



THE DIRECTOR

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

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M-09-33

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND
ESTABLISHMENTS

FROM:

Peter R. Orszag
Director

SUBJECT:

Technical Amendments to OMB Bulletin No. 07-04,
Audit Requirements for Federal Financial Statements

Audits of Federal financial statements are important—they provide an independent assessment of whether the Government’s financial position and condition are fairly stated, so that policy makers can rely upon them to make informed decisions about Government programs. These audits also reflect the President’s commitment to transparency and open government. As the President stated in his memorandum on Transparency and Open Government, “Transparency promotes accountability and provides information for citizens about what their Government is doing.”

Over the years, the Federal Government has refined its audit process to more closely align with the process used by the private sector and, in particular, the process endorsed by American Institute of Certified Public Accountants. Audits of Federal financial statements are conducted according to the requirements in OMB’s Bulletin No. 07-04 of September 4, 2007, *Audit Requirements for Federal Financial Statements*, as amended. The attachment to this memorandum makes technical amendments to Bulletin No. 07-04, that will align the Federal audit process with the private sector and will update the Bulletin to reflect changes that apply as a result of other recently revised OMB guidance, including OMB Circular Nos. A-136 and A-127. A revised copy of the amended Bulletin No. 07-04 is available on OMB’s website at <http://www.whitehouse.gov/OMB/financial/index.html>.

In addition to the technical amendments attached, this memorandum serves to remind Inspectors General that oversight functions of the American Recovery and Reinvestment Act funds should be coordinated, as appropriate, with audits of Federal financial statements in accordance with the Bulletin, to help prevent the duplication of work.

Please share this memorandum with your agency’s Chief Financial Officer and Inspector General. We appreciate the commitment of your agency’s staff in the accountability and transparency of Federal financial statements. If your staff has questions regarding this memorandum or OMB Bulletin 07-04, they may contact OMB’s Office of Federal Financial Management at (202) 395-3993.

Attachment

Attachment

Summary of Significant Technical Amendments

Definitional Changes

The most significant amendments align the “material weakness” and “significant deficiency” internal control deficiency definitions with those of the American Institute of Certified Public Accountants (AICPA), so that differences are eliminated. As a result of this change, agency auditors will continue properly reporting on internal control deficiencies identified in engagements performed under the professional standards to which they must adhere, including those of the AICPA. This amendment will become effective for reporting periods ending on or after December 15, 2009.

New Provision

The most significant amendments also include provisions in a new paragraph 13.34 for calendar year-end entities identified as “significant entities” to the Financial Report of the U.S. Government (FR) in the Department of the Treasury’s Financial Manual Volume I, Part 2, Chapter 4700. If any of these entities are identified as “significant entities” to the FR, they will be required to have an examination attestation engagement performed in accordance with the AICPA’s SSAE codified at AT § 101, *Attestation Engagements*. Applicable illustrative management representation letter and examination report are included in Bulletin No. 07-04’s new Appendices I and J, respectively.

Other Related Guidance

The amendments also reflect applicable changes in recently revised OMB guidance that directly impacts the Bulletin. For example, OMB Circular No. A-136, *Requirements for Financial Reporting* (Circular No. A-136) was revised on June 10, 2009 to reflect that agencies may choose either to produce a consolidated Performance and Accountability Reporting (PAR) or a separate Agency Financial Report (AFR) and Annual Performance Report (APR) for FY 2009. Moreover, the Bulletin is being amended to reflect that Circular No. A-127 and the Implementation Guidance for FFMIA have been revised (both dated January 9, 2009). While the revised guidance does not become effective until October 1, 2009, early adoption and implementation are encouraged. If an agency decides to adopt the revised guidance before its effective date, its auditor must refer to the revised Implementation Guidance when testing an agency’s compliance with FFMIA. (See the revised guidance in OMB Memorandum M-09-06 for further details.) Finally, the amendments to the Bulletin issued in OMB Memorandum M-08-24 of August 25, 2008, *Technical Amendments to OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements*, still apply unless specifically amended here.

Technical Amendments

- a. The Table of Contents is amended to reflect the Bulletin’s amendments and the pages that were renumbered as a result. Also, additional Content headings have been included that were previously not included.

- b. The Summary of Significant Changes is amended by changing the fifth bullet of the Audit Report Section on p. ii to read: Added the Agency Financial Report (if applicable) and a footnote about agencies being able either to produce a consolidated PAR or a separate AFR and Annual Performance Report (APR) for FY 2009.
- c. The footnotes are renumbered and reflect those that are amended by modification and by insertion as a new footnote.
 - 1) Footnote 4 is amended to read: In this definition, a reasonable possibility exists when the likelihood of the event is reasonably possible or probable as those terms are used in SAS No. 115 (AU 325), *Communicating Internal Control Related Matters Identified in an Audit* (which will supersede SAS No. 112 of the same name).
 - 2) Footnote 5 is amended to read: This revision to the definition of significant deficiency, and related effective date, is consistent with SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (which will be superseded by SAS No. 115 of the same name).
 - 3) Footnote 8 is amended to read: The revision to the definition of significant deficiency is consistent with the SAS No. 115, which is effective for audits of financial statements for periods ending on or after December 15, 2009.
 - 4) Footnote 7 of paragraph 5.3 is deleted and is now footnote 9 of paragraph 2.13.
 - 5) Footnote 9 is amended to read: Those charged with governance are 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.
 - 6) Footnote 12 is amended to read: These reports are also referred as SAS 70 reports. Note: As of this writing, the AICPA's Auditing Standards Board (ASB) has proposed a new SAS that would be revised and include guidance for "user" auditors; it would also be renamed *Audit Considerations Relating to an Entity Using a Service Organization* and retained in AU § 324. The guidance for "service" auditors would be included in the ASB's proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at a Service Organization*.
 - 7) Footnote 16 is amended to read: 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 on Standards for Attestation Engagements, No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That is Integrated with an Audit of Its Financial Statements* (AT § 501, Codification of Statements on Auditing Standards), or in accordance with Auditing Standard No. 5, *An Audit of Internal Control That is Integrated with An Audit of Financial Statements*, promulgated by the Public Company Accounting Oversight Board.
 - 8) Footnote 18 is amended by deleting its first sentence: 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.
 - 9) Footnote 21 is amended to read: For FY 2009, agencies may choose either to produce a consolidated PAR or a separate AFR and Annual Performance Report (APR). All CFO Act agencies will be required to produce a summary of performance and financial information. Additionally, Non-CFO agencies that produce an AFR and

APR will be required to produce a summary of performance and financial information. See Section II of the A-136 for further details.

10) Footnote 24, 27, and 30 are amended by edit.

11) Footnote 28 and 29 are new.

d. The “material weakness” definition in paragraph 2.11 is amended and reads:

The below “material weakness” definition is effective for periods ending before December 15, 2009.

Material Weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote¹ 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.

The below “material weakness” definition is effective for periods ending on or after December 15, 2009.

Material Weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

e. The “significant deficiency” definition of paragraph 2.13 is amended and reads:

The below “significant deficiency” definition is effective for periods ending before December 15, 2009.

Significant Deficiency² 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 remote³ likelihood that a misstatement of the entity’s financial statements that is more than inconsequential⁴ 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.

¹ This is now footnote 3 and reads: 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.

² This is now footnote 5 and reads: This 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* (and will be superseded by SAS No. 115 of the same name).

³ This is now footnote 6 and reads: The term “remote” is defined in footnote 3.

⁴ This is now footnote 8 and reads: 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)

The below “significant deficiency” definition is effective for periods ending on or after December 15, 2009.

Significant Deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- f. Paragraph 7.14 is amended to read: 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.
- g. Paragraph 7.20 is amended by inserting the following as the second, third, and fourth sentences: OMB revised Circular No. A-127 and the Implementation Guidance for FFMIA (via OMB Memorandum No. 09-06, *Implementation Guidance for the Federal Financial Management Improvement Act*) on January 9, 2009. While the revised guidance does not become effective until October 1, 2009, early adoption and implementation of the guidance are encouraged. If an agency decides to adopt the revised guidance before the effective date, its auditor must refer to the revised Implementation Guidance when testing an agency’s compliance with FFMIA. (See http://www.whitehouse.gov/omb/assets/agencyinformation_memoranda_2009_pdf/m09-06.pdf.)
- h. Paragraph 7.26 is amended by inserting “(AFR)” after Agency Financial Report.
- i. Paragraph 8.9 is amended to include a reference to Appendix G: *Illustrative Management Representation Letter that Combines the Representations for General- and Special-Purpose Financial Statements*.
- j. The reference to the address in paragraph 11.8 is changed to 11.10 from 11.9.
- k. Paragraph 13.11 is amended to include a reference to Appendix G: *Illustrative Management Representation Letter that Combines the Representations for General- and Special-Purpose Financial Statements*.
- l. “Supplementary and Agreed-Upon Procedures” is deleted from the heading above paragraph 13.32 and amended to read: **Intragovernmental Balances**.
- m. A new paragraph 13.33 is included with the heading Examination Report and reads: Applicability: Those calendar year-end entities identified as one of the “significant entities” to the Financial Report of the U.S. Government (FR) in the Department of the Treasury’s Financial Manual Volume I, Part 2, Chapter 4700.
- n. A new paragraph 13.34 is included under the heading Examination Report and after paragraph 13.33 and reads: These entities will be required to have an examination on an assertion performed in accordance with AT § 101, *Attestation Engagements* on those portions of their closing packages that are deemed by the Treasury’s FMS to contribute materially to an FR financial statement line item, note, or both. An illustrative management representation letter and an examination report are included in Appendix I and J, respectively.
- o. The Table of Appendices is amended by including a new Appendix G: *Illustrative Management Representation Letter that Combines the Representations for General- and Special-Purpose Financial Statements*; re-lettering former Appendix G to Appendix H and retaining its title: *Illustrative Independent Auditors’ Report on the Special-Purpose Financial Statements*; and including new Appendices I, and J that read: *Illustrative Management Representation Letter for the Closing Package “Material Amounts” Schedule and Illustrative*

Independent Accountant's Report for the Closing Package "Material Amounts" Schedule, respectively. These amendments to the Table of Appendices are included in alphabetical order.

- p. Appendix C (Executive Agencies Subject to the Accountability of Tax Dollars Act Required to prepare Financial Statements) is amended by removing the Presidio Trust.
- q. Appendix D (Government Corporations Required to Prepare Financial Statements) is amended by including the Presidio Trust after the pension Benefit Guaranty Corporation.
- r. Appendix F's pages are numbered and edits are made to the date, name and title, etc.
- s. A new Appendix G: Illustrative Management Representation Letter that Combines the Representations for General- and Special-Purpose Financial Statements is included after Appendix F.
- t. Former Appendix G: Illustrative Independent Auditors' Report on the Special-Purpose Financial Statements is re-lettered "H," included after the new Appendix G, retains its title, and its pages are numbered.
- u. A new Appendix I: Illustrative Management Representation Letter for the Closing Package "Material Amounts" Schedule is included after Appendix H.
- v. A new Appendix J: Illustrative Independent Accountant's Report for the Closing Package "Material Amounts" Schedule is included after Appendix I.

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SUMMARY OF SIGNIFICANT CHANGES

SECTION TITLE	PARAGRAPH NUMBER(S)	CHANGES
Definitions	2.5 & 2.8	<ul style="list-style-type: none"> • 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. • 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.
Communication	5.3-5.6 & 5.7-5.11	<ul style="list-style-type: none"> • Added a section on Previously-Issued Financial Statements. • Added a section on Misstatements Affecting Previously-Issued Financial Statements.
Scope of the Audit	6.5 & 6.16	<ul style="list-style-type: none"> • Added a discussion to clarify auditors’ roles when auditing allocation transfers. • Updated Service Organizations section for improved alignment with AU § 324, <i>Service Organizations</i>.

SECTION TITLE	PARAGRAPH NUMBER(S)	CHANGES
Audit Report	7.7-7.8, 7.11, 7.20, 7.21-7.22, & 7.26	<ul style="list-style-type: none"> • Expanded the requirements for reporting on restated financial statements. • 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. • Added further discussion, in a footnote, for reporting on when financial management systems substantially comply with FFMIA section 803(a) requirements. • 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. • Added the Agency Financial Report (if applicable) and a footnote about agencies being able either to produce a consolidated PAR or a separate AFR and Annual Performance Report (APR) for FY 2009.
Legal Representation Letters and Management’s Schedules	9.6	<ul style="list-style-type: none"> • 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).
Appendix E	NA	<ul style="list-style-type: none"> • 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.

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 statements¹ 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.

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

¹ This list is included in the A-136, which prescribes the Basic Statements that will be prepared.
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(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*.

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.² 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

The below "material weakness" definition is effective for periods ending before December 15, 2009.

Material Weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote³ 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 Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*

³ 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.

The below “material weakness” definition is effective for periods ending on or after December 15, 2009.

Material Weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility⁴ that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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 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

The below “significant deficiency” definition is effective for periods ending before December 15, 2009.

Significant Deficiency⁵ 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 remote⁶ likelihood that a misstatement of the entity’s financial statements that is more than inconsequential⁷ 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.

The below “significant deficiency” definition is effective for periods ending on or after December 15, 2009.

Significant Deficiency⁸ is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those

⁴ In this definition, a reasonable possibility exists when the likelihood of the event is reasonably possible or probable as those terms are used in SAS No. 115 (AU 325), *Communicating Internal Control Related Matters Identified in an Audit* (which will supersede SAS No. 112 of the same name).

⁵ This revision to the definition of significant deficiency, and related effective date, is consistent with SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (which will be superseded by SAS No. 115 of the same name).

⁶ The term “remote” is defined in footnote 3.

⁷ 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)

⁸ The revision to the definition of significant deficiency is consistent with the SAS No. 115, which is effective for audits of financial statements for periods ending on or after December 15, 2009.

charged with governance⁹.

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 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

⁹ Those charged with governance are 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.
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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 uncorrected 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, 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 OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements

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 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.¹⁰

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

¹⁰ For purposes of this guidance, imminent means within 90 days of determining the effect of the misstatement(s) on the previously issued financial statements.

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;
- 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 transfers¹¹ 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

¹¹ 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.

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 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 Deleted.

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' report¹² 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.¹³

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,¹⁴ 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.

¹² These reports are also referred as SAS 70 reports. Note: As of this writing, the AICPA's Auditing Standards Board (ASB) has proposed a new SAS that would be revised and include guidance for "user" auditors; it would also be renamed *Audit Considerations Relating to an Entity Using a Service Organization* and retained in AU § 324. The guidance for "service" auditors would be included in the ASB's proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at a Service Organization*.

¹³ For additional guidance in this area, please see the AICPA audit guide for "Service Organizations: Applying SAS No. 70, as amended."

¹⁴ An illustrative auditor's report can be found in the GAO/PCIE FAM Section 500, *Reporting*, and subsequent revisions.

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.)

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),¹⁵ 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.

¹⁵ SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, instructs agencies on when to issue a restatement.

7.11 When reporting on a “Highlights” or similar document, the auditor will follow AU § 552, *Reporting on Condensed Financial Statements and Selected Financial Data*.

Report on Internal Control

7.12 A report on internal control will at a minimum,¹⁶ 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 Deleted.

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.¹⁷

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

¹⁶ 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 on Standards for Attestation Engagements, No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That is Integrated with an Audit of Its Financial Statements* (AT § 501, Codification of Statements on Auditing Standards), or in accordance with Auditing Standard No. 5, *An Audit of Internal Control That is Integrated with An Audit of Financial Statements*, promulgated by the Public Company Accounting Oversight Board.

¹⁷ Ibid.

Compliance with FFMIA

7.20 Section 803(b) of FFMIA requires the auditor to report whether the reporting entity's financial management systems substantially comply¹⁸ with FFMIA section 803(a) requirements.¹⁹ OMB revised Circular No. A-127 and the Implementation Guidance for FFMIA (via OMB Memorandum No. 09-06, *Implementation Guidance for the Federal Financial Management Improvement Act*) on January 9, 2009. While the revised guidance does not become effective until October 1, 2009, early adoption and implementation of the guidance are encouraged. If an agency decides to adopt the revised guidance before the effective date, its auditor must refer to the revised Implementation Guidance when testing an agency's compliance with FFMIA. (See http://www.whitehouse.gov/omb/assets/agencyinformation_memoranda_2009_pdf/m09-06.pdf.) 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.

¹⁸ 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.

¹⁹ 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.

- Provide recommended remedial actions.

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 A²⁰ 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).
- 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

²⁰ The requirements of Appendix A are applicable to the 24 CFO Act agencies.
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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 (AFR) (if applicable),²¹ 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 uncorrected misstatements to accompany the management representation letter. In accordance with the A-136, Section V, the management representation letter and accompanying summary of uncorrected misstatements are 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)*.

²¹ For FY 2009, agencies may choose either to produce a consolidated PAR or a separate AFR and Annual Performance Report (APR). All CFO Act agencies will be required to produce a summary of performance and financial information. Additionally, Non-CFO agencies that produce an AFR and APR will be required to produce a summary of performance and financial information. See Section II of the A-136 for further details.
OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements

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.²²

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 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.

²² 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.

8.7 A list of any uncorrected misstatements, including those audit adjustments waived by the component-level, should be attached to the management representation letter. In addition, the adjusting entries to correct the misstatements should also be provided. If there are no such uncorrected misstatements, a representation to this effect should be included in the management representation letter. Refer to the GAO/PCIE FAM Section 595 C, *Uncorrected Misstatements and Adjusting Entries* (GAO/PCIE FAM Section 595 C), and subsequent revisions, for a sample schedule of uncorrected misstatements and adjusting entries. Agencies are strongly encouraged to provide all of the information that is shown in GAO/PCIE FAM Section 595 C, and subsequent revisions, for the adjusting entries.

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 uncorrected misstatements, for the special-purpose financial statements used to compile the FR. (See this Bulletin's Section 13, Appendix F: *Illustrative Management Representation Letter for Special-Purpose Financial Statements*, and Appendix G: *Illustrative Management Representation Letter that Combines Representations for the General- and Special-Purpose Financial Statements*, 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.²³ (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 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, 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.)

²³ 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.

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, Part I. 5 Submission Deadlines.

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, Part I. 5 Submission Deadlines. 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, Appendix B.

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 11.10 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 The principal auditor of the payroll provider is required to report all findings to OPM by adhering to the AICPA and Government Auditing Standards attestation standards format that may be found at <http://www.aicpa.org/download/members/div/auditstd/AT-00201.PDF> paragraphs 31 and 32, and <http://www.gao.gov/govaud/d07162g.pdf> Chapter 6, respectively. This will assist and enhance OPM's ability to track each finding for all agencies.

11.10 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, with a cc: to 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 entities²⁴ to the FR and adjusted trial balances from the remainder of the entities included in the FR.

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

²⁴ 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.) The significant entities to the FR are referenced in the TFM as "verifying agencies," in relation to their responsibilities within the Government-wide Financial Report System (GFRS).

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* and Appendix G: *Illustrative Management Representation Letter that Combines Representations for the General- and Special-Purpose Financial Statements*.)

13.12 The auditor will also obtain additional written representations, and a summary of uncorrected misstatements, for the special-purpose financial statements used to compile the FR. The summary of uncorrected misstatements will contain uncorrected misstatements identified in the audited general-purpose financial statement summary and any additional uncorrected misstatements identified in the Closing Package. Explanations must be provided for any difference between the two summaries to facilitate the consolidation of the FR. In addition, the adjusting entries to correct the misstatements should also be provided. If there are no such uncorrected misstatements, a representation to this effect should be included in the management representation letter. Refer to the GAO/PCIE FAM Section 595 C, and subsequent revisions, for a sample schedule of uncorrected misstatements and adjusting entries. Agencies are strongly encouraged to provide all of the information that is shown in GAO/PCIE FAM Section 595 C, and subsequent revisions, for the adjusting entries.

13.13 The management representations and related summary of uncorrected misstatements will be submitted to Treasury, GAO and OMB by the due dates listed in the A-136, Part I. 5 Submission Deadlines.

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, Part I. 5 Submission Deadlines. 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 OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements

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, Part I. 5 Submission Deadlines.

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

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.

Examination Report

13.33 Applicability: Those calendar year-end entities identified as "significant entities" to the Financial Report of the U.S. Government (FR) in the Department of the Treasury's TFM Volume I, Part 2, Chapter 4700.

13.34 These entities will be required to have an examination on an assertion performed in accordance with AT § 101, *Attestation Engagements* on those portions of their closing packages that are deemed by the Treasury's FMS to contribute materially to an FR financial statement line item, note, or both. An illustrative management representation letter and an examination report are included in Appendix I and J, respectively.

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, Part I. 5 Submission Deadlines. In addition, contact information is provided in the A-136, Appendix B.

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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 STATEMENTS²⁵

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

²⁵ 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
American Battle Monuments Commission
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
Election Assistance 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 Maritime Commission
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

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

Japan-U.S. Friendship Commission
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
Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects
Peace Corps
Postal Regulatory Commission
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
Presidio Trust
Resolution Funding Corporation
Saint Lawrence Seaway Development Corporation
Tennessee Valley Authority

APPENDIX E

GENERAL LAWS²⁶

- 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

²⁶ 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.

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

[Entity Letterhead]

[Date of Auditor's Report and completion of the audit]

[Name and Title of Audit Organization Head]

[Address of Audit Organization]

Dear [Name of Audit Organization Head]:

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 applicable²⁷) 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.

²⁷ If the statements of social insurance are applicable, the management representation letter will indicate that the: (1) valuation date is January 1 [insert years] for all social insurance programs except the Black Lung program, for which the valuation date is September 30, [insert years] and (2) projection period used for all social insurance programs is 75 years except for the Black Lung program, for which the projections are through 2040, when the program is scheduled to terminate.

**ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER
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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 MANAGEMENT REPRESENTATION LETTER THAT
COMBINES REPRESENTATIONS FOR THE GENERAL- AND SPECIAL-PURPOSE
FINANCIAL STATEMENTS²⁸**

[Entity Letterhead]

[Date of Auditor's Report and Completion of the Audit]

[Name and Title of Audit Organization Head]

[Address of Audit Organization]

Dear [Name of Audit Organization Head]:

We are providing this letter in connection with your audit of the [Entity's] balance sheet as of September 30, 20X8 and 20X7, [or the dates of the audited financial statements] and the related statements of net costs, changes in net position, budgetary resources, social insurance [if applicable²⁹] and custodial activity [if applicable], (hereinafter referred to as the general-purpose financial statements); and special-purpose financial statements, including the reclassified balance sheets as of September 30, 20X8 and 20X7, [or end of years covered by the special-purpose financial statements] and the related statements of net costs, changes in net position, and, social insurance [if applicable], for the years then ended for the purposes of:

- (1) expressing an opinion as to whether the general-purpose financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- (2) reporting [or expressing an opinion] on the Entity's internal control over financial reporting and compliance with laws and regulations as of September 30, 20X8 [or date of the latest audited general-purpose financial statements],
- (3) expressing an opinion as to whether the special-purpose financial statements are presented fairly, in all material respects, in conformity with U.S. GAAP and the presentation requirement set forth in the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2 Chapter 4700,
- (4) (For CFO Act agencies) reporting whether the [Entity's] financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government Standard General Ledger at the transaction level as of September 30, 20X8, and

²⁸ The illustrative is based on the sample management representation letter presented in the GAO/PCIE FAM Section 1001A, *Example Management Representation Letter*.

²⁹ See footnote 27.

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(5) testing for compliance with applicable laws and regulations. In addition, you have performed certain audit procedures with respect to the [Entity's] 20X8 Management's Discussion and Analysis (MD&A) and other supplementary information, which is included as part of the 20X8 financial statements of the [Entity].

(Recommended paragraph) Certain representations in this letter are described as being limited to matters that are material. For purposes of this letter, matters are considered material if they involve \$XX or more. Items also are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during the audit of [Entity's] general-purpose financial statements and the special-purpose financial statements for the period covered by these financial statements. These representations pertain to both years' financial statements, and update the representations we provided in the prior year:

Presentation and Disclosure

1. We are responsible for the fair presentation of: (1) the general-purpose financial statements in conformity with U.S. generally accepted accounting principles and (2) 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. [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.] We are also responsible for the preparation of the MD&A, and (if any): required supplementary information (RSI), required supplementary stewardship information (RSSI), and other supplementary information.

2. The general-purpose financial statements are fairly presented in conformity with U.S. generally accepted accounting principles and 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. The MD&A, and (if any) RSI, RSSI, and other supplementary information are fairly presented and are consistent with the financial statements.

**ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER THAT
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3. We have made available to you all
 - a. financial records and related data;
 - b. where applicable, minutes of meetings of the Board of Directors [or other similar bodies of those charged with governance] or summaries of actions of recent meetings for which minutes have not been prepared;
 - c. any communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices; and
 - d. 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 recorded in the accounting records underlying the general-purpose financial statements and properly reclassified special-purpose financial statements or disclosed in the notes to the financial statements.
5. There are no uncorrected financial statement misstatements as we have adjusted the financial statements for all known and likely misstatements you have informed us of. (or) We believe that the effects of uncorrected financial statement misstatements summarized in the enclosed summary are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. (An example summary is provided in FAM 595 C, and subsequent revisions.) [If management believes that certain of the identified items are not misstatements, management's belief may be acknowledged by adding to the representation, for example, "We believe that items XX and XX do not constitute misstatements because (description of reason)."]
6. The [Entity] has satisfactory title to all owned assets, including stewardship property, plant, and equipment. There are no liens or encumbrances on these assets and no assets have been pledged.
7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities or that we are required to disclose in the financial statements.
8. There are no guarantees under which the [entity] is contingently liable that require reporting or disclosure in the financial statements.

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9. Related party transactions including related accounts receivable or payable, revenues, expenditures, loans, transfers, leasing arrangements, assessments, and guarantees have been properly recorded and disclosed in the financial statements.

10. No material events or transactions have occurred subsequent to September 30, 20X8 [or date of latest audited financial statements], that have not been properly recorded in the financial statements or disclosed in the notes.

Intra-governmental Activities

11. All intra-entity transactions and balances have been appropriately identified and eliminated for financial reporting purposes. All intra-governmental transactions and activities have been appropriately identified, recorded, and disclosed in the financial statements. We have reconciled [or have been unable to reconcile] material intra-governmental transactions and balances with the Federal entity providing the goods or services.

Internal Control

12. We are responsible for establishing and maintaining a system of internal control to also include, 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.

13. Pursuant to 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act), we have assessed the effectiveness of the [entity's] internal control in achieving the following objectives:

- a. Reliability of financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- b. Compliance with applicable laws and regulations: Transactions are executed in accordance with laws governing the use of budget authority; other laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations identified in OMB's audit guidance.

[This item is optional if the auditor is not opining on internal control. Also, if the agency bases its internal control assessment on suitable criteria other than 31 U.S.C. 3512(c), (d), cite the criteria used (for example, Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission).]

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14. Those controls in place on September 30, 20X8 [or date of latest audited financial statements], and during the years ended 20X8 and 20X7, provided reasonable assurance that the foregoing objectives are met. [Delete this item if the auditor is not opining on internal control.]

[If there are material weaknesses: Those controls in place on September 30, 20X8, and during the years ended 20X8 and 20X7, were not effective to provide reasonable assurance that the foregoing objectives were met because of the effects of the material weaknesses discussed below or in an enclosure.]

15. We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the [Entity's] ability to meet the internal control objectives and identified those we believe to be material weaknesses (or determined that none is a material weakness). [This item is optional if the auditor is not opining on internal control.]

16. There have been no changes to internal control subsequent to September 30, 20X8 [or date of latest audited financial statements], or other factors that might significantly affect the effectiveness of internal control. [If there were changes, describe them, including any corrective actions taken with regard to any significant deficiencies or material weaknesses.]

Fraud

17. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements).

18. We have no knowledge of any fraud or suspected fraud affecting the [Entity] involving:

- a. management,
- b. employees who have significant roles in internal control, or
- c. others where the fraud could have a material effect on the financial statements.

[If there is knowledge of any instances, describe them.]

19. We have no knowledge of any allegations of fraud or suspected fraud affecting the [entity] received in communications from employees, former employees, or others. [If there is knowledge of any such allegations, they should be described.]

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Compliance of Systems with FFMIA

[For CFO Act agencies subject to the Federal Financial Management Improvement Act of 1996 (FFMIA)]

20. We are responsible for implementing and maintaining financial management systems that substantially comply with Federal financial management systems requirements, Federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government Standard General Ledger at the transaction level.

21. We have assessed the financial management systems to determine whether they substantially comply with those Federal financial management systems requirements. Our assessment was based on guidance issued by OMB.

22. The financial management systems substantially complied with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level as of [date of the latest financial statements].

[If the financial management systems substantially comply with only one or two of the above elements, modify as follows:

As of [date of financial statements], the [Entity's] financial management systems substantially comply with [specify which of the three elements for which there is substantial compliance (e.g., Federal accounting standards and the USSGL at the transaction level)], but did not substantially comply with [specify which of the elements for which there was a lack of substantial compliance (e.g., Federal financial management systems requirements)], as described below (or in an enclosure).]

[If the financial management systems do not substantially comply with any of these three elements, use the following paragraph:

As of [date of financial statements], the [Entity's] financial management systems do not substantially comply with the Federal financial management systems requirements.]

[If there is a lack of substantial compliance with one or more of the three requirements, identify all the facts pertaining to the noncompliance, including the nature and extent of the noncompliance and the primary reason or cause of the noncompliance.]

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Laws and Regulations

23. We are responsible for the [Entity's] compliance with applicable laws and regulations.
24. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts [may list laws and regulations].
25. There are no
- a. violations or possible violations of laws or regulations whose effects we should evaluate for disclosure in the financial statements or as a basis for recording a loss contingency,
 - b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed, or
 - c. unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.

[When there is no general counsel and management has not consulted legal counsel regarding contingencies, the auditor should obtain a written representation from management that legal counsel has not been consulted. An example of wording is: "We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with SFFAS No. 5. We have not consulted legal counsel concerning litigation, claims, or assessments." (See FAM 1002.24, and subsequent revisions)]

26. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
27. We are not aware of any violations of the Antideficiency Act that we must report to the Congress and the President (and provide a copy of the report to the Comptroller General) for the year ended September 30, 20x8, (or, we have reported all known violations of the Antideficiency Act) and through the date of this letter.

Statement of Social Insurance

[For entities presenting a Statement of Social Insurance (SOSI) see AICPA publication SOP 04-1, Auditing the Statement of Social Insurance, (SOP 04-1 § 36) which suggests the following management representations.]

**ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER THAT
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28. Management is responsible for the assumptions and methods used in the preparation of the SOSI. Management agrees with the actuarial methods and assumptions used by [Entity's] actuary and have no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. Management did not give any instructions, nor cause any instructions to be given to the [Entity's] actuary with respect to values or amounts derived, and is not aware of any matters that have affected the objectivity of the [Entity's] actuary. Management believes that the actuarial assumptions and methods used to measure the amounts in the SOSI for financial accounting purposes are appropriate in the circumstances.

29. Actuarial assumptions and methods used to measure the amounts in the SOSI for financial accounting and disclosure purposes represent management's best estimates regarding future events based on demographic and economic assumptions and future changes mandated by law.

30. There were no material omissions from the data provided to the [Entity's] actuary for the purpose of determining the actuarial present value of the estimated future income to be received and estimated future expenditures to be paid during the projection period sufficient to illustrate the long-term sustainability of (name of the social insurance program) as of (dates of SOSI presented).

31. The SOSI covers a projection period sufficient to illustrate the long-term sustainability of the social insurance program.

32. Management provided the auditor with all the reports developed by external review groups appointed by the [Entity's] or the program's trustees related to estimates in the SOSI.

33. The following matters relating to the SOSI have been disclosed properly in the notes to the financial statements:

- a. The accumulated excess of all past cash receipts, including interest on investments, over all past cash disbursements within the social insurance program represented by the fund balance at the valuation date.
- b. An explanation of how the net present value is calculated for the closed group.
- c. Comparative financial information for items in paragraphs 2a, 2b, 2c, and 2d (1) of SOP 04-1, for the current year and for each of the preceding four years. (Note any preceding years that are unaudited).
- d. Significant assumptions used in preparing estimates

34. There have been no changes in (or, changes in the following have been properly reported or disclosed in) the actuarial methods or assumptions used to calculate amounts recorded or disclosed in the financial statements between the valuation dates (for example: of January 1,

**ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER THAT
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20x8 and January 1, 20x7) or changes in the method of collecting data, and the valuation date (for example: of January 1, 20x8), and the financial reporting date (of September 30, 20x8) or changes in the method of collecting data.

35. There have been no changes in (or, changes in the following have been properly reported or disclosed in) laws and regulations affecting social insurance program income and benefits between the

a. valuation dates (for example: January 1, 20x8 and January 1, 20x7)

b. valuation date (for example: January 1, 20x8) and the financial reporting date (of September 30, 20x8).

36. Accounting estimates applicable to the financial information of the [Entity] included in the SOSI are based on management's best estimate, after considering past and current events and assumptions about future events.

Budgetary and Restricted Funds

37. The information presented in the (Entity's) Statement of Budgetary Resources (materially - defined in paragraph 2 on page 1001 A-1 of the FAM, and subsequent revisions) agrees with information submitted in its year-end Reports on Budget Execution and Budgetary Resources (SF-133s). The information will be used as input for the fiscal year 20x8 actual column of the Program and Financing Schedules reported in the fiscal year 20x0 Budget of the U.S Government. This information is supported by the related financial records and data.

38. We have disclosed in the financial statements all material earmarked funds as defined by FASAB SFFAS No. 27 and all material restricted funds.

[Signed by Entity Head]

[Signed by Chief Financial Officer]

Enclosure(s)

**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 applicable³⁰) (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. 07-04, *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.

³⁰ If the statements of social insurance are applicable, the auditor will include the following sentences after the report's opening paragraph's first sentence: "As used in this report, accrual-basis financial statements refer to all of the special-purpose, consolidated financial statements and notes except for those related to the statements of social insurance. The statements of social insurance do not interrelate to the accrual-basis consolidated financial statements." Moreover, when opining on the statements of social insurance, the audit report will indicate that the: (1) valuation date is January 1 [*insert years*] for all social insurance programs except the Black Lung program, for which the valuation date is September 30, [*insert years*] and (2) projection period used for all social insurance programs is 75 years except for the Black Lung program, for which the projections are through 2040, when the program is scheduled to terminate.

**ILLUSTRATIVE INDEPENDENT AUDITORS' REPORT ON SPECIAL-PURPOSE
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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. 07-04, we have also issued reports³¹ 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. 07-04, 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.

³¹ 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.

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

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. 07-04, 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.

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*]

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

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 MANAGEMENT REPRESENTATION LETTER
FOR CLOSING PACKAGE “MATERIAL AMOUNTS” SCHEDULE**

[Entity Letterhead]

[Date of Accountant's Report]

[Name and Title of Accounting Organization Head]

[Address of Accounting Organization]

Dear [Name of Accounting Organization Head]:

This letter is in connection with your examination of the [name of Federal agency]’s closing package material amounts schedule contained in [name of Federal agency]’s special-purpose closing package (hereinafter referred to as the closing package material amounts schedule) as of September 30, [insert years] for the purpose of expressing an opinion as to whether the closing package material amounts schedule is 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 examination, which these representations are as of the date of your Independent Accountant’s Report, and pertain to the periods covered by the closing package material amounts schedule.

1. We are responsible for the fair presentation of the closing package material amounts schedule in conformity with accounting principles generally accepted in the United States of America and the presentation requirements set forth in the TFM Chapter 4700.
2. The closing package material amounts schedule is fairly presented in conformity with 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 closing package material amounts schedule as prescribed in the TFM Chapter 4700.

**ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER
FOR CLOSING PACKAGE “MATERIAL AMOUNTS” SCHEDULE**

4. There are no material transactions that have not been properly reclassified in the closing package material amounts schedule.
5. We are responsible for establishing and maintaining internal control over the closing package material amounts schedule 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 closing package material amounts schedule 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 ACCOUNTANT'S REPORT ON CLOSING
PACKAGE "MATERIAL AMOUNTS" SCHEDULE**Independent Accountant's Report

We have examined management's assertion that the accompanying closing package material amounts schedule as of September 30, *[insert years]* contained in the special-purpose closing package of *[name of Federal Agency]* (hereinafter referred to as the closing package material amounts schedule) are fairly stated, in all material respects, according to accounting principles generally accepted in the United States of America. For purposes of this report, the closing package material amounts schedule for *[name of Federal Agency]* represents those amounts that the Department of the Treasury and the Office of Management and Budget have identified as being *[name of Federal Agency]*'s material amount of the total governmentwide *[identify the applicable line item(s) of the special-purpose financial statement(s), accompanying note(s), or both]*. The closing package material amounts schedule is the responsibility of *[name of Federal Agency]*'s management. Our responsibility is to express an opinion on the closing package material amounts schedule based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we examine, on a test basis, evidence supporting the closing package material amounts schedule and perform other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The accompanying closing package material amounts schedule has 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, 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 closing package material amounts schedule referred to above is fairly stated, in all material respects, for *[name of Federal Agency]* as of September 30, *[insert year(s)]*, and 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.

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]