. When the entity recognizes each significant category of intragovernmental and other related party transactions. For example, when an invoice is received, when processed through IPAC, ² when goods or services are received, when notified by the seller that an agreed-upon stage of completion has been achieved. Consider whether the entity's policy in recording intragovernmental and other related party transactions is appropriate.		
e. Whether the entity and its trading partners use consistent reciprocal ledger accounts ³ and categories of activity and balances for recording and reconciling such amounts. If so, ask what processes are in place to provide management with reasonable assurance that trading partners are recognizing reciprocal transactions in the same period, for the same amount, and by consistent or compatible accounting methods.		

² Intragovernmental Payment and Collection (IPAC) system replaced the Online Payment and Collection (OPAC) system in December 2001.

³ Reciprocal accounts are corresponding SGL accounts that should be used by seller and buyer entities to record like intragovernmental transactions. For example, the seller entity's accounts receivable would normally be reconciled to the reciprocal account, accounts payable, on the buyer entity's records. Examples of these accounts are in FMS' *Federal Intragovernmental Transactions Accounting Policies Guide*.

Substantive Testing

902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
f. If the entity complies substantially with the SGL at the transaction level as it applies to intragovernmental activity and balances. (Note: The SGL accounts used should include attributes for intragovernmental activity and balances that identify (a) that these accounts contain intragovernmental transactions (e.g., attribute "F") and (b) the trading partner (e.g., Treasury trading partner code "20").)		
g. Policies and procedures for confirming intragovernmental and other related party activity and balances with trading partners.		
h. How often the entity reconciles its related party activity and balances with its trading partners. Also inquire as to whether adjustments identified as necessary through the reconciliation process have been properly recognized in the financial records. If not, ask why. If the entity did not perform reconciliations, ask why not.		
i. Whether the selling and buying entities have established processes to facilitate the timely reconciliation of activity and balances. (Note: The selling entity is typically responsible for furnishing detailed transaction information to facilitate reconciliation.)		
j. What the entity's year-end cut-off procedures related to the intragovernmental and other related party activity are. Determine if procedures provide assurance that intragovernmental activities occurring in the current period are recorded in the current period. (Since the reconciliation process should detect cutoff errors, see above for reconciliation procedures with trading partners.)		
k. What the entity's policies and procedures are for intraentity elimination.		
l. Whether the entity maintains transaction logs or detailed records of transactions to identify the postings to SGL accounts and to facilitate the reconciliation process. The logs should include sufficient information to enable identification and location of the supporting documents.		

Substantive Testing
902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
m. Whether the entity reviews and approves monthly account analyses of intragovernmental accounts and examines budget-to-actual and trend analyses.		
2. Coordinate with the results of audit procedures for other cycles to determine if the entity has internal control issues related to intragovernmental and other related party activity and balances. For example, to determine if the entity has control issues related to intragovernmental activity and balances, coordinate with the results of FBWT audit procedures to determine if the entity has issues on its FBWT/IPAC reconciliation such as material unreconciled amounts and aged unreconciled IPAC differences.		
3. Perform walk-throughs of processes for identifying, accounting, reconciling, confirming, eliminating, and reporting intragovernmental and other related party activity and balances to obtain or update the auditor's understanding of these procedures and preliminarily assess the effectiveness of these controls. a. Walkthrough the process from initiation to recording in the general ledger and inclusion in the financial statements or elimination for each significant type of intragovernmental and other related party activity and balances.		
b. Walk through the management/entity approval process of payments to trading partners. (Note: Prior audits have identified instances where payment controls for intragovernmental transactions were not sufficient, for example, the seller entity made payments to trading partners without verifying whether goods or services were provided.)		
c. Identify and document differences in process for nonfederal and intragovernmental and other related party activities and balances.		
d. If the entity performs reconciliations of intragovernmental activity and balances with trading partners during the year, the auditor should walk through both interim and year-end reconciliation processes.		

Substantive Testing

902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
4. Prepare or update the cycle memorandum, flowchart, and ARA and SCE forms (See FAM sections 390, 395 H and I, and 902 A and B) or equivalents.		
<p>III. Testing Phase</p> <p>A. For intragovernmental accounts, if the auditor preliminarily determines that the entity's reconciliation and confirmation controls with trading partners are effectively designed and placed in operation, test the entity's policies and procedures to determine if the reconciliation and confirmation controls are effective and if intragovernmental balances appear reasonable.</p> <p>1. Obtain final yearend reconciliations/confirmations of intragovernmental activity and balances for each trading partner and supporting documentation; or obtain the entity CFO responses for intragovernmental activity and balances and the supporting documentation for the final reconciliation/confirmations. (See the <i>Treasury Financial Manual (TFM)</i> sections on CFO procedures/representations and on IG Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances)</p>		
2. Compare the amounts in the reconciliations to supporting documentation.		
3. Trace the adjustments, if any, identified in the reconciliation process to the entity's financial records.		
4. Compare the amounts, excluding intra-departmental activity and balances, in the audited department consolidated financial statements to such amounts in the department's final FACTS I or FACTS Notes reports to FMS.		
5. Prepare an agreed-upon procedures report. (Note: The procedures in steps 1 to 4 above are agreed-upon procedures for intragovernmental activity and balances. See the TFM, volume 1, section on IG Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances. Also see FAM section 660.)		

Substantive Testing

902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
<p>6. Consider whether these agreed-upon procedures are sufficient to achieve financial statement audit objectives. For example, whether the agreed upon procedures are applied to all significant assertions for all significant intragovernmental activity and balances. Typically these procedures alone will not be sufficient for financial statement audit purposes.</p>		
<p>7. If the agreed-upon procedures are not sufficient, then design additional procedures that in combination with the agreed-upon procedures will be sufficient. For example:</p> <p><u>Reconciliation/confirmation (existence, completeness, valuations, rights and obligations, and classification)</u></p> <ul style="list-style-type: none"> • OMB's bulletin on <i>Form and Content of Agency Financial Statements</i> requires an entity to reconcile and confirm intragovernmental activity and balances with trading partners semiannually, beginning with the six-month period ending March 31, 2002 and quarterly, beginning with the three-month period ending December 31, 2002. If the entity performed monthly, quarterly, or semiannual reconciliations, test reconciliations to determine if the entity's reconciliation control is effective throughout the year. • There should be a <i>separate</i> reconciliation/confirmation for each trading partner. • This reconciliation/<i>confirmation</i> also may be used for within entity reconciliation/confirmation (intraentity). <p>a. Determine the completeness of population: Determine if the entity performed reconciliations and confirmations for all trading partners by comparing the trading partners on the reconciliations and confirmation forms to subsidiary records or the entity's trading partner list obtained during the planning phase.</p>		
<p>b. For each reconciliation/confirmation:</p> <p>i. Determine if the reconciliation/confirmation was reviewed and approved by the appropriate personnel.</p>		

Substantive Testing**902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances**

Audit Procedures¹	Done by/date	W/P ref.
ii. Compare the total amounts and SGL accounts of the activity and balances reported on the reconciliation/confirmation form with the general and subsidiary ledger accounts, and the total amounts to audited financial statements and footnote disclosures. If differences are found, document each such difference. Consider potential impact on financial statements and post the differences identified to summary of unadjusted misstatements.		
iii. Test whether the entity used appropriate SGL accounts and whether these SGL accounts include the proper attribute(s) to indicate that they result from intragovernmental transactions. (Note: For example, when the federal attribute "F" is used with an SGL account, a trading partner should be designated for each transaction posted to the account.) Entities can modify SGL accounts listed on the form to be more specific.		
iv. Consider whether the entity is using the reciprocal accounts delineated in the FMS Guide. Entities should use these accounts to account for intragovernmental activity and balances in the specified categories. Use of these reciprocal accounts will facilitate the reconciliation and confirmation process.		

Substantive Testing
**902 C – Example Audit Procedures for Intragovernmental and Other
 Related Parties' Activity and Balances**

Audit Procedures ¹	Done by/date	W/P ref.
v. For fiduciary activity and balances, compare amounts on the reconciliation forms to amounts on the Intragovernmental Fiduciary Confirmation System. (Note: Fiduciary activity and balances include loans from the Federal Financing Bank and Bureau of Public Debt, investments with Bureau of Public Debt, Federal Employees Compensation Act transactions with Labor, and employee benefit transactions with OPM. The seller entity—Bureau of Public Debt, Treasury, Federal Financing Bank, Labor, and OPM—will make balances information and other details available through the Intragovernmental Fiduciary Confirmation System for the buyer entities' use in reconciling amounts to their records. The Intragovernmental Fiduciary Confirmation System is the official confirmation system for federal entities that engage in fiduciary intragovernmental transactions with Bureau of Public Debt, Federal Financing Bank, OPM, and Labor.)		
vi. For transfers, test whether <ul style="list-style-type: none"> • the classification of transfers as expenditure or nonexpenditure is proper, and • the accounting and reporting are appropriate. 		
vii. For trust fund transfers such as highway and airport trust funds, also test whether the trust fund amounts are properly accounted for and maintained in accordance with laws that established these funds. (Note: Test either by the trust fund auditor or as agreed-upon procedures by the auditor who audits the entity that collects the revenue for it.)		

Substantive Testing

902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
<p><u>Reconciliation adjustments and differences (all intragovernmental categories)</u> (Note: Exhibit I to FAM 902 C provides an illustration of a reconciliation tool that may be used to summarize reconciling items and prove amounts between a buyer and a seller entity.)</p> <p>c. Determine whether adjustments, if any, are supported and timely:</p> <p>i. Trace the adjustments and reconciling items identified in the reconciliation process to the entity general and subsidiary ledgers.</p>		
<p>ii. Examine the adjustments and supporting documents to determine if</p> <ul style="list-style-type: none"> • The entity timely and properly performed the research and identified causes for differences. • The adjustments are agreed upon by both entities and made to proper SGL accounts. (Note: Examples of adjustments and reconciling items are: <ul style="list-style-type: none"> •• Adjustments in estimated accruals: For example, the seller entity has recorded unbilled revenue and the buyer entity was not timely advised of the estimated accrual. •• Adjustments due to timing differences: For example, timing differences caused by a buyer entity's delay in recording IPAC transactions into proper SGL accounts. •• Reconciling item for capitalization of assets: For example, the buyer entity purchased property and equipment or inventory and recorded them as assets.) 		
<p>iii. Obtain or prepare aging of outstanding unadjusted reconciling amounts for all significant intragovernmental balance sheet accounts. Identify old and/or unusual reconciling items and obtain explanations from the entity.</p>		

Substantive Testing
902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
iv. Review final yearend reconciliation for any accounting policy differences and determine if the entity explains the causes of these differences on the final reconciliation. The causes of these differences might be differences in accounting standard requirements, for example, amortization methods for discounts and premiums. For example, one trading partner uses the interest method and the other trading partner uses the straight-line method to amortize discounts/premiums. (Note: There should be no material unresolved differences on the final year-end reconciliation forms. The entity should resolve all differences with trading partners.)		
v. Determine the extent of unadjusted differences at year-end. Assess their materiality on the financial statement line item and the overall financial statements.		
vi. If adjustments are made subsequent to the completion of the confirmations (during the audit period), determine if the entity revised the reconciliation and confirmation and submitted the updated data to FMS.		
8. Summarize the results of testing: (1) conclude on the effectiveness of the entity's reconciliation and confirmation controls and (2) propose adjustments, if necessary.		
9. Determine whether the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and whether the audit procedures should be revised.		

Substantive Testing**902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances**

Audit Procedures¹	Done by/date	W/P ref.
<p>B. For intragovernmental activity and balances, if the auditor preliminarily determines that the entity's reconciliation/confirmation control with trading partners is not effective, or if the reconciliations and/or confirmations are not performed by the entity, the auditor should consider the effect on substantive tests and on the audit report. In some cases, the auditor may decide to modify the audit opinion when no reconciliation and other mitigating controls existed. However, when intragovernmental activity and balances are material, significant additional work may be necessary to express an unqualified opinion such as:</p> <ol style="list-style-type: none">1. Coordinate work with other related line items to test existence, completeness, valuation, rights and obligations, and classification of intragovernmental activity and balances. For example,<ol style="list-style-type: none">a. In conjunction with cash receipts, revenues, and accounts receivable testing, determine if intragovernmental accounts receivable were collected subsequent to test date. Examine supporting documentation for the posting of collections to the cash records; determine if intragovernmental revenues and receivables are included in nonfederal balances.		
<ol style="list-style-type: none"><li value="2">b. Test completeness of intragovernmental activity and balances by reviewing vendor and customer master files to determine if intragovernmental vendors and customers are properly included in intragovernmental accounts.		
<ol style="list-style-type: none"><li value="3">c. Consider sending confirmation requests to trading partners for both balance sheet and net cost activity and balances. Especially if combined risk is assessed as high, consider applying similar confirmation procedures as to the nonfederal accounts.		

Substantive Testing
902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
<p><u>Cut off test (existence and completeness)</u> d. Determine if there are unrecorded transactions and if the transactions are recorded in the correct period.</p> <p>i. Coordinate with the FBWT audit team to review results of the FBWT reconciliation tests. For example, review IPAC transactions reconciliations and the recording of IPAC transactions in accounting systems; consider how timely and whether appropriate; review IPAC transactions after 9/30–subsequent billing and collecting transactions—to determine unrecorded transactions as of 9/30.</p>		
<p>ii. Search for unrecorded sales revenue, accounts receivable, purchases, and accounts payable (completeness). For example,</p> <ul style="list-style-type: none"> • To search for unrecorded sales revenue and accounts receivable, select sales invoices for trading partners recorded in the xx-day period subsequent to year-end. Trace the selected invoices to shipping records or evidence of service performance. Determine whether the sales revenue and accounts receivable were recorded in the correct period. Alternatively, select from shipping records to trading partners prior to year-end and trace to sales invoices. 		
<ul style="list-style-type: none"> • To test the completeness of amounts recorded as accounts payable at the balance-sheet date, select disbursements after the end of the audit period and test if the amounts were recorded in accounts payable. 		
<p>2. Review the test results of other related line items to determine if there are issues related to existence, completeness, valuation, rights and obligations, and classification in the tested accounts and transactions and the impact on the intragovernmental activity and balances. In testing these other accounts, consider whether items tested were from trading partners.</p>		

Substantive Testing

902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
3. Summarize the results and propose adjustments, if necessary.		
4. Determine if the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and whether the audit procedures should be revised.		
<p><u>Control and substantive tests of details—other related parties</u></p> <p>C. Attain satisfaction about the purpose, nature, and extent of material other related party transactions and their effect on the financial statements. Coordinate with sensitive payments work, including the review of executive compensation, travel, official entertainment funds, unvouchered expenses, and consulting services (see FAM section 280.05).</p> <p>1. Based on the work performed during the planning and internal control phases, determine and document the methodology used to select the transactions for testing.</p> <ul style="list-style-type: none"> • Examine all transactions, • Dollar unit sampling (DUS), • Classical variables estimation sampling, or • Other (describe). 		
2. For the selected transactions,		
a. examine documentation such as invoices, contracts, agreements, and receiving and shipping reports;		
b. determine whether the transactions have been properly approved;		
c. confirm transaction terms and amounts with the other party to the transaction; and		
d. test the compilation of amounts that may be disclosed in the financial statements for reasonableness.		
3. Summarize the results.		
4. Determine if the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

Substantive Testing
902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
<p><u>Substantive analytical procedures (FAM 475)</u></p> <p>D. Substantive analytical procedures: Perform analytical procedures to assess whether balances are reasonable and reflect appropriate activities (existence and completeness). If the entity performs reconciliation and confirmation of intragovernmental activity and balances and the auditor places reliance on those tests of details, less rigorous, supplemental analytical procedures may be used to increase the auditor's understanding of intragovernmental activity and balances after performing tests of details in Testing, step III.A, above. However, in the absence of adequate reconciliation and confirmation controls, some or all of these procedures may be necessary to obtain sufficient evidence, if possible. For example,</p> <ol style="list-style-type: none"> 1. Develop expectations of the accounts payable and receivable balances overall or for all significant trading partners in light of the payment cycle during the year. Then, compare the recorded balance overall or by trading partner to the expected amount and investigate differences in the recorded balance if differences exceed _____ (insert an amount such that the total uninvestigated difference for all trading partners, including those not selected, does not exceed the limit). 		
<ol style="list-style-type: none"> 2. Develop expectations of recorded intragovernmental sales overall or for all significant trading partners based on independent data; for example, consider using trading partners' orders. Then compare the expectations to the recorded sales amounts and investigate differences in the recorded balance if differences exceed _____ (insert an amount such that the total uninvestigated difference for all trading partners, including those not selected, does not exceed the limit). 		

Substantive Testing**902 C – Example Audit Procedures for Intragovernmental and Other
Related Parties' Activity and Balances**

Audit Procedures¹	Done by/date	W/P ref.
3. Examine accounting records, for example, accounts receivable and payable, for large, unusual, or nonrecurring activity or balances. For example, consider expectations as to the types of intragovernmental activity and balances and trading partners based on the planning work. Then, examine significant unexpected/unusual intragovernmental activity and balances and intragovernmental activity or balances with unexpected trading partners. Document the definition of significant.		
4. Summarize the results of testing and determine if adjustments are necessary.		
<u>Elimination (existence, completeness, and valuation)</u> E. Test consolidation/elimination for transactions occurring within the entity (intraentity) to determine whether the elimination is appropriate and supportable. 1. Obtain a list of each component entity's intraentity transactions identified for elimination and each component entity's reconciliation of its intraentity activity and balances with its respective trading partners. This step may be done in conjunction with the test of reconciliation (see step III.A above).		
2. Review the entity's eliminating journal entries and supporting documentation for elimination entries of the entitywide consolidated financial statements. Determine whether elimination journal entries are a. approved by management and		
b. supported by schedules summarizing the SGL accounts that are combined to total the amounts eliminated.		
3. Summarize the results.		
4. Determine if the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

Substantive Testing
902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances

Audit Procedures ¹	Done by/date	W/P ref.
<p>IV. Reporting Phase To determine if the presentation and disclosures of intragovernmental and other related party balances comply with GAAP and OMB requirements:</p> <p>1. Determine whether financial reports are prepared in accordance with the OMB bulletin on <i>Form and Content of Agency Financial Statements</i>. For example,</p> <p>a. Review the balance sheet and determine whether it is properly classified and line items are correctly reported as intragovernmental or nonfederal.</p>		
<p>b. Read the required supplementary information (RSI) to determine if intragovernmental amounts and the related federal trading partners for assets, liabilities, earned revenue from trade (buy/sell) transactions and nonexchange revenue are presented as RSI. The gross cost to generate earned revenue from trade transactions should be presented by budget functional classification in the notes to the financial statements.</p>		
<p>c. Read disclosures for the Statement of Net Cost in the notes to the departmentwide financial statements and determine if the department includes a separate disclosure of intragovernmental gross cost and earned revenue by budget functional classification as required by OMB's form and content bulletin. Gross cost and earned revenue should be net of intradepartment transactions (consolidated).</p>		
<p>2. Read the entitywide financial statements, notes, and RSI; compare the reported intragovernmental and other related party (if any) activity and balances with the test results.</p>		
<p>3. Request that the entity's management include, in the representation letter, representations related to intragovernmental and other related party activity and balances. (See FAM section 1001 for guidance.)</p>		
<p>4. Communicate with trading partner entities' auditors (with auditee's permission) to consider whether issues identified by the other auditors affect the auditor's conclusions on intragovernmental transactions.</p>		

Substantive Testing**902 C – Example Audit Procedures for Intragovernmental and Other Related Parties' Activity and Balances**

Audit Procedures¹	Done by/date	W/P ref.
5. Read the various current period Agreed-Upon Procedures (AUP) reports to consider whether the findings will affect the auditor's conclusion and/or if additional procedures need to be performed. For example, a. The AUP report on employee withholdings and employer contributions that are reported on the Report of Withholdings and Contributions for Health Benefits, Life Insurance and Retirements. This AUP report is to assist OPM in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount report submitted to OPM (see OMB audit guidance).		
b. The AUP report on FACTS I verification. This AUP report is to evaluate the department's management assertion that it compared the department's summarized FACTS I data to its consolidated financial statements and to determine whether such data is in agreement.		
6. Summarize the results and determine if adjustments are necessary.		
7. Conclude whether intragovernmental and other related party activity and balances have been adequately accounted for and properly disclosed in the financial statements.		

**Reconciliation of Seller Entity Intragovernmental
 Earned Revenue with Buyer Entity Cost**

Seller Entity - Trading Partner 1

Intragovernmental cash received for earned revenue, FY 200X, from Trading Partner 2 (General ledger before adjustment) 200,000

Less adjustment for timing difference -
 Cash received but revenue unearned at end of the current year (20,000)

Add adjustment for timing difference -
 Earned revenue recognized on unbilled work at the end of the current year 50,000

Intragovernmental earned revenue - accrual basis, FY 200X, from Trading Partner 2 (General ledger after adjustment) 230,000

When reconciled, Seller Revenue and Buyer Cost must agree after adjustments are recorded to correct for errors.

Buyer Entity - Trading Partner 2

Intragovernmental purchases - cash basis, FY 200X, from Trading Partner 1 (General ledger before adjustment) 190,000

Add:
 Adjustment for cutoff error identified during reconciliation process [Cash sent to Trading Partner 1, but not recorded] 10,000
 Adjustment for completed but unbilled work at the end of the current year 50,000

Less:
 Cash paid in the current year, but amount prepaid at end of current year (20,000)

General ledger after adjustment for Trading Partner 1 230,000

Less:
 Reconciling item for purchases inventoried at end of the current year (50,000)

Intragovernmental purchases included in cost - accrual basis, FY 200X, from Trading Partner 1 180,000

When reconciled and adjusted, Seller Revenue and Buyer Cost may not agree because of timing differences. Here, the Buyer has inventoried a portion of the purchases for the year.

The contra accounts for timing items should also reconcile.
 The Seller's unearned revenue account (liability) should reconcile with the Buyer's prepaid (asset) account.
 Seller's earned but unbilled receivable (asset) should reconcile with the Buyer's accounts payable for unbilled work (liability) account.

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Substantive Testing

903 - AUDITING COST INFORMATION

- .01 This section provides general guidance for considering cost information and planning audit procedures. The auditor should coordinate these procedures with procedures on auditing various line items and accounts. The auditor is concerned about cost information for a number of reasons. First, the auditor should obtain sufficient evidence to determine whether the costs are fairly stated in the financial statements and appropriately classified. Proper classification at the agency level also contributes to proper classification of costs in the consolidated financial statements of the U.S. government. Second, for CFO Act agencies and components designated by OMB, the auditor is concerned about the entity's financial management systems' substantial compliance with the three requirements of FFMIA. Third, cost information is important to the MD&A, although the auditor does not opine on the MD&A. The most relevant accounting standard for cost information is Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting*. This standard has relevance both to external financial reporting and to cost information for internal management reporting.

STATEMENT OF FEDERAL FINANCIAL ACCOUNTING STANDARDS NO. 4, *MANAGERIAL COST ACCOUNTING*

- .02 SFFAS No. 4 establishes the concepts and standards for providing reliable and timely information on the full cost of federal programs, their activities, and outputs. The objectives of managerial cost information specified in SFFAS No. 4 are:
- To provide program managers with relevant and reliable information relating costs to outputs and activities. With this information, program managers should understand the costs of the activities they manage. The cost information should assist them in improving operational efficiency.
 - To provide relevant and reliable cost information to assist Congress and executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance.
 - To provide consistency between costs reported in general purpose financial reports and costs reported to program managers. This includes standardizing terminology to improve communication among federal organizations and users of cost information.
- .03 The first two objectives primarily address the managerial use of cost information in improving operating efficiency and cost effectiveness, making planning and

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903 - Auditing Cost Information

budgeting decisions, and measuring performance. The third objective primarily addresses external financial reporting. That objective can be achieved by reporting cost information in financial statements that is consistent with costs generated by the cost accounting process. Because of the differences in the three objectives, some requirements in SFFAS No. 4 are relevant to managerial decision making and operations improvement, while some requirements are relevant to external financial reporting.

- .04 The cost accounting concepts section of SFFAS No. 4 (paragraphs 41-66) establishes the overall goals of cost accounting for federal agencies. Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, be integrated with the other parts of the system. Managerial costing should use a basis of accounting, recognition, and measurement that is appropriate for the intended purpose. Cost information developed for various purposes should be drawn from a common data source, and output reports should be reconcilable to each other.
- .05 The five fundamental standards for managerial cost accounting set forth in SFFAS No. 4 (paragraphs 67-162) are important for the auditor. These standards will lead to the development of accurate and consistent cost information for internal and external reporting by federal agencies. The five standards are:
- Requirement for cost accounting: Each reporting entity should accumulate and regularly report the cost of its activities for management information.
 - Responsibility segments: Management of each reporting entity should define and establish responsibility segments and report the costs of each segment's outputs.
 - Full costs: Reporting entities should report the full costs of outputs, which is the total amount of resources used to produce the output, including direct and indirect costs.
 - Interentity costs: Each entity's costs should incorporate the full cost of goods and services received from other entities. As directed by SFFAS No. 4, paragraph 110, OMB has designated, in its bulletin, *Form and Content of Agency Financial Statements*, the costs of goods and services received from other entities that should be recognized.
 - Costing methodology: The costs of resources that directly or indirectly contribute to the production of outputs should be accumulated and assigned to outputs using appropriate methodologies. (See paragraph 903.07.)

AUDIT PROCEDURES FOR FINANCIAL STATEMENT OPINION

.06 As part of understanding the entity's operations, the auditor should obtain an overview of how the entity meets these standards. This may be done by inquiry, observation, and walkthrough procedures. Substantive tests of the cost accounting system are usually necessary. The auditor should consider coordinating tests with other control and substantive tests. Based on the auditor's understanding of the agency's operations, the auditor should determine whether the statement of net costs is designed to include all the costs of the agency's programs. Also, in testing the statement of net costs, the auditor should test the financial statement assertions related to costs including whether expenses are properly classified in the statement of net costs, and in the notes by budget functional classification, as required by OMB's form and content guidance. The following (see FAM section 395 B) are examples of subassertions related to costs:

- Existence or occurrence:
 - Validity—(1) Recorded costs, underlying goods and services used, and related processing procedures are authorized by federal laws, regulations, and management policy. (2) Recorded costs are approved by appropriate individuals in accordance with management's general or specific criteria. (3) Recorded costs represent goods and services that were actually used and are properly classified.
 - Cutoff—Costs recorded in the current period represent goods and services used during the current period.
 - Summarization—(1) The summarization of recorded costs is not overstated. (2) Costs are assigned to appropriate classifications in the financial statements.
- Completeness:
 - Transaction completeness—All valid costs are recorded and properly classified.
 - Cutoff—All goods and services used in the current period should be recorded in the current period.
 - Summarization—The summarization of recorded costs is not understated.
- Valuation or allocation:
 - Accuracy—(1) Costs are recorded at correct amounts. (2) Costs are recorded using appropriate assignment methodologies.
 - Measurement—Costs included in the financial statements are properly measured.

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- Presentation and disclosure:
 - Account classification—Cost accounts are properly classified and described in the financial statements.
 - Consistency—The financial statement costs are based on accounting principles that are applied consistently from period to period.
 - Disclosure—The financial statements and footnotes contain all information required to be disclosed.

- .07 SFFAS No. 4 discusses three methods of assigning costs: directly tracing costs, assigning costs on a cause-and-effect basis, and allocating costs on a reasonable and consistent basis. Although the standard discusses these three methods in relation to assigning costs to responsibility segments and outputs, the methods are also applicable to assigning costs to financial statement line items in the statement of net costs, generally by program, and in the notes by budget functional classification. The different methods of assigning costs may require different auditing procedures for determining whether costs are properly classified in the statement of net costs by program and in the notes by budget functional classification.

- .08 For example, for directly traced costs (such as materials used in production or employees who worked on an output), the auditor generally should test whether costs were assigned to the appropriate program and/or budget functional classification.

- .09 Costs may be assigned on a cause-and-effect basis, by grouping costs into cost pools where an intermediate activity may be a link between the cause and the effect. For example, an information technology department may provide support to other departments. The information technology department may assign costs to other departments on a cause-and-effect basis by first assigning costs to an intermediate activity, such as hardware installation or software design. Then the costs in these pools may be further assigned to other departments based on their use of these technical services. In auditing these types of costs, the auditor should test whether costs are assigned to the appropriate cost pool (hardware installation, software design), but also whether the costs are appropriately summarized in the pool. Then, when costs are assigned to other departments, the auditor should test whether costs assigned are based on appropriate usage information, whether the cost assignments are reasonable and consistent, and whether they are mathematically accurate.

- .10 Costs may be allocated if it is not economically feasible to directly trace or assign costs on a cause-and-effect basis. This is commonly done with costs such as general management, depreciation, rent, maintenance, security, and utilities used in common by various segments. These costs are generally accumulated in cost

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pools and allocated to segments or outputs (or programs or budget functional classifications) based on a relevant common denominator such as number of employees, square footage of office space, or amount of direct costs incurred in segments. In auditing these allocated costs, the auditor should test whether the costs are assigned to the appropriate cost pool and summarized appropriately. The auditor also should determine whether the allocation basis is reasonable and consistent and test the mathematical allocation. In addition, the auditor should determine whether an allocation rather than directly tracing costs or assigning them on a cause-and-effect basis is appropriate in the circumstances.

- .11 The entity exercises judgment in determining the line item/programs included in its statement of net costs. The auditor should consider whether classifications are reasonable in the circumstances.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

- .12 For audits of the CFO Act agencies and components identified by OMB audit guidance, the auditor should determine whether the agency's financial management systems comply substantially with the three requirements of FFMIA (see paragraph 100.02 and FAM section 701). To determine compliance with SFFAS No. 4 for the purposes of FFMIA, the auditor should ask these questions, which relate to the standards discussed in paragraph 903.05:
- Does the agency regularly accumulate and report the costs of its activities to management?
 - Has the agency defined its major programs and responsibility segments for the purpose of delineating costs?
 - Does the agency properly accumulate costs by those programs and segments?
 - Has the agency accounted for the full costs (including inter-entity costs) of products, services, or outputs to be externally reported at the entity-wide level?
 - Has the agency accounted for the costs of resources that contribute to the production of outputs by individual responsibility segment using appropriate costing methodologies?
 - Has the agency reported those costs in the year-end financial statements on the accrual basis of accounting?

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- Are the costs reported for external financial reporting and those reported for internal management reporting consistent and reconcilable?
- Is the reported management cost information consistent, timely, and comprehensive?
- Is the cost information reported in such a manner that management can determine answers to appropriate questions about costs of outputs?
- How does management determine whether costs are appropriate?
- How does management determine the entity's compliance with FFMIA?

This inquiry is frequently combined with the procedures in paragraph 903.06, the outcome of which should be considered in concluding about the entity's compliance with the cost accounting requirements under FFMIA. Also, the auditor should review evidence supporting management's assertions in response to these questions, as further discussed in section 701, Federal Financial Management Improvement Act of 1996.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

- .13 The auditor does not provide an opinion on the MD&A. Thus, the main concern is consistency of information, rather than testing the reliability of the cost data in the MD&A. The auditor should read the MD&A for consistency with the financial statements and with the auditor's knowledge of the entity. Testing generally should be limited to data in the financial statements, as discussed in paragraph 903.06, not the MD&A. Analytical procedures may be used to consider the reasonableness of cost data in the MD&A. Based on this comparison, the auditor should consider whether additional testing is needed.
- .14 Although costs reported in internal and external reports should be consistent, they may differ in the degree of detail and reporting frequency. Cost information for management may require more frequent and timely reporting. It also may require more specific and detailed information regarding the costs of specific activities or outputs. By comparison, external reports could be less frequent, and the cost information more aggregated, such as on a suborganization or program basis.

Substantive Testing

921 - AUDITING FUND BALANCE WITH TREASURY (FBWT)

- .01 This section provides guidance in auditing the Fund Balance with Treasury (FBWT) account. It explains key agency and Treasury processes and procedures related to FBWT accounts and discusses audit issues. Practice aids, including example Account Risk Analysis (ARA) and Specific Control Evaluation (SCE) forms and suggested audit procedures for the FBWT line item, are included in appendices.
- .02 The FBWT account (SGL account 1010) is an asset account representing the unexpended spending authority in agencies' appropriations. Federal agencies record their budget spending authority in FBWT accounts and increase or decrease these accounts as they collect or disburse funds. Most agencies maintain several fund balance accounts funded by different types of appropriations, such as annual 1-year appropriations and/or multiyear appropriations that are included in the financial statement FBWT line item. The FBWT account also serves as one of several mechanisms to prevent agencies' disbursements from exceeding appropriated amounts.
- .03 In the federal government, Treasury serves as the central banker. Most agencies use the banking services provided by Treasury's Financial Management Service (FMS) and do not keep cash in separate bank accounts. Some agencies have authority to disburse funds on their own behalf. These agencies still maintain FBWT accounts and follow Treasury's reporting and reconciliation requirements.
- .04 Unlike commercial banking institutions, Treasury does not keep independent accounting records of each agency's FBWT accounts. Instead, Treasury uses monthly data reported by the agencies to calculate agencies' FBWT balances and requires agencies to perform detailed reconciliations of FBWT accounts to maintain the accuracy and reliability of agencies' fund balance records. Effective reconciliations also serve as a detection control for identifying unauthorized and unrecorded transactions at the agencies and Treasury.
- .05 Treasury requires agencies to maintain FBWT accounts and to perform a two-part reconciliation process each month.
- First, agencies should reconcile differences identified by Treasury between cash receipts and disbursements transactions reported by agencies to those reported by other sources of financial data, such as the Federal Reserve,

Substantive Testing**921 – Auditing Fund Balance with Treasury (FBWT)**

commercial banks, other federal agencies, and the FMS regional financial centers. Treasury reports differences identified to agencies each month on "Statements of Differences."¹

- Second, agencies should reconcile differences between their records and Treasury records of the monthly activity recorded in the FBWT accounts. Each month Treasury provides appropriation, fund, and receipt account ledgers, which include a rollforward of the previous month's balance, the current month's cash activity reported by the agency and other account activity (supplemental appropriations, recissions, nonexpenditure transfers, entries reported by other agencies) to compare to their records.

Differences remain until reconciled by the agencies and represent potential misstatements in agencies' financial statements and budget execution reports.

AUDIT ISSUES

- .06 Many agencies have problems in reconciling the transaction activity in their FBWT accounts. Ineffective FBWT reconciliations contribute to agencies' inability to prepare auditable financial statements. Without effective agency reconciliations of receipt and disbursement activity, the agency FBWT balance – the amount of funds available to it for expenditure in each appropriation – may contain material misstatements, and auditors generally would be unable to determine whether FBWT is fairly stated.
- .07 Prior audits of agencies' financial statements identified instances in which agencies were not timely reconciling their FBWT accounts. Instead, some agencies adjusted their accounts to show the amounts reported by Treasury and/or recorded differences in suspense accounts without adequately researching the causes of the differences. Unreconciled differences recorded in suspense accounts could represent transactions that have not been recorded by the agency to the appropriate accounts. Only after researching its accounting records and reports can an agency determine the cause of the problem and make the proper adjustments to its FBWT accounts (and related asset, liability, expense, or revenue accounts) or advise Treasury to correct its records.
- .08 There were instances in which agencies did not receive Statements of Differences from Treasury, even though unreconciled differences existed. Some

¹ The banking system data is reported via CASHLINK, other federal agencies via IPAC (which replaced OPAC in December 2001), and FMS regional financial centers via GOALS. See FAM section 921 A for more detail on the Treasury processes and reports related to FBWT reconciliation.

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agencies did not use their accounting records to prepare monthly reports to Treasury. Instead, they reported the same amounts recorded in OPAC and CASHLINK to avoid Statements of Differences; generally these agencies tracked differences in suspense accounts. Because Treasury uses these sources to compare with the amounts reported by the agency, Treasury did not identify differences; thus, no Statements of Differences were issued. Also, some agencies cleared Statements of Differences by reporting adjustments to Treasury before researching and resolving differences. Therefore, amounts reported on Statements of Differences might not always be an adequate indicator of reconciliation problems or an adequate measure of the extent of outstanding unreconciled differences. Auditors should design tests to obtain an understanding of the agency's reconciliation procedures in order to assess the effect of its reconciliation process on the financial statements and to determine the level of audit procedures required after considering the materiality of unreconciled differences.

- .09 Because Treasury's record of an agency's FBWT is the result of the activity reported to Treasury by the agency itself, and is not obtained from another source, the reconciliation process is a key control over FBWT accounts.
- .10 One year's successful audit of the reconciliation of FBWT activity will generally not result in an auditable balance because the auditor faces the issue of auditing the beginning balance. Except for the first year of an appropriation, the balances in most FBWT accounts are included in the FBWT line item rollforward from year to year until the account is closed, which can be 5 years or more, depending on the type of appropriation.
- .11 In an initial audit, the auditor should design tests to obtain assurance on the FBWT beginning balance. This may require testing of FBWT reconciliations performed in prior years or other audit procedures that provide assurance on the FBWT line item. For example, in some instances detailed audit procedures over beginning balances related to other financial statement accounts that affect FBWT could provide assurance. In tests of other account balances, the auditor may be able to determine that old errors were written off or other appropriate adjustments were made to FBWT and that the fund balances from prior years and remaining unadjusted reconciling differences are immaterial.

AUDIT APPROACH

- .12 Because Treasury relies on the monthly data reported by the agencies to calculate agencies' FBWT balances, confirmation of FBWT account balances with Treasury does not provide competent evidence. Therefore, the auditor

Substantive Testing**921 – Auditing Fund Balance with Treasury (FBWT)**

needs to obtain competent evidence through tests of the agency's FBWT reconciliation process.

- .13 Since most assets, liabilities, revenues, and expenses stem from or result in cash transactions, misstatements in the receipt or disbursement activity recorded in the FBWT accounts affect the balances of various financial statement accounts. Even though net FBWT account balances may be immaterial as of the date of the financial statements, the gross receipt and disbursement transactions flowing through the FBWT account during the fiscal year are usually material. Therefore, the auditor should test the reconciliation of the transaction activity flowing through the account. In addition, the auditor should assess the impact of gross unreconciled differences on the FBWT and other financial statement line items.
- .14 The auditor should design an audit program that includes steps to determine whether the agency
- prepares monthly reports to Treasury using the same detailed accounting records of collection and disbursement transactions that are used to prepare the agency's financial statements;
 - researches and resolves the underlying causes of differences between amounts reported by Treasury and agency records each month and makes the proper adjustments; and
 - monitors suspense account activity – including maintaining detailed records of unreconciled differences charged to the account and maintaining records that age the differences – and performs procedures to timely and properly clear the account.
- .15 The auditor also should design procedures to determine the magnitude of the agency's gross unreconciled differences at year-end by analyzing the Treasury Statements of Differences reports and agency suspense account items in terms of their aggregate absolute values and resulting impact on the financial statements. (Since each difference represents a potential misstatement, the roll-up and netting of charges and credits can significantly understate the total outstanding differences.)

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921 – Auditing Fund Balance with Treasury (FBWT)

PRACTICE AIDS

- .16 The following practice aids are appended to this section:
- Section 921 A – Treasury Processes and Reports Related to FBWT Reconciliation.
 - Section 921 B – Example Account Risk Analysis (ARA).
 - Section 921 C - Example Specific Control Evaluation (SCE). (Note that a single SCE of the line item/account-related accounting application for FBWT is presented. There are transaction-related accounting applications listed on the ARA that affect FBWT, such as cash receipts and cash disbursements, that would require transaction related SCEs.)
 - Section 921 D - Example Audit Procedures.
- .17 These aids are not all inclusive. They do not include tests of other accounts, such as Other Cash on Deposit bank accounts and Imprest Funds. Also, for agencies that write their own checks, the aids do not discuss or include tests of controls over check stock. If material, the auditor should apply appropriate additional tests. The aids provide the auditor with a framework for designing tests of FBWT accounts. Auditors should use professional judgment in designing audit programs for their particular agency after considering materiality, audit risks, and internal control.
- .18 The auditor should use judgment in determining the most effective and efficient method to achieve the audit objectives. When possible, the FBWT audit procedures should be coordinated with other tests. For example, many procedures may be performed in conjunction with tests of agency cash receipts and cash disbursements. Others may be included as part of compliance testing.

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Substantive Testing

921 A - TREASURY PROCESSES AND REPORTS RELATED TO FBWT RECONCILIATION

A. Verification of Collections and EFT Disbursements			
Reports submitted by agencies	Reports/data submitted by other sources	Treasury FMS action	Resulting Treasury reports to agencies
<p>Agencies report collections monthly on Statements of Transactions (SF 224) or Statements of Accountability/ Transactions (SF1218/1221 or 1219/1220) by ALC.</p> <p><u>Note:</u> For agencies which report on SF 1218 or 1219, electronic disbursements are netted against collections.</p>	<p>CASHLINK system data (CASHLINK is used by the banking system to report collections and EFTs received from and on behalf of government agencies).</p> <p><u>Note:</u> In CASHLINK, electronic disbursements are reported as "negative collections," or debit vouchers.</p>	<p>FMS compares monthly collection totals reported on agency SF 224s, SF 1218/1221s, or SF 1219/1220s to transaction data available in CASHLINK.</p>	<p>Month-end Statements of Differences (FMS 6652) via GOALS for each month until the difference is cleared.</p> <p>Monthly detailed support list of transactions reported in CASHLINK.</p>
Reporting of FBWT accounts activity and balances			
		<p>FMS reports agency FBWT accounts activity and balances based on data reported by agencies.</p>	<p>Monthly appropriation and receipt account ledgers (FMS 6653 and 6655) showing account activity and net balances for each appropriation, fund, and receipt account.</p> <p>Monthly appropriation and receipt account trial balances (FMS 6654/ 6655) by department.</p>

Substantive Testing

921 A – Treasury Processes and Reports Related to FBWT Reconciliation

B. Verification of Disbursement Data			
Reports submitted by agencies	Reports/data submitted by other sources	Treasury FMS action	Resulting Treasury reports to agencies
1. Verification of Treasury Disbursement Office agency disbursements			
<p>Agencies for which FMS regional financial centers disburse money submit monthly Statements of Transactions (SF 224) by ALC.</p> <p>Agencies for which FMS regional finance centers disburse money report net interagency transactions on SF 224.</p>	<p>FMS regional finance center Agency Confirmation Reports (include checks issued and electronic disbursements accomplished on behalf of the agency).</p> <p>The Interagency Payment and Collection system (IPAC) data are used by agencies and FMS to accomplish interagency transactions).</p>	<p>FMS compares monthly disbursement totals reported on agency SF 224s to disbursement data on regional finance center reports or IPAC.</p>	<p>Monthly Statements of Differences (FMS 6652) for each month until the difference is cleared.</p> <p>Monthly detailed support listings of transactions reported by regional finance centers, and IPAC.</p>
Reporting of FBWT accounts activity and balances			
		<p>FMS reports agency FBWT accounts activity and balances based on monthly data reported by agencies.</p>	<p>Monthly appropriation account ledgers (FMS 6653) showing account activity and net balances for each appropriation and fund account.</p> <p>Monthly appropriation account trial balances (FMS 6654) by department.</p>

Substantive Testing

921 A – Treasury Processes and Reports Related to FBWT Reconciliation

B. Verification of Disbursement Data			
Reports submitted by agencies	Reports/data submitted by other sources	Treasury FMS action	Resulting Treasury reports to agencies
2. Verification of Non-Treasury Disbursing Office (NTDO) agency disbursements			
Verification of interagency transactions:			
NTDO agencies report net interagency transactions on SF 1218/1221 or SF 1219/1220 by ALC.	Interagency payment and collection system data.	FMS compares monthly net disbursement totals reported on agency SF1218/1221s or SF1219/1220s to disbursement data in IPAC.	Monthly Statements of Differences (FMS 6652) for each month until the difference is cleared. Monthly detailed support lists of transactions reported by /IPAC.
Verification of checks paid			
NTDOs submit tapes detailing checks issued and Month-end Checks Issued Summary reports (SF1179).	Federal Reserve Banks submit tapes detailing checks paid.	FMS performs a check by check comparison of checks issued to checks paid by the banking system (dollar amount).	Advice of Check Issue Discrepancies (FMS 5206).
Verification of checks issued:			
NTDOs submit monthly Statements of Accountability/ Transactions (SF1218/1221 or SF1219/1220).	SF 1179, Month-End Checks Issued Summary report submitted by NTDO agencies and checks paid by the banking system.	FMS compares SF1179 data (adjusted for FMS 5206 dollar differences) to the agency disbursements reported on SF1218/1221 or SF1219/1220 (total checks issued to total checks paid).	Two-, 4-, 6-, & 8-month letters notifying agencies of any outstanding discrepancies over \$50.

Substantive Testing

921 A – Treasury Processes and Reports Related to FBWT Reconciliation

B. Verification of Disbursement Data			
Reports submitted by agencies	Reports/data submitted by other sources	Treasury FMS action	Resulting Treasury reports to agencies
2. Verification of Non-Treasury Disbursing Office (NTDO) agency disbursements			
Reporting of FBWT accounts activity and balances			
		FMS reports agency FBWT accounts activity and balances based on monthly data reported by agencies.	Monthly appropriation account ledger (FMS 6653) showing account activity and net balances for each appropriation and fund account. Monthly appropriation trial balance (FMS 6654) by department.

Substantive Testing

921 B - EXAMPLE ACCOUNT RISK ANALYSIS FOR FUND BALANCE WITH TREASURY

Entity: Agency		ACCOUNT RISK ANALYSIS FORM					Preparer: _____			
Date of Financial Statements: September 30, 20xx							Region: _____			
Line Item: Fund Balance with Treasury		File: _____					Date: _____			
PLANNING PHASE			INTERNAL CONTROL PHASE				TESTING PHASE			
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities ¹	Control risk	Combined risk	Timing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
Fund Balance with Treasury	\$xx,xxx m	Existence or occurrence Recorded Fund Balance with Treasury (FBWT) does not exist.	Control risk arises from the (1) highly decentralized structure of the agency, which reduces management's knowledge of and control over operations, (2) significant weaknesses in general controls over the automated systems the agency relies extensively upon to process transactions and (3) lack of adequate management oversight of the reconciliation process. Inherent risk arises from the high volume of transactions flowing through the account.	<u>Cycles:</u> Revenue Payroll Budget Treasury <u>Applications:</u> FBWT Cash receipts Cash disbursements				I/F	Test FBWT reconciliations. Analyze impact of unresolved reconciling items at year-end.	FBWT program FB-1 through FB-7

¹ Omitted from this example.

Substantive Testing

921 B - Example Account Risk Analysis for Fund Balance with Treasury

Entity: Agency

Preparer: _____

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region: _____

Line Item: Fund Balance with Treasury

File: _____

Date: _____

		PLANNING PHASE			INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities ¹	Control risk	Combined risk	Timing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
		<p>Completeness FBWT is omitted from the financial statements or is incomplete.</p>	<p>Control risk arises from the (1) highly decentralized structure of the agency, which reduces management's knowledge of and control over operations, (2) significant weaknesses in general controls over the automated systems the agency relies extensively upon to process transactions and (3) lack of adequate management oversight of the reconciliation process.</p> <p>Inherent risk arises from the high volume of transactions flowing through the account.</p>	<p><u>Cycles:</u> Revenue Payroll Budget Treasury</p> <p><u>Applications:</u> FBWT Cash receipts Cash disbursements</p>				I/F	<p>Test FBWT reconciliations. Analyze impact of unresolved reconciling items at year-end.</p> <p>Prepare lead schedule of GL accounts that constitute FBWT, analytically review with prior-year data, and resolve reasons for unexpected changes.</p>	<p>FBWT program FB-1 through FB-7</p> <p>FB-2 and FB-10</p>

Substantive Testing

921 B - Example Account Risk Analysis for Fund Balance with Treasury

Entity: Agency

Preparer: _____

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region: _____

Line Item: Fund Balance with Treasury

File: _____

Date: _____

		PLANNING PHASE			INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities ¹	Control risk	Combined risk	Tim- ing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
		Valuation/Accuracy Fund Balance with Treasury is not recorded accurately.	No significant inherent, fraud or control risk factors identified.	<u>Cycles:</u> Revenue Payroll Budget Treasury <u>Applications:</u> FBWT Cash receipts Cash disbursements				I/F	Test FBWT reconciliations. Analyze impact of unresolved reconciling items at year-end.	FBWT program FB-1 through FB-7

Substantive Testing

921 B - Example Account Risk Analysis for Fund Balance with Treasury

Entity: Agency

Preparer: _____

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region: _____

Line Item: Fund Balance with Treasury

File: _____

Date: _____

		PLANNING PHASE			INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities ¹	Control risk	Combined risk	Timing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
		<p>Rights Agency does not have certain rights to Fund Balance with Treasury because of transfers, rescissions, and restrictions.</p>	<p>Inherent risk arises from the high number of appropriation, fund and receipt accounts, including certain special funds and trust funds that do not belong to the agency. Because these nonentity accounts are maintained within the same system used to maintain entity accounts and financial activity, there is a risk that these accounts will be inappropriately charged and be included in the FBWT line item.</p> <p>Same control risks as for existence and completeness.</p>	Treasury				F	<p>Review support for recorded appropriation, fund, and receipt accounts included in the FBWT line item.</p> <p>Review footnote disclosure.</p>	<p>FBWT program</p> <p>FB-8 and FB-10</p>

Substantive Testing

921 B - Example Account Risk Analysis for Fund Balance with Treasury

Entity: Agency

Preparer: _____

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region: _____

Line Item: Fund Balance with Treasury

File: _____

Date: _____

PLANNING PHASE			INTERNAL CONTROL PHASE				TESTING PHASE			
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effectiveness of control activities ¹	Control risk	Combined risk	Tim- ing I/F	Nature & extent	W/P ref & audit step
Name	Balance									
		<p>Presentation and disclosure Fund Balance with Treasury is not properly classified and disclosed in the financial statements.</p>	<p>No significant inherent or fraud risk factors identified.</p> <p>Same control risks as for existence and completeness.</p>	Treasury				F	<p>Review FBWT related financial statement line item and footnote disclosures for conformance with applicable standards, and trace amounts reported in financial statement line items and footnote disclosures to general ledger and supporting detailed records.</p>	<p>FBWT program</p> <p>FB-9 and FB-10</p>

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Substantive Testing

921 C - EXAMPLE SPECIFIC CONTROL EVALUATION FOR FUND BALANCE WITH TREASURY

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page <u>1</u> of <u>8</u>
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
Existence or Occurrence	Existence	Existence	Substantiation 1. Recorded FBWT does not exist as of a given date.	1a. Recorded FBWT amounts should exist as of a given date.	(See note 1.) 1. Agency staff performs monthly reconciliation between agency general ledger (G/L) and Treasury records (appropriation and receipt account ledgers, FMS 6653 and FMS 6655).	Y		FB- 5 & FB-6
					2. Agency staff resolves receipt and disbursement differences reported by Treasury via the FMS 6652, Statements of Differences for collections and disbursements.	N		FB-4 & FB-6

Substantive Testing

921 C – Example Specific Control Evaluation for Fund Balance with Treasury

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page 2 of 8
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
					3. Agency staff resolves disbursement differences reported by Treasury via the Advice of Check Issued Discrepancy Report (FMS 5206) and Difference Notification to the Disbursing Office (NTDO agencies).	N		FB-4 & FB-6
				1b. Recorded FBWT, at a given date, should be supported by appropriate detailed records that are accurately summarized and reconciled to the account balance.	1. Agency staff reconciles the monthly Statement of Transactions (SF 224) submitted to Treasury, to the applicable G/L accounts.	Y		FB-3
					2. Agency staff reconciles the monthly Statement of Accountability/transactions (SF1219/1220 or SF1218/1221) submitted to Treasury, to the applicable G/L accounts (NTDO agencies).	N		FB-3
					3. Same as 1.1a.1			

Substantive Testing

921 C – Example Specific Control Evaluation for Fund Balance with Treasury

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	<p>SPECIFIC CONTROL EVALUATION</p> (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page <u>3</u> of <u>8</u>
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
				1c. Access to FBWT, critical forms, records, and processing and storage areas should be permitted only in accordance with laws, regulations, and management policy.	1. Not covered in this example. Note: For agencies that disburse funds on their own behalf (NTDOs), and maintain cash and/or check stock on hand, auditors will need to document and test the effectiveness of the control activities in place.			
Completeness	Completeness	Completeness	Account completeness 2. FBWT balance exists but is omitted from the financial statements.	2a. FBWT balance should be included in the financial statements.	1. Same as 1.1a.1, 1.1a.2, 1.1a.3. 2. Agency staff reconciles the FBWT line item crosswalk that includes all G/L FBWT accounts to the Treasury Appropriation and Receipt Trial Balances.	N		FB-8 FB-9

Substantive Testing

921 C – Example Specific Control Evaluation for Fund Balance with Treasury

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	<p>SPECIFIC CONTROL EVALUATION</p> (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page 4 of 8
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
Valuation or allocation	Valuation	Valuation	<p>Accuracy</p> 3. FBWT receipt and disbursement transactions are recorded incorrectly.	3a. FBWT transactions should be recorded accurately.	1. Same as 1.1a.1. 2. Same as 1.1a.2. 3. Same as 1.1a.3.	N N		FB- 4 FB-5 & FB-6
Rights and obligations:	Rights	Rights	<p>Ownership</p> 4. Recorded FBWT is owned by others.	4a. Agency should own recorded FBWT.	1. Agency staff reconciles Treasury appropriation warrants, appropriation recissions, and nonexpenditure transfers to FBWT accounts. 2. Agency staff reconciles expenditure (cash receipts and disbursements) activity to the FBWT accounts.	N		FB-8 FB-4, FB-5, FB-6

Substantive Testing

921 C – Example Specific Control Evaluation for Fund Balance with Treasury

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	SPECIFIC CONTROL EVALUATION (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page <u>5</u> of <u>8</u>
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
			Rights 5. Agency does not have certain rights to recorded FBWT because of appropriation restrictions.	5a. Recorded FBWT should be agencies' rights at a given date.	1. Same as 4.4a.1.	N		FB-8

Substantive Testing

921 C – Example Specific Control Evaluation for Fund Balance with Treasury

Entity: Agency Date of Financial Statements: September 30, 20xx Accounting application: Fund Balance with Treasury	<p>SPECIFIC CONTROL EVALUATION</p> (Line Item/Account-Related) File: _____	Preparer: _____ Region: _____ Date: _____ Page 7 of 8
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Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
	Presentation	Presentation	<p>Consistency</p> 7. The financial statements components of FBWT are based on accounting principles different from those used in prior periods.	7a. FBWT should be based on accounting principles that are applied consistently from period to period.	1. The CFO, Reports and Analysis Branch Chief, and the Chief Accountant review the financial statements for consistently applied accounting principles.	N		FB-10
	Disclosure	Disclosure	<p>Disclosure</p> 8. Required information is not disclosed in the financial statements or in the footnotes thereto.	8a. The financial statements or footnotes thereto should contain all information required to be disclosed.	1. The CFO, Reports and Analysis Branch Chief, and the Chief Accountant review the financial statements for consistently applied accounting principles and required disclosure.	N		FB-10

Note 1: The internal control activities 1.1a.1 and 1.1b.1 generally rely on system outputs that are dependent on IS general controls, which may be ineffective at some agencies. (Tests of controls over agencies' general ledger systems should be included as part of computer control tests.) The control activity 1.1a.2 validates receipt and disbursement balances with Treasury records that are obtained from third parties (banks, Treasury regional finance centers, other agencies).

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Substantive Testing

921 D - EXAMPLE AUDIT PROCEDURES FOR FUND BALANCE WITH TREASURY

Entity _____

Period of financial statements _____

Job code _____

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
<p>I. Planning Phase</p> <p>FB-1</p> <p>A. To obtain an understanding of the agency's accounting and reporting requirements for Fund Balance with Treasury (FBWT) accounts, read the following documents:</p> <ul style="list-style-type: none"> • <i>Treasury Financial Manual</i>, Volume I, part 2, chapter 5100 - Reconciling Fund Balance with Treasury accounts, http://fms.treas.gov/fundbalance. • Current OMB bulletin, <i>Form and Content of Agency Financial Statements</i>. • Statements of Federal Financial Accounting Standards (SFFAS No. 1). • Agency accounting policies and procedures for the Fund Balance with Treasury Accounts. 		
<p>B. Read prior year documentation, financial statements, and related auditor's reports to determine if there were any audit issues/reportable conditions related to FBWT.</p>		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
<p>II. Internal Control Phase FB-2</p> <p>A. To obtain an understanding of the agency's internal controls over FBWT accounts, perform the following:</p> <ol style="list-style-type: none"> 1. Interview key agency staff about the FBWT procedures and controls in place at the agency. <ol style="list-style-type: none"> a. Determine what method the agency uses to disburse funds (FMS regional finance centers, on its own behalf, and/or both methods). b. Obtain an understanding of the significant accounting systems and controls used in reporting and accounting for FBWT transactions. c. Identify FBWT line item general ledger accounts. d. Obtain an understanding of the agency's FBWT reconciliation procedures. Ask <ul style="list-style-type: none"> • if and how the agency tracks differences between the agency's and Treasury FBWT records; • what suspense accounts, if any, are used by the agency to track unreconciled differences; • if the agency has a process/system for aging unreconciled differences; and • how the agency reports and handles differences. 		
<p>B. Walk through the FBWT reconciliation process and determine whether reconciliation controls have been placed in operation.</p>		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

<p align="center">FBWT Example Audit Procedures: Description of Procedure</p>	<p align="center">Done by/date</p>	<p align="center">W/P ref</p>
<p>III. Testing Phase FB-3</p> <p>A. To determine whether the agency's reconciliation of the monthly SF224, 1219/1220 or 1218/1221 Statement of Transactions/Accountability report submitted to Treasury, to the applicable general ledger (G/L) accounts is effective (existence):</p> <ol style="list-style-type: none"> 1. Obtain a list of the agency's Agency Location Codes (ALCs). Agency ALCs can be obtained through the GOALS. ALCs indicate the agency's method of disbursement. Four digit ALCs indicate a non-Treasury disbursing agency. Eight digit ALCs indicate a Treasury disbursing agency. 2. Obtain the monthly Statements of Transactions (SF 224) or Statements of Accountability/Transactions (SF 1219/1220 or 1218/1221) for each ALC for the fiscal year, or for the period being audited if testing at an interim date. 3. Select the individual Statements of Transactions (SF 224) or Statements of Accountability/Transactions (SF1219/1220 or 1218/1221) to be tested (use separate forms to document the sampling plan). Indicate selection method. <ul style="list-style-type: none"> • Dollar unit sampling (DUS), • Classical Variables Estimation Sampling, or • Other (describe)._____ <p>For each statement selected:</p> <ol style="list-style-type: none"> a. Compare the ALC on the SF 224 or SF 1219/1220 or 1218/1221 to the agency's list of ALCs. b. Trace monthly collection and disbursement amounts reported on the SF 224, SF 1219/1220 or SF1218/1221 to amounts recorded in the agency's official accounting records (G/L). c. Trace any prior period adjustment amounts reported on the SF 224, SF1219/1220 or SF1218/1221 to supporting documentation and the agency's G/L. d. Examine supporting documentation for any differences. 		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

<p align="center">FBWT Example Audit Procedures: Description of Procedure</p>	<p align="center">Done by/date</p>	<p align="center">W/P ref</p>
<p>B. Summarize the results of testing.</p>		
<p>C. Determine whether the results of testing indicate that combined risk should be assessed differently and whether the audit procedures should be revised.</p>		
<p>FB-4</p> <p>A. To determine whether the agency is properly reconciling collection and disbursement differences identified by Treasury (existence and completeness):</p> <ol style="list-style-type: none"> 1. Obtain the following Treasury reports for each ALC for each month of the fiscal year, or for the period being audited if testing at an interim date. <ul style="list-style-type: none"> • Final month-end Statements of Differences (FMS 6652). Note: To obtain the population of Statement of Differences, obtain the <u>initial</u> month-end Statements of Differences issued by Treasury. Treasury issues month-end Statements of Differences for each accounting month (when differences are identified) and continues to send statements for that month until the difference is cleared. To obtain the initial differences reports for the period being audited, obtain the reports that show the same accounting date and audit date on the statement, indicating that this is the initial statement of differences issued for that month. • Advice of Check Issued Discrepancy reports (FMS 5206). (Note: This step applies only for agencies that disburse their own funds – Non-Treasury Disbursing Offices (NTDO) agencies.) • Treasury letters notifying the agency of outstanding differences between amounts reported on the SF1219/1220 or SF1218/1221 and its check issued summary reports. (Note: This step applies only for NTDO agencies.) 		

Substantive Testing**921 D – Example Audit Procedures for Fund Balance with Treasury**

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
Select the individual statements/letters to be tested (use separate forms to document the sampling plan). Indicate selection method: <ul style="list-style-type: none">• Dollar unit sampling (DUS),• Classical variables estimation sampling, or• Other (describe).		
For each statement/letter selected: a. Compare the ALC number on the statement/report to the agency's list of ALCs.		
b. Examine the agency's reconciliation files/documentation supporting the reconciliation of the difference, and determine if differences were adequately researched and resolved.		
c. Trace resulting adjustments, if any, to subsequent month Treasury reporting (SF 224, 1219/1220, or 1218/1221) and/or the agency general ledger accounts to determine if adjustments were properly recorded. (Note: reconciling items do not always result in adjustments to the G/L and/or Treasury records. The resulting adjustment, if any, depends on the cause of the difference. For example, an adjustment to the agency's G/L is not necessary when a bank error caused the difference. The bank is responsible for reporting the adjustment to Treasury.)		
B. Summarize the results of testing and conclude on the effectiveness of the agency's reconciliation controls.		
C. Determine if the results of testing indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

<p align="center">FBWT Example Audit Procedures: Description of Procedure</p>	<p align="center">Done by/date</p>	<p align="center">W/P ref</p>
<p>FB-5</p> <p>A. To determine if the agency's monthly reconciliation of its G/L to Treasury records is effective (existence and completeness):</p> <p>1. For the months that correspond to the Statements of Differences selected above, obtain the Undisbursed Appropriation Account ledgers (FMS 6653) and Receipt Account ledgers (FMS 6655) sent by Treasury and the agency's reconciliation.</p> <ul style="list-style-type: none"> • Trace the FMS 6653/6655 balance per the agency reconciliation to the FMS 6653/6655 reports sent by Treasury. • Trace the G/L account balances per the reconciliation to the appropriate G/L accounts. • Trace account activity per the FMS 6653/6655 to the agency G/L. (Note: Typical activity, other than agency disbursements and receipts, may include supplemental appropriations, non-expenditure transfers, and entries reported by other agencies.) • Examine supporting documentation for reconciling items. • Determine if the appropriate adjustments were made to the general ledger or that Treasury had been notified of needed corrections. 		
<p>B. Summarize the results of testing and conclude on the effectiveness of the agency's reconciliation controls.</p>		
<p>C. Determine if the results of testing indicate that combined risk should be assessed differently and if the audit procedures should be revised.</p>		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
<p>FB-6</p> <p>A. To determine whether the agency's year-end (September) reconciliation of FBWT accounts is effective (existence and completeness):</p> <ol style="list-style-type: none"> 1. Obtain the Agency's year-end (September) FBWT reconciliation and Treasury's September Undistributed Appropriation Account Ledger (FMS 6653) and Receipt Account Ledger (FMS 6655). <ul style="list-style-type: none"> • Trace appropriation, fund, and receipt account balances reported on the Treasury account ledgers to the agency's reconciliation. • Trace the appropriation, fund, and receipt account balances reported on the Treasury account ledgers to the agency general ledger. • Examine supporting documentation for reconciling items. • Determine if appropriate adjustments were made to the G/L and/or reported to Treasury. 		
<ol style="list-style-type: none"> 2. Obtain the year-end (September) Statements of Differences reports issued by Treasury (FMS 6652, and/or FMS 5206 and Treasury notification letters). <ul style="list-style-type: none"> • Trace reported differences to the agency's reconciliation to determine if all differences were included in the FBWT reconciliation. • Examine supporting documentation and determine if differences were adequately resolved. • Trace resulting adjustments to supplemental Statements of Transactions/Accountability or subsequent month Treasury reporting (SF 224, 1219/1220, or 1218/1221) and/or the agency general ledger. 		
<ol style="list-style-type: none"> 3. Summarize the results of testing. 		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
<p>FB-7</p> <p>A. To determine the extent of unreconciled differences at year-end and the potential impact on the agency FBWT account balance:</p> <ol style="list-style-type: none"> 1. Determine if unresolved differences reported by Treasury on Statements of Differences as of September 30 for the fiscal year being audited were subsequently resolved and properly accounted for. <ul style="list-style-type: none"> • Obtain the Statements of Differences for the months subsequent to year-end (October through end of fieldwork). • Identify unreconciled differences outstanding at 9/30 that were subsequently resolved. • Determine if the differences were adequately researched and resolved. • Determine if the appropriate adjustments were made to the agency FBWT accounts or that Treasury had been notified of needed corrections. 		
<ol style="list-style-type: none"> 2. Determine the extent of unreconciled differences included in suspense accounts that are not included on Statements of Differences. <ul style="list-style-type: none"> • Obtain suspense account transaction detail report as of 9/30 for the year being audited. • Obtain suspense account transaction detail report for months subsequent to year-end (October through end of fieldwork). • Identify unreconciled differences outstanding at 9/30 that were subsequently resolved. • Determine if the differences were adequately researched and resolved. • Determine if the appropriate adjustments were made to the agency FBWT accounts or that Treasury had been notified of needed corrections. 		
<ol style="list-style-type: none"> 3. Assess the materiality of all unreconciled differences outstanding (at absolute value). 		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

<p align="center">FBWT Example Audit Procedures: Description of Procedure</p>	<p align="center">Done by/date</p>	<p align="center">W/P ref</p>
<p>4. Summarize test results.</p>		
<p>5. Document the potential effect of material unreconciled differences on the FBWT line item and other financial statement accounts.</p>		
<p>FB-8</p> <p>A. To determine if the agency recorded warrants, appropriation transfers, and rescissions properly, perform the following (rights and obligations):</p> <p>1. For first year appropriations, obtain copies of the appropriation legislation and U.S. Treasury Appropriation Warrants (FMS 6200) for the fiscal year.</p> <ul style="list-style-type: none"> • Compare the warrants to the appropriation legislation. • Trace amounts reported on the appropriation warrants to beginning appropriation balances recorded in the general ledger FBWT accounts. • Examine supporting documentation for any differences/reconciling items. 		
<p>2. For other than first year appropriations, trace the beginning balances recorded in the general ledger to <u>audited</u> ending balances of the prior fiscal year financial statements. (Note: If this is a first year audit, additional work may be necessary to substantiate the beginning FBWT account balance. For example, the auditor may need to consider if the reconciliation process has been effective over the life of the appropriations. This may require review of prior year reconciliations.)</p>		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
<p>3. For appropriation activity occurring during the fiscal year being audited (supplemental appropriations, rescissions, and nonexpenditure transfers), obtain copies of related legislation for supplemental appropriation and rescission warrants and U.S. Treasury Non-Expenditure Transfer Authorizations form (FMS 1151) for the fiscal year.</p> <ul style="list-style-type: none"> • Compare supplemental appropriations and rescissions recorded in the agencies' FBWT account to appropriation legislation and to U.S. Treasury warrants. • Compare non-expenditure transfer amounts recorded in the agencies' FBWT account to approved Non-Expenditure Transfer Authorizations form (FMS 1151). 		
<p>4. Examine supporting documentation for any differences/reconciling items.</p>		
<p>FB-9</p> <p>A. To determine the completeness and existence of the appropriation, fund, and receipt accounts included in the FBWT financial statement balance (existence, completeness, presentation and disclosure):</p> <p>1. Obtain the agency "crosswalk" of G/L accounts included in the FBWT line item and the September Treasury Undisbursed Appropriation Account Trial Balance and Receipt Account Trial Balance.</p> <ul style="list-style-type: none"> • Trace account balances listed on the Treasury trial balances to the agency crosswalk of G/L accounts included in the FBWT line item. • Determine the status of accounts (i.e., open, expired, canceled) and assess whether the account is appropriately included in the FBWT line item. • Obtain an explanation and determine the appropriateness of accounts omitted from or included in the crosswalk that were not included in the Treasury trial balance. 		

Substantive Testing

921 D – Example Audit Procedures for Fund Balance with Treasury

<p align="center">FBWT Example Audit Procedures: Description of Procedure</p>	<p align="center">Done by/date</p>	<p align="center">W/P ref</p>
<p>IV. Reporting Phase FB-10 A. To determine if the FBWT balance appears reasonable (analytical procedure): 1. Compare the G/L accounts that constitute the FBWT with expectations and obtain explanation for any unexpected changes (e.g., credit balances, new accounts, closed accounts) or the absence of expected changes.</p>		
<p>2. Determine if additional testing is necessary.</p>		
<p>B. To assess whether the presentation of the financial statements and footnote disclosures for the FBWT line item are in accordance with U.S. generally accepted accounting principles (SFFAS No. 1) (presentation and disclosure) (see GAO/PCIE FAM, Part II, section 1004-Financial Reporting: Checklist for Reports Prepared under the CFO Act): 1. Determine if the agency has presented and disclosed FBWT in the notes to the financial statements in accordance with generally accepted accounting principles.</p>		
<p>2. Determine if material unreconciled differences are disclosed and explained in the notes to the financial statements.</p>		
<p>3. Determine if material unreconciled differences that were written off by the agency during the fiscal year being audited are disclosed in the notes to the financial statements.</p>		
<p>4. Determine if material restrictions, if any, have been properly disclosed.</p>		
<p>FB-11 A. Prepare proposed audit adjustments, if any.</p>		
<p>B. Conclude if the FBWT line item is fairly stated and if the controls over FBWT are effective.</p>		

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