

# Memoranda 01-26 (Component-Level Audits)

July 10, 2001

**M-01-26**

## **MEMORANDUM FOR THE HEADS OF SELECTED EXECUTIVE DEPARTMENTS AND AGENCIES**

FROM: Sean O'Keefe  
Deputy Director

SUBJECT: Component-Level Audits

The Government Management Reform Act (GMRA) of 1994 requires the annual preparation and audit of agency-wide and Government-wide financial statements. Under GMRA, the Office of Management and Budget (OMB) may also require individual components of agencies to prepare component-level financial statements. These components are selected primarily based upon size and influence on the Government-wide financial statements. OMB currently requires about 20 component entities to be audited on an annual basis. (See OMB Bulletin 01-02, "Audit Requirements for Federal Financial Statements," Appendix B; a copy is attached.) Most other Federal agency components are audited only as part of the agency-wide and Government-wide financial statements.

The President's Management Agenda and Performance Plan are intended to improve financial management by developing performance criteria to gauge progress in the pursuit of the objectives and linking performance with results. Given that resources are limited, we want to be sure to encourage the dedication of the proper level of resources to achieve the intended outcome. Based on the Federal Government's experience in carrying out component-level audits, we believe that, if a component has a demonstrated track record of solid performance and responsible financial management, it is not necessary to require an audit for that component each and every year. On a trial basis, we will revise OMB Bulletin 01-02 to remove the requirement for a separate component audit for a period of one year. Of course, the component would be required to be audited, as are most other components in the Federal Government, as part of the agency-wide and Government-wide financial statements. This action would allow the agencies to redirect resources to address other critical management areas.

OMB will consider removing the component-level requirement for a one-year period if the agency head submits a request, based upon a sound business plan, that assures responsible financial management and does not jeopardize the completion of audit work necessary to support the audit of the agency-wide

financial statement. Such a plan, developed in consultation with the agency's Inspector General, must include the following conditions:

The component has received a clean, unqualified audit opinion on its financial statements for three consecutive years.

The last two agency-wide financial statement audits have been submitted timely.

The component is not on the General Accounting Office's (GAO) "High Risk" list for financial management-related matters.

The agency request must briefly describe a plan and remediation dates for each unresolved component-level material weakness identified in prior year audits.

The authority to request the removal of the component from OMB's required audit list rests with the agency head and cannot be delegated. To receive consideration for removal from the FY 2001 component audit requirement, requests should be received by OMB before July 31, 2001. If OMB approves the request, the agency component will be removed for one year, i.e., FY 2001.

During the coming year, OMB will conduct a further review of Bulletin 01-02 to determine whether more long-term removals from the component list would be appropriate, and under what circumstances, in order to assure accountability and performance as well as the efficient use of the agencies' scarce management resources.

Questions about this memorandum may be directed to Joseph L. Kull, Deputy Controller, at 202-395-3993. Requests for removal from the component-level audit requirement should be sent to the Office of Management and Budget, Office of Federal Financial Management, Room 6025, 725 17th Street, NW, Washington, DC 20503. A copy of each request also should be sent to the respective Resource Management Office at OMB.