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OFFICE OF MANAGEMENT AND BUDGET  
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TO THE HEADS, INSPECTORS GENERAL, AND CHIEF FINANCIAL OFFICERS OF  
EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit Requirements for Federal Financial Statements

- Purpose. This Bulletin, which includes an attachment and Appendices A-H, establishes minimum requirements for audits of Federal financial statements. The Bulletin is issued under the authority of the Budget and Accounting Act of 1921 (42 Stat. 20), as amended, and the Budget and Accounting Procedures Act of 1950 (64 Stat. 832), as amended. It implements the audit provisions of the Chief Financial Officers (CFO) Act of 1990 (Pub. L. No. 101-576), as amended, the Government Management Reform Act (GMRA) of 1994 (Pub. L. No. 103-356), and the Federal Financial Management Improvement Act of 1996 (Pub. L. No. 104-208, title VIII). The requirements of this Bulletin are set forth in the attachment.
- Applicability. The provisions of this Bulletin apply to audits of financial statements of executive departments, agencies, and government corporations (Appendices A, C, and D) and certain components of these agencies (Appendix B). Effective for fiscal year 2008, the provisions in Paragraphs 2.8, 6.11, and 7.13 of the Bulletin will no longer apply. Instead, OMB and agency officials with responsibility for performance management will develop a separate framework for independent verification and validation of performance data starting for fiscal year 2008.
- Rescissions. The provisions of this Bulletin supersede the provisions in OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*; OMB Memorandum M-07-12, *Guidance to OMB Bulletin No. 06-03, Audit Requirements for Federal Financial Statements, on Auditing Allocation Transfers*; and OMB Memorandum M-04-11, *Service Organization Audits*.
- Effective Date. The provisions of this Bulletin are effective immediately for audits of financial statements, unless stipulated otherwise. Audit reports shall be submitted to the agency head in sufficient time to enable the agency head to meet the deadline for submitting the audited financial statements no later than 45 days after the fiscal year-end.
- Inquiries. Further information concerning this Bulletin may be obtained from the Office of Management and Budget, Office of Federal Financial Management at 202-395-3993.
- Copies. Individual copies of this bulletin may be obtained from the OMB website at <http://www.whitehouse.gov/omb/financial/index.html>.

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Attachment

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**SUMMARY OF SIGNIFICANT CHANGES**

<b>SECTION TITLE</b>	<b>PARAGRAPH NUMBER(S)</b>	<b>CHANGES</b>
<b>Definitions</b>	<b>2.5 &amp; 2.8</b>	<ul style="list-style-type: none"> <li>• Clarified that “significant deficiencies” found under FISMA must also be reported as material weaknesses under FMFIA <u>and</u> (formerly <u>or</u>) as a lack of substantial compliance under FFMIA if related to financial management systems.</li> <li>• Clarified that internal controls should be designed with applicable laws, regulations, government-wide polices, and laws identified by OMB that are listed in Appendix E.</li> <li>• Indicated that “Reliability of Performance Reporting” will be excluded from the “Internal Control” definition <u>effective starting in fiscal year 2008</u>.</li> </ul>
<b>Communication</b>	<b>5.3-5.6 &amp; 5.7-5.11</b>	<ul style="list-style-type: none"> <li>• Added a section on Previously-Issued Financial Statements.</li> <li>• Added a section on Misstatements Affecting Previously-Issued Financial Statements.</li> </ul>
<b>Scope of the Audit</b>	<b>6.5, 6.11, &amp; 6.16</b>	<ul style="list-style-type: none"> <li>• Added a discussion to clarify auditors’ roles when auditing allocation transfers.</li> <li>• Indicated that the requirement for the auditor to obtain an understanding of the components of internal control relating to the existence and completeness assertions relevant to the performance measures included in the MD&amp;A and reporting thereupon if these internal controls have not been properly designed and placed in operation will be excluded from the scope of the audit <u>effective starting in fiscal year 2008</u>.</li> <li>• Updated Service Organizations section for improved alignment with AU § 324, <i>Service Organizations</i>.</li> </ul>

SECTION TITLE	PARAGRAPH NUMBER(S)	CHANGES
<b>Audit Report</b>	<b>7.7-7.8, 7.11, 7.13, 7.20, 7.21- 7.22, &amp; 7.26</b>	<ul style="list-style-type: none"> <li>• Expanded the requirements for reporting on restated financial statements.</li> <li>• Added a requirement for following AU § 552, <i>Reporting on Condensed Financial Statements and Selected Financial Data</i> when reporting on a “Highlights” or similar document.</li> <li>• Indicated that the requirement for the report to state that, with respect to the internal control objective relating to the performance measures included in the MD&amp;A, the auditor obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation will be excluded from the internal control report <u>effective starting in fiscal year 2008</u>.</li> <li>• Added further discussion, in a footnote, for reporting on when financial management systems substantially comply with FFMIA section 803(a) requirements.</li> <li>• Updated the Compliance with OMB Circular No. A-123, Appendix A section to reflect, among other things, management’s discretion in planning for and implementing their A-123, Appendix A program.</li> <li>• Added the Agency Financial Report (if applicable) and a footnote about OMB’s 2007 PAR Pilot, of which it is a part, as one of the entity’s documents that should include the audit report.</li> </ul>
<b>Legal Representation Letters and Management’s Schedules</b>	<b>9.6</b>	<ul style="list-style-type: none"> <li>• Changed the date from the end of fieldwork to the audit completion date for informing FMS, via email, of any subsequent changes in cases that arise after the final representation letter (Per SAS No. 103 changes for dating the audit report).</li> </ul>
<b>Audit of the Special-Purpose Financial Statements</b>	<b>13.33</b>	<ul style="list-style-type: none"> <li>• Added a requirement for OMB to contact those entities and their respective OIGs that meet certain criteria related to intragovernmental material differences so that Agreed-Upon Procedures can be developed with FMS for the third quarter of fiscal year 2007.</li> </ul>

SECTION TITLE	PARAGRAPH NUMBER(S)	CHANGES
<b>Appendix E</b>	NA	<ul style="list-style-type: none"> <li>Deleted the Federal Financial Management Improvement Act of 1996 (FFMIA), Pub. L. No. 104-208, title VIII because FFMIA is not a law directed at the fair presentation of the financial statements. This change clarified that auditors are required to test and report on an entity's compliance with FFMIA as indicated in Paragraphs 6.13 and 7.20.</li> </ul>
<b>Appendix H</b>	NA	<ul style="list-style-type: none"> <li>Added this Appendix as an illustrative example of the Agreed-Upon Procedures to be developed by FMS and those entities and their respective OIGs that meet certain criteria related to intragovernmental material differences.</li> </ul>

# AUDIT REQUIREMENTS FOR FEDERAL FINANCIAL STATEMENTS

## SECTION 1: BACKGROUND

1.1 The Government Management Reform Act (GMRA) of 1994 (Pub. L. No. 103-356) amended the requirements of the Chief Financial Officers (CFO) Act of 1990 (Pub. L. No. 101-576) by requiring, among other things, the annual preparation and audit of organization-wide financial statements of the 24 major executive departments and agencies (Appendix A). The GMRA also requires audited financial statements of components of executive departments and agencies designated by the Director of the Office of Management and Budget (OMB), which are identified in Appendix B.

1.2 The Accountability of Tax Dollars Act (ATDA) of 2002 (Pub. L. No. 107-289) (Appendix C) amended the CFO Act further to extend the requirements of the annual preparation and audit of organization-wide financial statements to the remainder of the executive agencies not already required to do so through another provision of Federal law.

1.3 The Government Corporation Control Act (59 Stat. 597, codified at 31 U.S.C. § 841-869) (Appendix D) requires, among other things, the annual preparation and audit of organization-wide financial statements of “mixed-ownership” and “wholly owned” Government corporations.

## SECTION 2: DEFINITIONS

For the purposes of this Bulletin, the following definitions apply:

2.1 **Annual Financial Statement** means the financial statement of a reporting entity as described in Section 3515 of Title 31 of the United States Code and OMB Circular No. A-136, *Financial Reporting Requirements*, as revised (A-136). The “Annual Financial Statement” will consist of:

- Management's Discussion and Analysis (part of RSI).
- Basic Statements. The basic statements<sup>1</sup> will include:
  - Balance Sheet.
  - Statement of Net Cost.
  - Statement of Changes in Net Position.
  - Statement of Budgetary Resources.
  - Statement of Custodial Activity, if applicable.
  - Statement of Social Insurance, if applicable.
  - Related Note Disclosures.
- Required Supplementary Stewardship Information (RSSI), if applicable.
- Required Supplementary Information (RSI).
- Other Accompanying Information, if applicable.

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<sup>1</sup> This list is included in the A-136, which prescribes the Basic Statements that will be prepared.

2.2 **Codification of Statements on Auditing Standards** is a codification of Statements on Auditing Standards (AU) issued by the American Institute of Certified Public Accountants (AICPA). The AICPA's standards of field work and reporting and related Statements on Auditing Standards are incorporated in U.S. Government Auditing Standards unless specifically excluded or modified by generally accepted government auditing standards (GAGAS).

2.3 **Federal Financial Management Improvement Act of 1996 (FFMIA) (Pub. L. No. 104-208, title VIII) section 803(a) requirements** are Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. The 24 major CFO Act agencies are required to establish and maintain financial management systems that comply substantially with these requirements. Agencies subject to the ATDA and Government Corporation Control Act are not subject to the requirements of FFMIA, with the exception of a government corporation that is also a component of a CFO Act agency. Those government corporations are subject to FFMIA similar to all other components of the CFO Act agencies. The government corporations, however, are not required to report separately on compliance with FFMIA in their management reports.

2.4 **Federal Managers' Financial Integrity Act (FMFIA) (Pub. L. No. 97-255, codified at 31 U.S.C. § 3512)** requires Executive Branch agencies to establish and maintain effective internal control. The heads of agencies must annually evaluate and report on the effectiveness of the internal control (Section 2) and financial management systems (Section 4) that protect the integrity of Federal programs.

2.5 **Federal Information Security Management Act (FISMA) (Pub. L. No. 107-296, as amended by Pub. L. No. 108-177)** requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The heads of agencies and Offices of Inspectors General are required to annually report on the effectiveness of the agencies' security programs. "Significant deficiencies" found under FISMA must also be reported as material weaknesses under FMFIA and as a lack of substantial compliance under FFMIA if related to financial management systems.

2.6 **Generally Accepted Accounting Principles (GAAP)** for Federal government entities are identified in Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, Amendment to SAS 69, *The Meaning of Present Fairly In Conformity With Generally Accepted Accounting Principles*, which is codified in AU § 411 of the AICPA's Codification of Statements on Auditing Standards. Federal financial statements will be prepared in accordance with A-136. The requirements of A-136 are generally accepted accounting principles because they constitute "practices that are widely recognized and prevalent in the federal government" under category (D) of the *Federal GAAP Hierarchy*.

2.7 **Independent Auditor** means an auditor who meets the independence standards specified in the U.S. Government Auditing Standards. An independent auditor may include an agency's Office of Inspector General (OIG) and/or an independent public accountant (IPA).

2.8 **Internal Control** as it relates to the Basic Statements is a process, affected by the agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Basic Statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with applicable laws, regulations, and government-wide policies - transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB in Appendix E of this Bulletin, and other laws and regulations that could have a *direct and material effect on the Basic Statements*.
- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. *Effective starting in fiscal year 2008*, this definition will be excluded from the Internal Control definition.

2.9 **Management Letter** means a letter prepared by the auditor which discusses findings and recommendations for improvements in internal control, which were identified during the audit and were not required to be included in the auditors' report on internal control, and other management issues.

2.10 **Management's Discussion and Analysis (MD&A)** is a clear and concise description of the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems.<sup>2</sup> The MD&A is included in each annual financial statement as required supplementary information. The A-136 provides additional guidance on the composition of the MD&A.

2.11 **Material Weakness** is a significant deficiency, or combination of significant deficiencies, that result in a more than remote<sup>3</sup> likelihood that a material misstatement of the financial statements will not be prevented or detected. This material weakness definition aligns with the same material weakness definition used by management to prepare an agency's FMFIA assurance statement.

2.12 **Reporting Entity** means one of the executive departments, agencies, government corporations and components of such departments and agencies listed in Appendices A–D, or an

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<sup>2</sup> Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*

<sup>3</sup> The term "remote" is defined in SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as the chance of the future event or events, occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.



agency, bureau, or other organization that represents a meaningful unit for program management, for which a financial statement is prepared, and for which management chose to have an audit performed in accordance with this Bulletin.

2.13 **Significant Deficiency**<sup>4</sup> is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote<sup>5</sup> likelihood that a misstatement of the entity's financial statements that is more than inconsequential<sup>6</sup> will not be prevented or detected. The term "significant deficiency" replaces the former term "reportable condition." This "significant deficiency" definition aligns with the "reportable condition" definition used by management to prepare an agency's FMFIA assurance statement.

2.14 **U.S. Government Auditing Standards (also referred to as generally accepted government auditing standards or GAGAS)** are those standards issued by the Comptroller General of the United States.

2.15 **Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual (GAO/PCIE FAM)** provides methodology and guidance for performing audits of federal financial statements in compliance with relevant auditing and attestation standards and OMB guidance. References to the FAM do not establish requirements for auditors.

2.16 **U.S. Standard General Ledger (USSGL)** means the uniform chart of accounts prescribed by the Department of the Treasury in its *Treasury Financial Manual* (TFM) (<http://www.fms.treas.gov/ussgl/>).

### **SECTION 3: FREQUENCY OF AUDIT**

Audits will be performed annually.

### **SECTION 4: RESPONSIBILITY FOR AUDIT**

For purposes of this Bulletin, the following responsibilities apply:

4.1 For the 24 major CFO Act executive departments and agencies and selected components of such departments and agencies listed in Appendices A and B, the audits

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<sup>4</sup> The revision to the definition of significant deficiency, and related effective date, is consistent with the SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*.

<sup>5</sup> The term "remote" is defined in footnote 3.

<sup>6</sup> A misstatement is inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would clearly be immaterial to the financial statements. If a reasonable person would not reach such a conclusion regarding a particular misstatement, that misstatement is more than inconsequential. (SAS No. 112)

of financial statements will be performed by the OIG of the executive department or agency or by an IPA as determined by the OIG.

4.2 For the executive branch entities subject to the ATDA and Government Corporation Control Act, the audits of financial statements will also be performed by the OIG of the executive entity or by an IPA as determined by the OIG. If the entity does not have an OIG, the financial statement audit will be performed by an IPA as determined by management.

4.3 The CFO Act of 1990, as amended, provides that, in lieu of an audit otherwise required, the Comptroller General of the United States may, at his or her discretion and following consultation with the OIG, perform the audit of the CFO Act executive departments and agencies and Government Corporation Control Act and ATDA entities.

## **SECTION 5: COMMUNICATION**

5.1 There will be open, timely, and frequent communication between the entity's management, including the CFO, and the OIG (and the audit firm, if the audit is contracted) throughout the audit process. The purpose of this communication is to ensure that all parties are kept up-to-date on the progress and results of the audit and to alleviate unexpected issues that may occur at the end of the audit. Matters that should be communicated include, but are not limited to, the following:

- The audit timetable and changes thereto,
- Issues or problems arising in the conduct of the audit, including the inability or difficulty in gaining access to records or inadequate cooperation of entity personnel, and
- Potential audit findings as they are developed, including indications of material misstatements or unsupported amounts in the financial statements, significant deficiencies and material weaknesses in internal control, and non-compliances with laws and regulations.

5.2 Auditors must bring misstatements to management's attention, present proposed adjustments to management, and require that management's representation letter address the unadjusted misstatements. (See Paragraph 8.7 for a discussion of a summary of unadjusted misstatements to be attached to management's representation letter and see Paragraph 8.4 for management's materiality threshold used for reporting items in the management representation letter). Auditors are encouraged to use GAO/PCIE FAM Section 540, *Evaluate Misstatements*, and subsequent revisions, for reviewing misstatements with management.

### **Misstatements in Previously-Issued Financial Statements**

5.3 The nature or amount of known or likely material misstatement(s) in previously-issued audited financial statement(s) may lead the auditor to believe that the auditor's report would or could reasonably have been affected if the auditor had known of the misstatement(s) when the auditor issued the auditor's report. When this condition exists, the auditor will advise

management to communicate the following information to those charged with governance,<sup>7</sup> oversight bodies, funding agencies, and others who are relying or are likely to rely on the financial statement(s):

- The nature and cause(s) of the known or likely material misstatement(s),
- The amount(s) of known or likely material misstatement(s) and the related effect(s) on the previously-issued financial statement(s) (e.g., disclosure of the specific financial statement(s) and line item(s) affected). If this information is unknown, then the disclosure includes information that is known and a statement that management cannot determine the amount(s) and the related effect(s) on the previously-issued financial statement(s) without further investigation, and
- A notice that (1) a previously-issued financial statement(s) will or may be restated and, therefore, (2) our auditors have advised us that the related auditor's report is no longer reliable.

Management's communication and disclosure should be in writing and made to the (1) Congress, OMB, Treasury, and GAO; (2) public on the Internet pages where the agency's previously-issued financial statements that were affected by the material misstatement(s) or likely material misstatement(s) are published; and (3) OMB in the agency's next quarterly financial statements and in subsequent quarterly financial statements until the specific amount(s) of the material misstatement(s) and the related effect(s) of such on the previously-issued financial statement(s) are known and reported.

5.4 The auditor will evaluate the adequacy of management's disclosure about the known or likely material misstatement(s) to report users, including those charged with governance, oversight bodies, and funding agencies. When performing this evaluation, the auditor will consider whether (1) management acted timely to determine the financial statement effects of the likely material misstatement(s); (2) management acted timely to communicate with appropriate parties; and (3) management disclosed the nature and extent of the known or likely material misstatement(s) on Internet pages where the agency's previously-issued financial statements are published.

5.5 The auditor will notify those charged with governance if the auditor believes that management is unduly delaying its determination of the effect(s) of the misstatement(s) on a previously-issued financial statement(s).

5.6 The auditor will evaluate the timeliness and appropriateness of management's decision whether to issue restated financial statement(s). Management may separately issue the restated financial statement(s) or may present the restated financial statement(s) on a comparative basis with those of a subsequent period. Ordinarily, the auditor would expect management to issue restated financial statement(s) as soon as practicable. However, it may not be necessary for

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<sup>7</sup> Governance is defined by Government Auditing Standards as those responsible for overseeing the entity's strategic direction and the fulfillment of its obligations related to the entity's accountability.

management to separately issue the restated financial statement(s) and the auditor's report when issuance of the subsequent period audited financial statements is imminent.<sup>8</sup>

### **Misstatements Affecting Previously-Issued Financial Statements**

5.7 If the auditor becomes aware of a material misstatement(s) or likely misstatement(s) affecting a previously-issued financial statement(s), then the auditor will advise the agency's management to determine the specific amount(s) of the material misstatement(s) or likely material misstatement(s) and the related effect(s) of such on the previously-issued financial statement(s) as soon as reasonably possible.

5.8 If the specific amount(s) of the material misstatement(s) and the related effect(s) of such on a previously issued financial statement(s) are known and the issuance of the subsequent period audited financial statements is not imminent, then the auditor will advise the agency's management promptly to:

- Issue revised fiscal year financial statements before issuing the current fiscal year's financial statements;
- Communicate the issuance of the revised financial statements to those charged with governance, oversight bodies, funding agencies, and others who are relying or are likely to rely on the financial statement(s). This includes communication (1) in writing to the Congress, OMB, Treasury, and GAO and (2) to the public on the Internet pages where the agency's previously issued financial statements that were affected by the material misstatement(s) are published; and
- Disclose the following information, at a minimum, in the agency's restatement note: (1) the nature and cause(s) of the misstatement(s) that led to the need for restatement, and (2) the specific amount(s) of the material misstatement(s) and the related effect(s) on the previously-issued financial statement(s) (e.g., year(s) being restated, specific financial statement(s) affected and line items restated, actions the agency's management took after discovering the misstatement), and the impact on the financial statements as a whole (e.g., change in overall net position, change in the audit opinion).

5.9 If the specific amount(s) of the material misstatement(s) and the related effect(s) of such on a previously-issued financial statement(s) are known and issuance of the subsequent period audited financial statements is imminent, then the auditor will disclose restatements in the auditor's report as listed in Paragraph 7.8 and advise agency's management to:

- Issue restated financial statement(s) as part of the current year's comparative financial statements;

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<sup>8</sup> For purposes of this guidance, imminent means within 90 days of determining the effect of the misstatement(s) on the previously issued financial statements.

- Communicate the restatement to those charged with governance, oversight bodies, funding agencies, and others who are relying or are likely to rely on the financial statement(s). This includes communication (a) in writing to the Congress, OMB, Treasury, and GAO and (b) to the public on the Internet pages where the agency's previously-issued financial statements that were affected by the material misstatement(s) are published; and
- Disclose the following information, at a minimum, in the agency's restatement note: (1) the nature and cause(s) of the misstatement(s) that led to the need for restatement and (2) the specific amount(s) of the material misstatement(s) and the related effect(s) on the previously-issued financial statement(s) (e.g., year(s) being restated, specific financial statement(s) affected and line items restated, actions the agency's management took after discovering the misstatement), and the impact on the financial statements as a whole (e.g., change in overall net position, change in the audit opinion).

5.10 If the specific amount(s) of the misstatement(s) and the related effect(s) of such on a previously-issued financial statement(s) remain unknown when the current year's financial statements are issued, then the auditor will follow Paragraph 7.7 when issuing the auditor's report and advise the agency's management as required in Paragraph 5.2.

5.11 The auditor will notify those charged with governance, oversight bodies, and funding agencies when management (1) does not take the necessary steps to promptly inform report users of the situation or (2) does not restate with appropriate timeliness the financial statements in circumstances when the auditor believes they need to be restated. The auditor will inform these parties that the auditor will take steps to prevent future reliance on the auditor's report. The steps taken will depend on the facts and circumstances, including legal considerations. This includes communication in writing to the Congress, OMB, Treasury, and GAO as well as any other users known to rely on the previously-issued financial statement(s).

## **SECTION 6: SCOPE OF THE AUDIT**

6.1 Financial statements will be audited in accordance with U.S. Government Auditing Standards and the provisions of this Bulletin.

6.2 The auditor will determine whether the Basic Statements and related notes present fairly, in all material respects, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and, if applicable, custodial activity and social insurance in conformity with the accounting principles generally accepted in the United States.

6.3 If consolidating statements are presented, the auditor will consider the consolidating statements supplemental information and report in accordance with Section 7, unless the auditor's objective is to express an opinion on the consolidating statements.

6.4 If the auditor is unable to determine whether the Basic Statements are fairly presented

because, for example, of the auditor's inability to obtain sufficient competent evidential matter due to inadequate accounting records, the auditor will, to the extent practical, obtain sufficient evidence about closing balances to enable the auditor to opine on the subsequent year's financial statements.

6.5 When auditing allocation transfers<sup>9</sup> from a Federal entity (referred to as the parent) to another agency or department (referred to as the child), the parent's auditor (whether the Office of Inspector General or a contractor) is responsible for ensuring that the child's information receives the audit coverage that, in the auditor's professional judgment, is required as part of the parent's annual financial statement audit (i.e., the amount should be subject to the same annual financial statement auditing procedures and materiality considerations as all other funding sources). As such, the two agencies and/or departments may need to coordinate to ensure that the parent auditor's needs, as they relate to the allocation transfer, are met. Such coordination should take place during the *early* planning phase of the annual financial statement audit.

6.6 The auditor will perform the procedures described in AU § 558, *Required Supplementary Information*, for the following:

- Required Supplementary Information (i.e., Management's Discussion and Analysis, Deferred Maintenance, Stewardship Land, and Heritage Assets)
- Required Supplementary Stewardship Information (i.e., Stewardship investments: non-Federal physical property (such as highways), human capital (expenditures for training and education), and research and development).

6.7 The auditor will assess whether the other accompanying information, or its manner of presentation, is materially consistent with the information in the Basic Statements.

6.8 With respect to the internal control objectives (See Paragraph 2.8, definition of internal control.) relating to the Basic Statements, the auditor will obtain an understanding of the components of internal control (See AU § 319.) and assess the level of control risk relevant to the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements. Such controls include relevant information technology (IT) general and application controls and controls relating to intra-entity and intra-governmental transactions and balances. For those internal controls that have been properly designed and placed in operation, the auditor will perform sufficient tests to support a low level of assessed control risk. Those internal controls that have not been properly designed or placed in operation and those internal controls that are found to be ineffective will be reported in accordance with Section 7 of this Bulletin.

6.9 In obtaining an understanding of the components of internal control, particularly the risk

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<sup>9</sup> Effective for FY 2007, the A-136 changed the financial reporting requirements for transferring, or "allocating," budget authority from one entity to another within or to another Federal department (i.e., parent/child reporting). According to the A-136, the department (i.e., parent) that transfers budget authority to another Federal entity (i.e., child) must report all budgetary and proprietary activity in its financial statements, whether material to the parent or not.

assessment component, and assessing control risk, the auditor will obtain an understanding of the process by which the agency identifies and evaluates weaknesses required to be reported under FMFIA and related agency implementing procedures.

6.10 The auditor will compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements of the entity under audit and document material weaknesses disclosed by audit that were not reported in the agency's FMFIA report. The auditor should consider whether the failure to detect and report material weaknesses constitutes a significant deficiency or material weakness in the entity's internal control.

6.11 With respect to the internal control objective relating to performance measures, the auditor will obtain an understanding of the components of internal control relating to the existence and completeness assertions relevant to the performance measures included in the MD&A. Those internal controls that have not been properly designed and placed in operation will be reported in accordance with Section 7 of this Bulletin. The objective of gaining an understanding of internal control in this subparagraph is to report deficiencies in the design of internal control, rather than to plan the financial statement audit or to audit the performance measures and results. As a result, the auditor's understanding of internal controls in this area is more limited in nature than the auditor's understanding of internal controls over financial reporting. Management has a responsibility for assessing the completeness and reliability of the performance data. (See Section 230 of OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* for additional information on management's responsibility.) *Effective starting in fiscal year 2008*, this requirement will be excluded from this section of the Bulletin.

6.12 With respect to compliance with applicable laws and regulations, the auditor will perform tests of compliance with laws and regulations, including laws governing the use of budget authority, laws, regulations, and government-wide policies identified by OMB in Appendix E of this Bulletin, or any other laws and regulations that could have a direct and material effect on the Basic Statements.

6.13 The auditor will perform tests of the entity's compliance with FFMIA, section 803(a) requirements. This provision only applies to entities listed in Appendix A. Agencies subject to the ATDA and Government Corporation Control Act are not subject to the requirements of FFMIA, with the exception of government corporations that are also components of one of the 24 major CFO Act agencies. Those government corporations are subject to FFMIA similar to all other components of the CFO Act agencies, including components listed in Appendix B. The government corporations, however, are not required to report separately on compliance with FFMIA in its management reports.

6.14 The auditor will obtain written representation from management as part of an audit conducted in accordance with this Bulletin. (See AU § 333, *Management Representations*.) In addition to the standard representations included in AU § 333, additional representations are required that are unique to the Federal Government. The additional representations are provided in Section 8 of this Bulletin.

## **Service Organizations**

6.15 A service organization is an entity or component of an entity that provides services to a user organization in which those services are part of the user organization's information system (e.g., processing of transactions). A user organization is an entity or component of an entity whose financial statements are being audited and has engaged a service organization.

6.16 With respect to obtaining assurance on the internal control of a service organization, the auditor of the user organization will utilize, as necessary, the service organization's auditors' report<sup>10</sup> on the services provided to the user organization. Service organizations *must* either provide its user organizations with an audit report on whether (1) internal controls were designed properly to achieve specified objectives and placed into operation as of a specified date and (2) the controls that were tested were operating effectively to provide reasonable assurance that the related control objectives were met during the period specified or allow user auditors to perform appropriate tests of controls at the service organization. (See AU § 324, *Service Organizations*.)

6.17 If the service organization uses another service organization (subservicer), the service organization is responsible for requesting or obtaining appropriate audit coverage.<sup>11</sup>

6.18 Such audit reports should be submitted to user organizations within a reasonable time *but no later than September 30* to allow the auditor of the user organization to use the audit report during the audit of the user organization's financial statements.

## **SECTION 7: AUDIT REPORT**

7.1 An audit report,<sup>12</sup> or separate audit reports, on the Basic Statements, internal control, and compliance with applicable laws and regulations will be prepared at the completion of the audit. The audit report(s) will be submitted to the agency head in sufficient time to enable the agency head to meet the due date for submitting the audited financial statement which is no later than 45 days after the fiscal year end. The audit results will be discussed with management as soon as practical but, in any case, prior to issuance of the audit report.

7.2 The audit report(s) will state that the audit was performed in accordance with U.S. Government Auditing Standards and the provisions of this Bulletin.

### **Audit Report**

7.3 The audit report(s) will include either an opinion as to whether the reporting entity's Basic Statements are fairly presented in all material respects in conformity with the accounting principles generally accepted in the United States of America, or a disclaimer of opinion. (See AU § 508.)

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<sup>10</sup> These reports are also referred as SAS 70 reports.

<sup>11</sup> For additional guidance in this area, please see the AICPA audit guide for "Service Organizations: Applying SAS No. 70, as amended."

<sup>12</sup> An illustrative auditor's report can be found in the GAO/PCIE FAM Section 500, *Reporting*, and subsequent revisions.



7.4 If the Basic Statements are materially affected by a departure from generally accepted accounting principles, the auditor will issue a qualified or adverse opinion and include an explanatory paragraph that describes the material departure(s) from those standards and, if practical, the effects of the departure(s) on assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and, if applicable, custodial activity and social insurance. If the effects of the departure(s) are disclosed in a note to the Basic Statements, the explanatory paragraph may be shortened by referring to it.

7.5 If the auditor disclaims an opinion, the report will describe why the auditor was unable to conduct the audit in accordance with U.S. Government Auditing Standards and this Bulletin. If material weaknesses and significant deficiencies prevented the conduct of the audit in accordance with U.S. Government Auditing Standards and this Bulletin, such conditions will be included in the report on internal control along with recommendations for correcting the condition(s).

7.6 When there is a change in accounting principles, for example, changes to comply with SFFASs, the auditors' report on the Basic Statements will include an explanatory paragraph identifying the nature of the change and referring the reader to the note to the Basic Statements that discusses the change in detail.

### **Reporting on Restatement of Previously-Issued Financial Statements**

7.7 If at the time of issuance of the auditor's report a material misstatement(s) or likely material misstatement(s) has been identified in any of the previously-issued financial statements and the specific amount(s) of the misstatement(s) and the related effect(s) of such are unknown, then the auditor will update the auditor's report on the previously-issued financial statement(s) as appropriate. Furthermore, the auditor's report will disclose, at a minimum, the following:

- A statement disclosing that a material misstatement(s) or potential material misstatement(s) affects a previously-issued financial statement(s) but the specific amount(s) of the misstatement(s) and the related effect(s) of such are unknown;
- A reference to the note(s) to the financial statements that discusses the restatement or potential restatement;
- A description of the following, if not already provided in the agency's note(s) to the financial statements: (1) the nature and cause(s) of the misstatement(s) or likely misstatement(s), and (2) an estimate of the magnitude of the misstatement(s) or potential misstatement(s) and the related effect(s) of such on a previously-issued financial statement(s) (e.g., disclosure of the specific financial statement(s) and line items affected) that are known and a statement that the specific amount(s) and the related effect(s) of such cannot be determined without further investigation; and
- A statement disclosing that a restatement(s) to a previously-issued financial

statement(s) will or may occur.

### **Reporting on Restated Financial Statements**

7.8 When management restates a previously-issued financial statement(s),<sup>13</sup> the auditor will perform audit procedures sufficient to reissue or update the auditor's report on the restated financial statement(s). The auditor will fulfill these responsibilities whether the restated financial statement(s) are separately issued or presented on a comparative basis with those of a subsequent period. The auditor will include the following information in an explanatory paragraph in the reissued or updated auditor's report on the restated financial statement(s):

- A statement disclosing that a previously-issued financial statement(s) has been restated;
- A statement that the previously-issued financial statement(s) was materially misstated and that the previously-issued auditor's report (including report date) is withdrawn and replaced by the auditor's report on the restated financial statement(s);
- A reference to the note(s) to the restated financial statement(s) that discusses the restatement;
- A description of the following if not already provided in the note(s) to the financial statement(s): (1) the nature and cause(s) of the misstatement(s) that led to the need for restatement and (2) the specific amount(s) of the material misstatement(s) and the related effect(s) on the previously-issued financial statement(s) (e.g., year(s) being restated and the specific financial statement(s) affected and line items restated) and the impact on the financial statements as a whole (e.g., change in overall net position, change in the audit opinion); and
- If applicable, a reference to the report on internal control containing a discussion of any significant internal control deficiency identified by the auditor as having failed to prevent or detect the misstatement and what action management has taken to address the deficiency.

### **MD&A, RSSI, RSI, Other Accompanying Information, and Highlights**

7.9 When reporting on MD&A, required supplementary stewardship information, and required supplementary information, the auditor will follow AU § 558, *Required Supplementary Information*.

7.10 When reporting on other accompanying information, the auditor will follow AU § 551.

7.11 When reporting on a "Highlights" or similar document, the auditor will follow AU § 552,

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<sup>13</sup> SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, instructs agencies on when to issue a restatement.

**Report on Internal Control**

7.12 A report on internal control will at a minimum,<sup>14</sup> state that, with respect to internal control over financial reporting, the auditor obtained an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of the reporting entity's internal controls.

7.13 The report shall state that, with respect to the internal control objective relating to the performance measures included in the MD&A, the auditor obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation. *Effective starting in fiscal year 2008*, this requirement will be excluded for the report on internal control.

7.14 The report will state that either the objective (1) was not to provide an opinion on internal control and therefore does not express such an opinion or (2) was to provide an opinion on internal control<sup>15</sup> and reference the separate audit report, if one will be issued separately instead of in conjunction with the audit of the financial statements.

7.15 The report will describe significant deficiencies and material weaknesses identified during the audit.

7.16 The report will identify those material weaknesses disclosed by the audit that were not reported as material weaknesses in the reporting entity's FMFIA report.

**Report on Compliance with Applicable Laws and Regulations**

7.17 A report on the reporting entity's compliance with applicable laws, regulations, and government-wide policy requirements include noncompliance with laws and regulations disclosed by audit, except for those instances of noncompliance that, in the auditor's judgment, are clearly inconsequential. In meeting this requirement, the auditor will list those laws and regulations that tests disclosed reportable instances of noncompliance.

7.18 With respect to laws and regulations tested for which the audit disclosed no reportable instances of noncompliance, the report will state that the audit disclosed no reportable instances of noncompliance with these laws and regulations. A listing of these laws and regulations is not required.

7.19 The report will state either the objective (1) was not to provide an opinion on compliance with applicable laws and regulations and therefore does not express such an opinion, or (2) was

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<sup>14</sup> An opinion on internal control over financial reporting can be rendered if desired or mandated by statute. An opinion can be issued either in accordance with the AICPA Statements of Standards for Attestation Engagements, AT 501, Codification of Statements on Auditing Standards, or in accordance with Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements*, promulgated by the Public Company Accounting Oversight Board.

<sup>15</sup> Ibid.

to provide an opinion on compliance and reference the separate audit report.

## Compliance with FFMIA

7.20 Section 803(b) of FFMIA requires the auditor to report whether the reporting entity's financial management systems substantially comply<sup>16</sup> with FFMIA section 803(a) requirements.<sup>17</sup> Auditors are reminded that "significant deficiencies" found under FISMA must also be reported as material weaknesses under FFMIA and as a lack of substantial compliance under FFMIA if related to financial management systems. (See Paragraph 2.5 of this Bulletin.)

To meet the requirement, for each of the three FFMIA section 803(a) requirements, the audit report will reflect instances in which the reporting entity's systems did not substantially comply with the requirement, or state that the audit disclosed no instances in which the reporting entity's systems did not substantially comply. If the audit disclosed no instances of substantial noncompliance with any of the three FFMIA section 803(a) requirements, a single statement to this effect is sufficient. Where tests disclosed that the reporting entity's systems did not substantially comply with one or more of the three requirements, the auditors' report on compliance, (or an accompanying schedule that is referenced in the compliance report) should group findings together based on the requirement they relate to (i.e., Federal financial management systems requirements, applicable Federal accounting standards, or the USSGL), as required by FFMIA:

- Identify the entity or organization responsible for the financial management systems that were found not to comply with the requirements.
- Include all facts pertaining to the noncompliance, including the nature and extent of the noncompliance, the primary reason or cause of the noncompliance, and any relevant comments from reporting entity management or employees responsible for the noncompliance.
- Provide recommended remedial actions.

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<sup>16</sup> Additional guidance on compliance with Section 803(b) of FFMIA can be found on the OMB website, [http://www.whitehouse.gov/omb/financial/ffmia\\_implementation\\_guidance.pdf](http://www.whitehouse.gov/omb/financial/ffmia_implementation_guidance.pdf). All of the financial management system requirements referenced in Section 7 of OMB Circular No. A-127, *Financial Management Systems* are important, but not essential to substantially comply with the three FFMIA Section 803(a) requirements. The Act is intended to ensure that agencies use financial management systems that provide reliable, timely, and consistent information. Agencies that can: 1) prepare financial statements and other required financial budget reports using information generated by the financial management system(s); 2) provide reliable and timely financial information for managing current operations; 3) account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and do all three in a way that is consistent with Federal GAAP and the USSGL are substantially compliant with FFMIA.

<sup>17</sup> Agencies subject to the ATDA and Government Corporation Control Act are not subject to the requirements of FFMIA, with the exception of government corporations that are also components of one of the 24 major CFO Act agencies. Those specific government corporations are subject to FFMIA similar to all other components of the CFO Act agencies. The government corporations; however, are not required to report separately on compliance with FFMIA in their management reports, if applicable.

## Compliance with OMB Circular No. A-123, Appendix A

7.21 The OMB Circular No. A-123, *Management's Responsibility for Internal Control* (A-123) implements the requirements of FMFIA. The A-123 contains Appendix A<sup>18</sup> which provides an assessment process that management should implement in order to properly evaluate and improve internal controls over financial reporting. The assessment process should provide management with the information needed to properly support a separate assertion as to the effectiveness of the internal controls over financial reporting, as a subset of the overall FMFIA report.

7.22 Auditors may elect, but are not required to report separately on agencies' compliance with the A-123, Appendix A. If auditors report separately on agencies' compliance with the A-123, Appendix A, auditors should consider whether:

- Management established an organizational structure to effectively implement, direct, and oversee the assessment process. The A-123 suggests a Senior Management Council and a Senior Assessment Team or equivalent structures. The oversight of the assessment process may also be incorporated into existing offices or functions within the organization that currently monitor the effectiveness of the organization's internal control.
- Management evaluated controls at the entity level and considered the components of internal control as defined in the A-123 and GAO's *Standards for Internal Control in the Federal Government* ([www.gao.gov](http://www.gao.gov)).
- Management established an approach to determine the scope of the assessment. The scope of the assessment includes identifying significant financial reports and key processes/controls/transactions. Management has discretion in determining both the breadth and depth of the scope of financial reporting. The breadth of financial reporting encompasses the specific financial reports included within the scope of the assessment and should include at least the annual and quarterly entity-wide financial reports. The depth of financial reporting are the boundaries of where the financial reporting process meets the operating processes on an entity-wide basis as well as the extent of coverage at the component unit and multiple locations.
- Management evaluated and documented the processes and controls as required by the A-123, Appendix A.
- Management documented its decisions on determining the scope, materiality, testing methodology, and other significant decisions related to this assessment. Management also documented its decisions for what, when, where and how to test the controls, and documented the tests and results. Management can and should use discretion when developing the testing approach that is required to support its statement of assurance. The management assurance required by the agency head should be directly related to the

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<sup>18</sup> The requirements of Appendix A are applicable to the 24 CFO Act agencies.

amount of test work performed, as determined by scope, risk, and materiality determinations made by management.

- Management used the results of its testing, and considered information gathered during the financial statement audit, to support its conclusion whether internal controls over financial reporting were properly designed and operating effectively.
- Management's assurance statement describes any scope limitation, and is consistent with the evidence gathered during the testing process, including information gathered during the financial statement audit.
- Management has plans in place and a process to continue assessing controls in accordance with the A-123, Appendix A.
- Management has a process in place to monitor implementation of corrective actions to resolve deficiencies in internal controls, including material weaknesses.

Auditors should understand that Management has discretion in planning for and implementing their A-123, Appendix A program. Consequently, a determination of non-compliance should be made if management's A-123 implementation was poorly designed and executed.

7.23 Auditors should also consider that certain agencies elected to complete the A-123, Appendix A assessment over multiple years, which is also permissible under the A-123. For those agencies the following was required:

- Submission of a plan that: (i) states why the agency requires more than one year to execute its plan; (ii) provides for identifying, testing, and assessing a significant percentage of its key business processes and controls in each year; (iii) demonstrates how the agency will meet the A-123, Appendix A requirements by September 2008; and (iv) is reviewed and accepted by OMB;
- Implementation of their A-123 assessment process in substantial accordance with the OMB-approved plan; and
- Submission of an assurance statement by the agency head that accurately reflects the amount of work completed (e.g., agencies that are implementing a multi-year plan will need to identify a scope limitation) and the results of the assessments performed.

### **Status/Comments/Distribution**

7.24 When preparing the audit report(s), the auditor will report the status of known but uncorrected material findings and recommendations from prior audits that affect the current audit objectives.

7.25 The auditor should obtain and report the views of the reporting entity's responsible officials concerning the auditor's findings and recommendations included in the audit report,

including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings. These comments will be included in the report on internal control or report on compliance, as applicable. If corrective actions are not necessary, an explanatory statement will be included in the audit report. (See Chapter 5 of the U.S. Government Auditing Standards for further guidance.)

7.26 Copies of the audit report(s) will be distributed to the head of the executive department or agency and subsequently included in the department's or agency's Performance and Accountability Report (PAR), Agency Financial Report (if applicable),<sup>19</sup> or the corporation's Management Report.

### **Subsequent Discovery of Facts**

7.27 With respect to the subsequent discovery of facts existing at the date of the auditors' report, the auditor will follow the steps in AU § 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*. If the auditor concludes that the previously-issued audit report is not reliable and action should be taken to prevent future reliance on the report, the auditor will communicate such facts to the audited entity. The auditor will also make the appropriate disclosure of the facts to persons who may be relying on the auditor's reports such as legislative or regulatory oversight bodies, federal inspector(s) general, funding entities, and other oversight bodies if the audited entity fails to do so in a timely manner.

7.28 Revised financial statements and the auditors' report(s) should be issued as soon as practical after the effect on the previously issued financial statement and auditor's report can be determined. If the audited entity's subsequent-period financial statements and the related auditors' report will be issued imminently, the appropriate disclosures can be made in the subsequent-period statements instead of reissuing the earlier statements. For this purpose, "imminent" is defined as within 90 calendar days of the subsequent-period financial statements planned issue date. (See Paragraphs 5.3 through 5.11 and 7.8 for further discussions.)

7.29 The A-136 provides guidance on how the audited entity's management should correct errors in the financial statements and the specific information to be included in the financial statement notes when restatement is required.

## **SECTION 8: MANAGEMENT REPRESENTATION LETTER**

8.1 In accordance with AU § 333, *Management Representations*, the auditor will obtain written representations from management for all financial statements for the periods covered by the auditors' report(s). The auditor will also obtain a summary of unadjusted misstatements to accompany the management representation letter. In accordance with the A-136, Section V, the management representation letter and accompanying summary of unadjusted misstatements are

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<sup>19</sup> OMB has established a *pilot* for FY 2007 in which agencies may choose to produce an alternative to the consolidated PAR. The pilot has 3 required parts: 1) an Agency Financial Report; an Annual Performance Report; and a "Highlights" document. See Section II of the A-136 for further details.

required for the audits of entity financial statements and the special-purpose financial statements used to compile the *Financial Report of the United States Government* (FR).

8.2 The management representation letter will be on the audited entity's letterhead. The representations should be dated in accordance with AU § 333. To ensure the management representation letter is prepared timely, a draft letter should be provided to and discussed with management as early as possible in the audit and updated for circumstances found throughout the audit.

8.3 The management representation letter will be obtained from the highest levels of the audited entity. The officials who sign the management representation letter should be those who, in the auditor's view, are responsible for and knowledgeable, directly or through others, about the matters in the management representation letter. These officials generally should be the head of the entity, the CFO, and any others deemed responsible for matters presented in the management representation letter.

8.4 The management representation letter will specify management's materiality threshold, used for reporting items in the management representation letter. Items below this threshold would not be considered exceptions or reported as such in the representation letter.<sup>20</sup>

8.5 The representations to be included in the management representation letter are part of the evidential matter to be considered by the auditor in its audit of the entity's financial statements. The AU § 333 discusses specific representations that should be obtained from management. The representations obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. In addition to the representations given in AU § 333, the auditor generally should consider the need to obtain representations on other matters based on the circumstances of the audited entity. The auditor should refer to the guidance detailed in the GAO/PCIE FAM Section 1001, *Management Representations*, and subsequent revisions. The sample management representation letter presented in the GAO/PCIE FAM Section 1001A, *Example Management Representation Letter*, and subsequent revisions should be used as guidance and representations should be deleted if inapplicable or customized to the situation of the entity being audited.

8.6 In addition to the representations discussed in the above paragraph, management is required to include a representation that addresses the consistency of budgetary data reported on the Statement of Budgetary Resources and the budgetary data submitted through FACTS II to prepare the year-end SF 133s, *Reports on Budget Execution and Budgetary Resources*. Management will use the following sample representation:

*The information presented on the Department's Statement of Budgetary Resources is reconcilable to the information submitted on the Department's year-end Reports on Budget Execution and Budgetary Resources (SF 133s). This information will be used as*

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<sup>20</sup> Management and the auditor should reach an understanding on a materiality level. For guidelines on establishing the materiality level for the management representation letter, see the GAO/PCIE FAM Section 1001, *Management Representations*, and subsequent revisions.



*input for the fiscal year 20xx actual column of the Program and Financing Schedules reported in the fiscal year 20xz Budget of the U.S. Government. Such information is supported by the related financial records and related data.*

8.7 A summary of unadjusted misstatements will be attached to the entity's management representation letter. Overall guidance on evaluating misstatements is provided in AU § 312, *Evaluating Audit Findings*. Agencies will use the schedule submitted with the management representation letter for the entity's audit and include all the information necessary to prepare the government-wide summary of unadjusted misstatements (i.e., include an additional column identifying the effect of the current year's uncorrected misstatements on the Closing Package line items). Agencies are encouraged to use the format of the schedule of unadjusted misstatements presented in the GAO/PCIE FAM Section 595D, *Example Summary of Unadjusted Misstatements*, and subsequent revisions and:

- Identify the effect of the current year's unadjusted misstatements.
- Identify the carry-forward effect of the prior year's unadjusted misstatements.
- Distinguish between those affecting intragovernmental accounts and those affecting accounts with the public.
- Be prepared for each affected department-wide financial statement.

8.8 The management representation letter will be consistent with the auditors' report(s). If a representation is contradicted by other audit evidence, the auditor will investigate the circumstances and consider the reliability of the representation. Based on the circumstances, the auditor will then consider whether it is appropriate to rely on other management representations.

8.9 The auditor will also obtain additional written representations, and a summary of unadjusted misstatements, for the special-purpose financial statements used to compile the FR. (See Section 13 and Appendix F, *Illustrative Management Representation Letter for Special-Purpose Financial Statements* of this Bulletin for further guidance.)

## **SECTION 9: LEGAL REPRESENTATION LETTERS AND MANAGEMENT'S SCHEDULES**

9.1 In accordance with AU § 337, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*, the auditor will request entity management to send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims, and assessments.<sup>21</sup> (See the GAO/PCIE FAM Section 1002B, *Example Legal Letter Request*, and subsequent revisions, for an illustrative letter of inquiry from entity management to legal counsel.) Management should document in a schedule how the information contained in the legal counsel's response(s) was considered in preparing the financial statements. In accordance with the A-136, Section V, legal representation letters and management's schedules are required

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<sup>21</sup> Management and the auditor should agree on a materiality level to use in the letter of inquiry. For guidelines on setting the materiality level for the legal letter see the GAO/PCIE FAM Sections 1002, *Inquiries of Legal Counsel*, and subsequent revisions.

for the audits of entity financial statements and the special-purpose financial statements used to compile the FR.

9.2 Legal counsels will consider the guidance contained in the American Bar Association's *Statement of Policy Regarding Lawyer's Responses to Auditors' Request for Information* (December 1975) in preparing their responses. (Refer to the Department of Justice website for guidance on how to prepare a legal letter, [www.usdoj.gov/civil/forms/forms.htm](http://www.usdoj.gov/civil/forms/forms.htm), and see the GAO/PCIE FAM Section 1002C, *Example Legal Representation Letter*, and subsequent revisions, for an illustrative response letter from legal counsel to the auditor.)

9.3 The auditor's request to entity management to send a letter of inquiry to entity counsel should follow AU § 337, and its interpretations (AU § 9337). Management's schedule should be provided as soon as practical after the legal counsel's response is provided to the auditor.

9.4 To satisfy management's responsibilities under SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended, related to contingent liabilities arising from litigation, and to facilitate the audit thereof, the CFO will prepare a schedule to document how the information contained in the legal counsel's response was considered in preparing the financial statements. (See the GAO/PCIE FAM Section 1002D, *Example Management Summary Schedule*, and subsequent revisions, for the format to be used for management's schedule.)

9.5 The timing of legal letter requests, responses, and related management's schedules will be coordinated between entity legal counsel, entity management, and the auditor. All due dates will be in accordance with the due dates established in the A-136, Section V and Attachment B.

9.6 Updated legal responses and management schedules will only include changes from the interim responses/schedules, or a statement that there are no changes. After applying applicable audit procedures, interim and updated legal letters will be submitted by the OIG to FMS and GAO no later than the dates established in the A-136, Attachment B. The OIG will inform FMS, via email, of any subsequent changes in cases that arise after the final representation letter but prior to the end of the government-wide financial statement audit completion date (per SAS No. 103, *Audit Documentation* that changed the dating of the audit report date from the fieldwork date to the audit completion date). Contact information for these agencies can be found in the A-136, Attachment C.

## **SECTION 10: COMMUNICATING OTHER DEFICIENCIES**

Other deficiencies in internal control, that are not required to be included in the audit report, but that the auditor considers necessary to communicate, may be separately communicated to management of the reporting entity either orally or in writing via management letter or separate report. If a written document containing other deficiencies in internal control is issued or will be issued, the auditor must refer to that document in the auditors' report on internal control.

**SECTION 11: AGREED-UPON PROCEDURES: RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE WITHHOLDINGS/CONTRIBUTIONS AND SUPPLEMENTAL SEMIANNUAL HEADCOUNT REPORT SUBMITTED TO THE OFFICE OF PERSONNEL MANAGEMENT (OPM)**

11.1 The Agreed-Upon Procedures (AUPs) will be performed annually in accordance with Statements of Standards for Attestation Engagements, AT § 201, *Agreed-Upon Procedures Engagements*. The AUPs are designed to assist OPM in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance withholdings/contributions as well as semiannual headcount information submitted by agencies. The sufficiency of the procedures is solely the responsibility of the Inspector General and the Chief Financial Officer of OPM and will be applied to the 12 months ended August 31 of each year.

11.2 Refer to <http://www.opm.gov/oig/> for the current AUPs required by OPM.

11.3 The auditor of each payroll provider will apply the AUPs separately (1) for each entity designated as subject to the CFO Act in Appendix A and (2) each entity not designated as subject to the CFO Act that has 30,000 or more employees.

11.4 Although the auditor must perform the AUPs separately for each applicable entity, the auditor will combine the results into a single report.

11.5 The auditor of the payroll provider is the principal auditor for the purpose of performing the AUPs. The auditors of customer agencies will participate to the extent necessary to ensure that the AUPs are performed effectively and within the established time frames.

11.6 In light of the migration of payroll servicing responsibilities under the e-Payroll initiative, the payroll provider as of March 31 will be responsible for assuring that the AUPs are performed and reported upon.

11.7 The report on the performance of the AUPs will be submitted no later than *October 1*. To the extent practical, management's comments on the auditor's findings will be included in the report.

11.8 If a specific AUP cannot be performed, the auditor must propose to OPM's OIG in writing no later than *July 15* at the address in 11.9 an alternative procedure that would accomplish the AUPs' objectives. In addition, auditors will notify OPM's OIG by *September 1* of any other anticipated difficulties in completing the procedures and submitting the required report by October 1.

11.9 Agencies will submit three copies of the report on the application of these procedures to OPM's OIG at the address below or, alternatively, may email the report as a PDF attachment to [wwscott@opm.gov](mailto:wwscott@opm.gov), with a cc: to [Finance@opm.gov](mailto:Finance@opm.gov).

U.S. Office of Personnel Management  
Office of Inspector General  
Room 6400

1900 E Street, N.W.  
Washington, DC 20415  
Attention: W.W. Scott, Jr.

## **SECTION 12: INSPECTOR GENERAL OVERSIGHT**

12.1 The OIG will:

- Ensure that audits and audit reports are completed timely and in accordance with the requirements of this Bulletin. This responsibility pertains to audits conducted by OIG staff, and IPAs under contract with the OIG.
- Provide technical advice and liaison to agency officials and IPAs.
- Obtain and review the most recent and subsequent peer review reports of IPAs under contract with the OIG to ensure that IPAs have an appropriate internal system of quality control in place.
- Review responses to audit reports and report significant disagreements to the audit followup official per OMB Circular No. A-50, *Audit Followup (A-50)*.
- Monitor and report on management's progress in resolving audit findings related to audits made pursuant to this Bulletin, in accordance with the Inspector General Act of 1978, as amended, the provisions of the A-50, and FFMIA.

12.2 The OIG is encouraged to use GAO/PCIE FAM Section 650, *Using the Work of Others*, and subsequent revisions, to help design and perform oversight procedures when using IPAs and other specialists in the audit of agency financial statements.

## **SECTION 13: AUDIT OF THE SPECIAL-PURPOSE FINANCIAL STATEMENTS**

13.1 The GMRA requires the Secretary of the Treasury, in coordination with the Director of the OMB, to annually prepare and submit to the President and the Congress an audited financial statement for the preceding fiscal year for the executive branch of the United States Government, namely the FR.

13.2 The Department of the Treasury's Financial Management Service (FMS) prepares the FR using special-purpose financial statements and accompanying notes submitted by the significant entities<sup>22</sup> to the FR and adjusted trial balances from the remainder of the entities included in the FR.

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<sup>22</sup> The significant entities to the Financial Report of the U.S. Government (FR) are identified in the Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700. <http://www.fms.treas.gov/factsi/index.html> and the A-136 [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb). The significant entities to the FR are referenced in the TFM as the "verifying agencies," in relation to their responsibilities within the Government-wide Financial Report System (GFRS).

13.3 The special-purpose financial statements include the reclassified balance sheet, statement of net cost, statement of changes in net position, statement of social insurance (if applicable) and the accompanying notes. The special-purpose financial statements and accompanying notes are required to be audited and audit reports are to be submitted to the FMS, OMB, and GAO. An illustrative auditors' report is provided in Appendix G.

13.4 Audits will be performed annually and on comparative statements. For agencies in the initial year of implementation, the audit will apply only to that initial year's special-purpose financial statements and accompanying notes.

13.5 For purposes of this section, the significant entities to the FR, as identified in the TFM Chapter 4700, will subject their special-purpose financial statements to an audit by the OIG of the agency or by an independent auditor IPA as determined by the OIG. If the agency does not have an OIG, the financial statement audit will be performed by an IPA as determined by management.

13.6 Communication during the audit of the special-purpose financial statements will follow the same principles as defined in Section 5 of this Bulletin.

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

13.8 The auditor will determine whether the special-purpose financial statements and accompanying notes fairly present, in all material respects, the financial position, net costs, changes in net position, and social insurance (if applicable) in conformity with the accounting principles generally accepted in the United States of America and the presentation requirements set forth in the TFM Chapter 4700.

13.9 The internal control relating to the special-purpose financial statements reporting will encompass the internal control relating to the general purpose financial statements, upon which the special-purpose financial statements are based. The auditor will also obtain an understanding of the internal control over the financial reporting process for the special-purpose financial statements and perform tests of those controls. Providing an opinion on the internal control relating to the special-purpose financial statements reporting is not an objective of this audit.

13.10 The reporting on compliance with laws and regulations will encompass the compliance reporting related to the general-purpose financial statements upon which the special-purpose financial statements are based. In addition, regarding compliance with the TFM Chapter 4700, the auditor will perform tests of compliance with that Chapter that could have a direct and material effect on the special-purpose financial statements. Providing an opinion on the compliance with the TFM Chapter 4700 requirements is not an objective of this audit.

13.11 The auditor will obtain written representations from management as part of an audit conducted in accordance with this Bulletin. It is encouraged that the audit of the financial reporting process for the special-purpose financial statements be conducted simultaneously with the audit of the general-purpose financial statements. In this circumstance, management may combine its representations for the audits of the special-purpose financial statements and the general-purpose financial statements. (See Appendix F: *Illustrative Management Representation Letter for the Special-Purpose Financial Statements.*)

13.12 A summary of unadjusted misstatements will also be attached to the management representation letter. Agencies will use the schedule submitted with the management representation letter for the entity's audit and include an additional column identifying the effect of the current year's uncorrected misstatements on the Closing Package line items. Agencies are encouraged to use the format of the schedule in the GAO/PCIE FAM Section 595D, *Example Summary of Unadjusted Misstatements*, and subsequent revisions, with an additional column identifying the effect of the current year's uncorrected misstatements on the Closing Package line items.

13.13 The management representations and related summary of unadjusted misstatements will be submitted to Treasury, GAO and OMB by the due dates listed in the A-136, Attachment B.

### **Audit Report**

13.14 An auditor's report(s) on the special-purpose financial statements, internal control over the financial reporting process for the special-purpose financial statements, and compliance with TFM Chapter 4700 will be prepared at the completion of the audit in accordance with U.S. Government Auditing Standards and this Bulletin. The audit report(s) will state that the audit was conducted in accordance with U.S. Government Auditing Standards and the provisions of this Bulletin. The audit report(s) will be submitted to the agency head no later than the date specified in the A-136, Attachment B. The audit results will be discussed with management as soon as practicable but, in any case, prior to issuance of the audit report.

13.15 The audit report will include an opinion as to whether the reporting entity's special-purpose financial statements are fairly presented in all material respects in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700, or a disclaimer of opinion. (See AU § 623.)

13.16 If the special-purpose financial statements are materially affected by a departure from the presentation requirements of the TFM Chapter 4700, the auditor will issue a qualified or adverse opinion and include an explanatory paragraph that describes the departure(s) from those

standards and, if practical, the effects of any material departure(s) on assets, liabilities, and net position; net costs and changes in net position. If the effects of the departure(s) are disclosed in a note to the special-purpose financial statements, the explanatory paragraph may be shortened by referring to that note.

13.17 If the auditor disclaims an opinion, the report will describe why the auditor was unable to conduct the audit in accordance with U.S. Government Auditing Standards and this Bulletin. If material weaknesses and other significant deficiencies prevented the conduct of the audit in accordance with U.S. Government Auditing Standards and this Bulletin, such conditions will be included in the section on internal control, along with recommendations for correcting the condition(s). The report will also include an explanatory paragraph that describes any material departure(s) from the presentation requirements of the TFM Chapter 4700 and, if practical, the effects of the departure(s) on assets, liabilities, and net position; net costs and changes in net position. If the effects of the departure(s) are disclosed in a note to the special-purpose financial statements, the explanatory paragraph may be shortened by referring to that note.

13.18 With respect to reporting on other data, the auditor will follow AU § 551.

### **Section on Internal Control**

13.19 The auditor will state that, with respect to internal control over the financial reporting process for the special-purpose financial statements, the auditor obtained an understanding and performed tests of the reporting entity's internal controls.

13.20 The auditor will describe significant deficiencies and material weaknesses identified during the audit of the special-purpose financial statements.

13.21 The section will state that providing an opinion on internal control over the special-purpose financial statements reporting was not an objective of the audit.

13.22 The section will reference the report on internal control that was issued as part of the audit of the general-purpose financial statements.

### **Section on Compliance with the TFM**

13.23 The auditor will report noncompliance with the TFM Chapter 4700 disclosed by audit, except for those instances of noncompliance that, in the auditor's judgment, are clearly inconsequential.

- Include all facts pertaining to the noncompliance, including the nature and extent of the noncompliance, the primary reason or cause of the noncompliance, and any relevant comments from reporting entity management or employees responsible for the noncompliance.
- Provide recommended remedial actions.

13.24 In the event the audit disclosed no reportable instances of noncompliance, the section will state that the audit disclosed no reportable instances of noncompliance with the TFM Chapter 4700.

13.25 The section will state that providing an opinion on compliance was not an objective of the audit.

13.26 The section will reference the report on compliance with laws and regulations that was issued as part of the audit of the general-purpose financial statements.

### **Status/Comments/Distribution**

13.27 In preparing the audit report(s), the auditor will report the status of known but uncorrected findings and recommendations from prior audits that affect the current audit objectives.

13.28 The reporting entity will provide comments on the auditors' findings and recommendations included in the audit report, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings. To the extent practical, these comments will be included in the audit report, as applicable. If corrective actions are not necessary, an explanatory statement will be included in the applicable audit report.

13.29 Specified documents are required to be submitted with the audit report. (Refer to the TFM Chapter 4700 for a complete listing.)

13.30 Copies of the audit report(s) will be distributed to the head of the executive department or agency and simultaneously submitted to the FMS, OMB, and GAO, no later than the date specified in the A-136, Attachment B.

### **Communicating Other Deficiencies**

13.31 Other deficiencies in internal control, that are not required to be included in the audit report, but that the auditor considers necessary to communicate, may be communicated separately to the reporting entity's management either orally or in writing via a management letter or separate report. (See Chapter 5 of U.S. Government Auditing Standards for further guidance.) If a separate document containing other deficiencies in internal control over the financial reporting process for the special-purpose financial statements is issued, the auditor must refer to that document in the auditors' report.

### **Intragovernmental Balances: Supplementary and Agreed-Upon Procedures (AUP)**

13.32 Intragovernmental balances and transactions are a key component in the consolidation of the financial information submitted by Federal entities and in the overall compilation process of the FR. Intragovernmental balances include transactions between Federal entities such as services or goods sold, transfers of assets or budget authority, investments or borrowings with the Department of the Treasury, and benefit-related transactions with the Department of Labor and the Office of Personnel Management.



13.33 Intragovernmental balances by trading partner are included within the scope of the special-purpose financial statements audit (Module 4 of the Governmentwide Financial Report System (GFRS) included as a note disclosure). As progress continues in mitigating and resolving the material weaknesses on the FR that are related to intragovernmental balances, supplementary procedures may be necessary at the component entity level. As a start, for the third quarter of fiscal year 2007, OMB will require that AUP be performed by agencies where there is evidence and a history of systemic or recurring problems in accounting, reporting, or reconciling intragovernmental balances. The AUP will be targeted to identify, analyze, and facilitate the correction of the underlying internal control or process weaknesses at those agencies (See illustrative example of Appendix H.). OMB will contact the applicable agencies, and their respective OIGs, that meet the above criteria no later than August 15, 2007. Those agencies, their OIGs, and FMS must meet to formulate AUP that are agreed to by the applicable parties and are in conformance with AICPA standards. The OIG/IPA will issue its AUP Report in accordance with AT Section 201, *Agreed-Upon Procedures Engagements*. Thereafter, the AUP Report on the 3<sup>rd</sup> Quarter Intragovernmental Activity and Balances must be delivered to the applicable parties no later than September 6, 2007.

#### **SECTION 14: SIGNIFICANT DUE DATES AND CONTACT INFORMATION FOR FINANCIAL STATEMENTS AND RELATED REPORTS**

For a complete list of year-end financial reports and their respective due dates, please refer to the A-136, Attachment B. In addition, contact information is provided in the A-136, Attachment C.

## **TABLE OF APPENDICES**

Appendix A:	Executive Departments and Agencies Subject to the CFO Act Required to Prepare Financial Statements
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## APPENDIX A

### **EXECUTIVE DEPARTMENTS AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL OFFICERS (CFO) ACT REQUIRED TO PREPARE FINANCIAL STATEMENTS**

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

## APPENDIX B

### COMPONENTS OF EXECUTIVE DEPARTMENTS AND AGENCIES REQUIRED TO PREPARE FINANCIAL STATEMENTS<sup>23</sup>

#### Department of Agriculture

- Food and Nutrition Service
- Forest Service
- Rural Development Mission Area

#### Department of Defense

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

#### Department of Health and Human Services

- Centers for Medicare & Medicaid Services

#### Department of Transportation

- Federal Aviation Administration

#### Department of the Treasury

- Internal Revenue Service

#### Office of Personnel Management

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

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<sup>23</sup> The requirement for components to prepare financial statements may be satisfied by presenting the components separately in consolidating agency-wide financial statements and conducting an audit, in accordance with this Bulletin, at the consolidating financial statement level.

**EXECUTIVE AGENCIES SUBJECT TO THE ACCOUNTABILITY OF TAX DOLLARS  
ACT REQUIRED TO PREPARE FINANCIAL STATEMENTS**

Advisory Council on Historic Preservation  
African Development Fund  
Appalachian Regional Commission  
Architectural and Transportation Barriers Compliance Board  
Armed Forces Retirement Home  
Barry Goldwater Scholarship and Excellence in Education Fund  
Broadcasting Board of Governors  
Central Intelligence Agency  
Chemical Safety and Hazard Investigation Board  
Christopher Columbus Fellowship Foundation  
Commission on Civil Rights  
Commission of Fine Arts  
Commission for the Preservation of America's Heritage Abroad  
Committee for Purchase from People Who Are Blind or Severely Disabled  
Commodities Futures Trading Commission  
Consumer Product Safety Commission  
Court Services and Offender Supervision Agency for DC  
Defense Nuclear Facilities Safety Board  
Delta Regional Authority  
Denali Commission  
Equal Employment Opportunity Commission  
Farm Credit Administration  
Farm Credit System Insurance Corporation  
Federal Communications Commission  
Federal Election Commission  
Federal Financial Institutions Examination Council Appraisal Subcommittee  
Federal Housing Finance Board  
Federal Labor Relations Authority  
Federal Mediation and Conciliation Service  
Federal Mine Safety and Health Review Commission  
Federal Retirement Thrift Investment Board  
Federal Trade Commission  
Harry S. Truman Scholarship Fund  
Institute of American Indian and Alaska Native Culture and Arts Development  
Institute of Museum and Library Services  
Inter-American Foundation  
James Madison Memorial Fellowship Foundation  
Japan-U.S. Friendship Commission

**EXECUTIVE AGENCIES SUBJECT TO THE ACCOUNTABILITY OF TAX  
DOLLARS ACT REQUIRED TO PREPARE FINANCIAL STATEMENTS**

Marine Mammal Commission  
Merit Systems Protection Board  
Morris K. Udall Scholarship and Excellence in National Environmental  
Policy Foundation  
National Archives and Records Administration  
National Capital Planning Commission  
National Commission on Libraries and Information Science  
National Council on Disability  
National Credit Union Administration  
National Endowment for the Arts  
National Endowment for the Humanities  
National Labor Relations Board  
National Mediation Board  
National Transportation Safety Board  
Nuclear Waste Technical Review Board  
Occupational Safety and Health Review Commission  
Office of Government Ethics  
Office of Navajo and Hopi Indian Relocation Commission  
Office of Special Counsel  
Peace Corps  
Presidio Trust  
Railroad Retirement Board  
Securities and Exchange Commission  
Selective Service System  
Smithsonian Institution (SI)  
SI/John F. Kennedy Center for the Performing Arts  
SI/National Gallery of Arts  
SI/Woodrow Wilson International Center for Scholars  
Trade and Development Agency  
U.S. Court of Appeals for Veterans Claims  
U.S. Holocaust Memorial Museum  
U.S. Interagency Council on Homelessness  
U.S. International Trade Commission  
Vietnam Education Foundation  
White House Commission on the National Moment of Remembrance

## APPENDIX D

### GOVERNMENT CORPORATIONS REQUIRED TO PREPARE FINANCIAL STATEMENTS

Commodity Credit Corporation  
Community Development Financial Institutions Fund  
Corporation for National and Community Service  
Export-Import Bank of the United States  
Federal Crop Insurance Corporation  
Federal Deposit Insurance Corporation  
Federal Home Loan Banks  
Federal Housing Administration Fund  
Federal Prison Industries, Incorporated  
Financing Corporation  
Government National Mortgage Association  
Millennium Challenge Corporation  
National Credit Union Administration Central Liquidity Facility  
Overseas Private Investment Corporation  
Pension Benefit Guaranty Corporation  
Rural Telephone Bank  
Resolution Funding Corporation  
Saint Lawrence Seaway Development Corporation  
Tennessee Valley Authority

## APPENDIX E

### GENERAL LAWS<sup>24</sup>

- Anti-Deficiency Act (codified as amended in 31 U.S.C. §§ 1341, 1342, 1351, 1517)  
31 U.S.C. § 1341(a)(1)(A) and (C)  
31 U.S.C. § 1517 (a)
- Federal Credit Reform Act of 1990, Pub. L. No. 101-508, 104 Stat. 1388-610 (codified in various sections of title 2, United States Code)  
2 U.S.C. § 661(b) and (e)
- Pay and Allowance System for Civilian Employees as provided primarily in Chapters 51-59 of title 5, United States Code  
5 U.S.C. §§ 5332 and 5343  
29 U.S.C. § 206
- Prompt Payment Act (codified as amended in 31 U.S.C. §§ 3901-3907)  
31 U.S.C. § 3902(a), (b), and (f)  
31 U.S.C. § 3904
- Provisions Governing Claims of the United States Government as provided primarily in sections 3711 through 3720E of title 31, United States Code (including provisions of the Debt Collection Improvement Act of 1996, Pub. L. No. 104-134, 110 Stat. 1321-358, which also is codified in various sections of titles 5, 18, 26, 28, 31, and 42, United States Code)  
31 U.S.C. § 3711  
31 U.S.C. § 3717 (a), (b), (c), (e) and (f)  
31 U.S.C. § 3719

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<sup>24</sup> The auditor is not expected to test all provisions of each law presented. However, the auditor is expected to test, at a minimum, the provisions cited above.



## APPENDIX F

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

[Entity Letterhead]

[Date of auditor's report]

[Name and title of head of audit organization]

[Address of audit organization]

Dear [name of head of audit organization]:

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

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

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

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

3. We have made available to you, all financial records and related data relevant to the reclassification of [name of Federal agency]'s audited, consolidated department-level financial statements to the reclassified special-purpose financial statements and accompanying notes as prescribed in the TFM Chapter 4700.
4. There are no material transactions that have not been properly reclassified in the special-purpose financial statements or disclosed in the notes to the financial statements.

5. We are responsible for establishing and maintaining internal control over the special-purpose financial statement reporting process and complying with the requirements set forth in the TFM Chapter 4700.
6. Those controls in place on September 30, 20XX [or date of latest audited financial statements] provided reasonable assurance that the foregoing objectives are met.

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

[Signed by Agency Head]

[Signed by Chief Financial Officer]

**ILLUSTRATIVE INDEPENDENT AUDITORS' REPORT ON SPECIAL-PURPOSE  
FINANCIAL STATEMENTS**

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-xx, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in [*name of federal agency*]'s financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-xx, we have also issued reports<sup>25</sup> dated [*insert date*] on our consideration of [*name of Federal Agency*]'s internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general-purpose financial statement reporting performed in accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-xx, as amended, and should be read in conjunction with this report in considering the results of our audit.

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

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affects [*name of Federal Agency*]'s ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the special-purpose financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or a combination of significant deficiencies, that result in a more than remote likelihood that material misstatements in relation to the special-purpose financial statements being audited will not be prevented or detected.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under U.S. Government Auditing Standards and OMB Bulletin No. 07-xx, as amended. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

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<sup>25</sup> If an agency's auditor issues a combined report that includes the audit report on the financial statements, the report on internal control over financial reporting and compliance with certain provisions of laws and regulations, the language in this section should be modified accordingly.

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

[*Signature*]

[*Date*]

## Notes to the Special-Purpose Financial Statements

### Note X - Special-Purpose Financial Statement Requirements

The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the President and the Congress to comply with the Government Management Reform Act of 1994 (GMRA) (Pub. L. No. 103-356), which requires the Secretary of the Treasury to prepare and submit annual audited financial statements of the executive branch. The Secretary of the Treasury developed guidance in the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700 to provide agencies with instructions to meet the requirements of GMRA. The TFM Chapter 4700 requires agencies to:

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

**ILLUSTRATIVE AGREED-UPON PROCEDURES ON INTRAGOVERNMENTAL MATERIAL DIFFERENCES**

For the third quarter of fiscal year 2007, the agency OIG/IPA will perform AUP on material differences identified by FMS. Those agencies, their OIGs, and FMS must meet to formulate AUP that are agreed to by the applicable parties and are in conformance with AICPA standards. Thereafter, the OIG/IPA will issue its AUP Report in accordance with AT Section 201, *Agreed-Upon Procedures Engagements*. Below is an example of the AUP.

1. Obtain a copy of the reconciliation schedule from the OCFO.
2. Obtain the agency's policies and procedures that describe the agency's activities to record, process, summarize, reconcile, and report intragovernmental activity/balances by trading partner.
3. Obtain a copy of the Intragovernmental Business Rules (TFM Bulletin No. 2007-03).
4. Inspect and compare the recording of items identified in the OCFO-provided reconciliation schedule (provided in Procedure 1) to the agency's policies and procedures, and determine whether the items were recorded in accordance with those policies and procedures.
5. For those items identified in Procedure 1 which were not recorded in accordance with the agency policies and procedures, document which policy and/or procedure was not applied. Also, document if these items are contrary to the Intragovernmental Business Rules (TFM Bulletin No. 2007-03).
6. For all items identified in Procedure 1, inspect the OCFO-documented communications with its trading partner and the actions outlined/taken by the OCFO to resolve the difference, and determine whether the communications and actions taken were in accordance with the agency's policies and procedures identified in Procedure 2.

The AUP Report on the 3<sup>rd</sup> Quarter Intragovernmental Activity and Balances must be delivered to the applicable parties no later than September 6, 2007.