Exposure Draft

Update to Joint GAO/PCIE Financial Audit Manual (FAM)

Instructions for Comment

We welcome comments from everyone. GAO and the PCIE encourage the widest possible distribution of the exposure draft of the FAM update.

Agency inspectors general should encourage their independent public accounting firms to review and comment.

Please e-mail comments to FAM_Comments@oig.doi.gov. Include contact information (name, phone number, e-mail address, etc.)

If you have questions, contact:

- Rosemary Jellish (GAO, 202-512-6920, jellishr@gao.gov)
- Curtis Crider (PCIE, 202-208-5724, Curtis_Crider@oig.doi.gov)

September 2002

Dear Colleague:

In July 2001, the U.S. General Accounting Office (GAO) and the President's Council on Integrity and Efficiency (PCIE) issued the GAO/PCIE *Financial Audit Manual* (FAM). The FAM provides guidance for financial audits conducted by the Inspector General community, GAO, and their contractors. The FAM is a key part in enhancing accountability over taxpayer-provided resources.

GAO and the PCIE are committed to keeping the FAM current. With this goal in mind, a GAO/PCIE task force prepared an exposure draft to add new sections and to update existing sections of volume II of the *Financial Audit Manual*, which provides tools to assist the auditor in complying with audit standards. The updates are listed in the table of contents for volume II. The exposure draft is at

www.GAO.gov or www.ignet.gov/pande/audit.html

Instructions for providing comments are at these sites. Please provide the rationale for your comments. The due date for comments is November 15, 2002. We expect to publish the final version of this update in late 2002 or early 2003.

You may discuss questions with Rosemary Jellish (GAO, 202-512-6920, jellishr@gao.gov) or Curtis Crider (PCIE, 202-208-5724, Curtis_Crider@oig.doi.gov).

We appreciate your attention to this very important project.

Jeffrey C. Steinhoff
Managing Director
U.S. General Accounting Office

The Honorable Gregory H. Friedman
Chair, President's Council on Integrity
and Efficiency Audit Committee

United States General Accounting Office
President's Council on Integrity and Efficiency

GAO/PCIE

Financial Audit Manual

Exposure Draft

Update to Volume 2

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601 - INTRODUCTION TO PART II

.01 Part II of the GAO/PCIE *Financial Audit Manual* (FAM) consists of tools to assist the auditor in performing a financial statement audit. These tools are generally organized according to the phases of the audit: tools in section 600 deal with the planning phase and general issues; section 700, the internal control phase; section 800, compliance; section 900, substantive testing; and section 1000, the reporting phase.

.02 Many of the tools in the various sections include activities that would be performed during other phases of the audit. Thus, the auditor should refer to the sections in part II early in the audit. For example, section 701, Assessing Compliance of Agency Systems with the Federal Financial Management Improvement Act, includes procedures that would be performed throughout the audit, not just during the internal control phase, although many of them would be performed then. Also, section 902, Related Parties, Including Intragovernmental Activity and Balances, has procedures that the auditor may decide to perform in the planning and internal control phases of the audit as well as during the testing phase.

.03 The audit procedures presented in the examples in this and other sections of part II (tools) of the GAO/PCIE FAM are examples of some of the audit steps typically performed in each area. They should be used in conjunction with the appropriate FAM sections. In using these procedures, the auditor should use judgment to add additional procedures, delete irrelevant procedures, modify procedures, indicate the extent and timing of procedures, and change the terminology to that used by the audited entity. The auditor may integrate these steps with the audit programs for related line items. For example, tests of intragovernmental activity and balances (section 902) may be integrated with tests of accounts receivable and payable, and, to improve efficiency, the auditor may coordinate those tests with related nonintragovernmental activity and balances.

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650 - USING THE WORK OF OTHERS

.01 In many audits, the auditor uses the work and reports of other auditors and specialists. Other auditors include CPA firms, Inspectors General, state auditors, and internal auditors. Specialists include actuaries and information systems auditors. The audit organization may contract with a CPA firm to perform parts of or the entire audit. The audit organization should use FAM 650 to design and perform appropriate oversight and other procedures to use the work of other auditors and specialists. (The audit organization using the work of other auditors and specialists is referred to below as "the auditor.") This section provides guidance on using the work of other auditors and specialists and the nature and extent of procedures the auditor should perform.

.02 Various professional standards provide guidance in this area. These standards include AU 543, "Part of Audit Performed by Other Independent Auditors"; AU 322, "The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements"; AU 336, "Using the Work of a Specialist";[1] and AU 315 (SAS No. 84), "Communication Between Predecessor and Successor Auditors." These standards have different requirements depending on whether the other organization is an independent auditor, an internal auditor, or a specialist.

.03 The auditor may use the work of other auditors and specialists in various situations, for example:

- audits by Inspectors General or CPA firms in accordance with the GAO/PCIE FAM;
- CPA firms or specialists hired to do parts of an audit (for example, review information systems controls, review actuarial calculations, test specific accounts);
- single audits or audits of federal funds performed by state auditors and CPA firms;
- work performed by internal auditors; and
- internal audit staff who provide direct assistance to the auditor.

.04 AU 543.13 states: "In some circumstances the principal auditor may consider it appropriate to participate in discussions regarding the accounts with

[1] The AICPA also issued Practice Alert 2002-02, *Use of Specialists*.

management personnel of the component whose financial statements are being audited by other auditors and/or to make supplemental tests of such accounts. The determination of the extent of additional procedures, if any, to be applied rests with the principal auditor alone in the exercise of his professional judgment and in no way constitutes a reflection on the adequacy of the other auditor's work. Because the principal auditor in this case assumes responsibility for his opinion on the financial statements on which he is reporting without making reference to the audit performed by the other auditor, his judgment must govern as to the extent of procedures to be undertaken."

.05 The above paragraph makes clear that the principal auditor exercises considerable judgment in deciding what procedures are necessary to use the work of the other auditor. FAM 650 provides guidance in making the judgments necessary to use the work of others. These judgments include

- the type of reporting (see paragraphs 650.09-.10),
- the auditor's evaluation of the other auditors' or specialists' independence and objectivity (see paragraphs 650.11-.24),
- the auditor's evaluation of the other auditors' or specialists' qualifications (see paragraphs 650.25-.35), and
- the auditor's determination of the level of review (see paragraphs 650.36-.41).

.06 The auditor should coordinate with other auditors whose work he or she wishes to use. In turn, the other auditor should consider the needs of auditors who plan to use the work being performed so that the judgments exercised by both auditors could satisfy the needs of both. For example, auditors of a consolidated entity (such as the U.S. government or an entire department or agency) are likely to plan to use the work of auditors of subsidiary entities (such as individual departments and agencies or bureaus and components of a department). This coordination can result in more economy, efficiency, and effectiveness of government audits in general and avoid duplication of effort.

.07 In this coordination, the auditor should inform the other auditor how his or her work and report will be used. AU 543.07 indicates that if the auditor's report will name the other auditor, the auditor should obtain permission to do so and should present the other auditor's report together with the principal auditor's report. For CPA firms, this permission may be obtained through the contracting process. The auditor also should provide the other auditors a draft of the report as a courtesy.

.08 When there is a difference of opinion between the two auditors, the principal auditor generally should confer with the other auditor to reach agreement with him or her as to the procedures necessary to satisfy both auditors' professional

judgments. If both auditors are unable to reach agreement, the principal auditor may (1) perform the work the principal auditor believes necessary and report the results based on the principal auditor's professional judgment or (2) not perform the work, and report the results as a scope limitation. Section 650 B contains example audit procedures for using the work of others, which depend on the judgments made.

TYPES OF REPORTING

.09 There are various types of reporting when using the work of other auditors and specialists. The type of reporting depends on the degree of responsibility the auditor accepts and the work performed by the auditor. Factors for the auditor to consider in deciding which type of reporting to use include the amount of assurance the auditor wishes to provide, legal requirements, and cost-benefit considerations. The degree of resources required varies by type of report and generally increases in the order presented below. The type of reporting should be decided in planning the job and generally should be discussed with the other auditors or specialists. Section 650 C contains examples of wording for two types of reporting. The types of reporting are as follows.

- **No association with report—**In this situation, the other auditors' or specialists' report is provided directly to the auditee and/or to significant users. The auditor may use this method when there is no legal requirement for a separate report by the auditor, the user does not need a separate report from the auditor, and a separate report would provide no additional information.

- **Auditor transmittal letter—**This letter indicates that the auditor reviewed the other auditors' or specialists' report and related documentation and inquired of their representatives and states that the auditor found no violations of *Government Auditing Standards* (GAGAS); however, because the auditor did not perform an audit, the auditor does not express an opinion[2] on the financial statements, or on internal control, or on whether the entity's systems complied with the requirements of the Federal Financial Management Improvement Act (FFMIA). See example 1 of section 650 C for wording.[3] The auditor may use this approach when there is no legal requirement for the auditor to express an opinion but the auditor is required to or wants to issue a

[2] The auditor should not indicate agreement with the other auditors' opinion or conclusions.

[3] In some cases, the auditor may issue a transmittal letter without reviewing the other auditors' documentation. In these situations, the transmittal should be clear as to the limitations of the auditor's work.

report or letter. The auditor may expand the letter to highlight certain findings or information or to indicate that certain procedures were performed.

- **The auditor issues a report that refers to other auditors' reports and indicates a division of responsibilities—**The auditor may use this approach when the other auditors have reported on financial statements for an entity that is part of the entity whose financial statements the auditor is reporting on and the auditor does not wish to take responsibility for the other auditors' work. See AU 543.09 for example wording. This approach may be used only for CPA firms or for other auditors who are organizationally independent (see paragraph 650.14); it may not be used for internal auditors or specialists. This approach also should not be used when the portion of the consolidated assets, liabilities, expenses, revenues, or net position audited by the other auditor is "so large" that there would be a question as to who is the principal auditor (see AU 543.02). While the auditor should exercise judgment in deciding whether he or she is the principal auditor, one typical criterion for "so large" is that other auditors audit more than 50 percent of the consolidated assets, liabilities, expenses, revenues, or net position. If the portion of the consolidated assets, liabilities, expenses, revenues, or net position audited by the other auditor is "so large," the auditor should do enough work to issue a report that does not mention the other auditors' work (see below). Another consideration in deciding whether the auditor is the principal auditor is whether the auditor has sufficient knowledge of the entire entity, including portions audited by other auditors.

- **The auditor issues a report that expresses concurrence with the other auditors' report and conclusions—**The auditor may use this approach when other auditors have reported on financial statements and the auditor needs or wants to provide more assurance than what is provided by the transmittal letter. Expressing concurrence means that the auditor would have reached the same opinion or conclusion had he or she done the audit. Therefore, the auditor needs to do the same level of work as he or she would have done to take responsibility for the other auditor's work.[4] See example 2 in section 650 C for report wording. This approach may be used only for CPA firms or for other auditors who are organizationally independent (see paragraph 650.14). This report should not be used for specialists, since AU 336.15 prohibits reference to a specialist's report unless the auditor issues a qualified or

[4] In this instance both the other auditor and the auditor that expresses concurrence are principal auditors because both have sufficient knowledge of the overall financial statements and the important issues, and the concurring auditor, by reason of the level of work done, has also audited the financial statements.

adverse opinion or a disclaimer of opinion based on the specialist's work. This approach also should not be used for internal auditors. AU 322.19 notes that the responsibility to report on the financial statements rests with the auditor and cannot be shared with internal auditors.[5]

- **The auditor issues a report that does not mention the other auditors' or specialists' work**--In this situation, the auditor issues the report in section 595 A and/or B (as if no other auditors or specialists were involved). This means the auditor takes responsibility for the other auditors' or specialists' work. The auditor may use this approach when the other auditors have done part of the audit; the approach also may be used when the other auditors have done the entire audit. The auditor also should use this approach when using the work of specialists and internal auditors, since professional standards do not permit referring to specialists' or internal auditors' work (unless, for specialists, the auditor issues a qualified or adverse opinion or a disclaimer of opinion based on the specialist's work). GAO uses this approach in the audit of the consolidated financial statements of the United States Government.

.10 The following chart presents an overview of the work the auditor generally should perform for each type of report or letter. "Yes" means some of that category of work generally should be performed. "No" means that the category is generally not required for the report or letter. The extent of work in each category depends on the auditor's judgment. See paragraph 650.36 for discussion on level of review.

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[5] There may be situations where the auditor is asked to provide a separate opinion in addition to presenting the other auditors' report. In these situations, the auditor should follow the wording in section 595 A and/or B and should add the following in lieu of the introduction to the first paragraph on page 595 A-5:

"To help fulfill these responsibilities, we contracted with the independent certified public accounting firm of [insert firm name] to perform a financial statement audit in accordance with generally accepted government auditing standards, OMB's bulletin, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual*. The report of [name of CPA firm] dated [date] is attached. We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of [name of CPA firm], met with partners and staff members of [name of firm], evaluated the key judgments, met with officials of [entity being audited], performed independent tests of the accounting records, and performed other procedures we deemed appropriate in the circumstances. Our opinions expressed above are consistent with the opinions of [name of CPA firm]. Thus, in this audit, we:" (continue with numbered items).

Type of reporting	Evaluate the other auditors' independence and objectivity (paragraphs 650.11-.24)	Evaluate the other auditors' qualifications (paragraphs 650.25-.35)	Level of Review (paragraphs 650.36-.41)	Review documentation (paragraph 650.42)	Perform supplemental tests (paragraphs 650.43-.47)
No association with report	No[6]	No	None	No	No
Auditor transmittal letter	Yes	Yes	Moderate or low	Yes	No
Report refers to the other auditors' report and indicates a division of responsibilities	Yes	Yes	Moderate or low	Yes	No
Report concurs with the other auditors' report or does not mention the other auditors' work	Yes	Yes	High, moderate, or low	Yes	Yes for internal auditors' work. Yes for auditors' work for high level of review. No for auditor's work for moderate or low level of review

[6] If the auditor contracts with the other auditors, the contracting process generally will require the auditor to evaluate the other auditors' independence, objectivity, and qualifications and to monitor performance under the contract.

EVALUATING THE OTHER AUDITORS' OR SPECIALISTS' INDEPENDENCE AND OBJECTIVITY

.11 Unless the auditor has no association with the report, the auditor should evaluate the other auditors' or specialists' independence and objectivity. Where the auditor has previously used the work of the same other auditors, the auditor generally should update the previous evaluation. GAGAS 3.11 indicates that audit organizations and individual auditors should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance. The auditor should first evaluate organizational independence. Different standards apply to CPA firms, other organizationally independent auditors, internal auditors, and specialists.

.12 For CPA firms and specialists, the contracting process is designed to select a firm that is independent and objective. The statement of work or request for proposal should ask the firms to represent that they are independent and objective with respect to the auditee and should request the firms to describe in their proposals all work, including nonaudit services, they have done for the auditee in the last several years. The technical evaluation panel should evaluate whether the nature and extent of this work or other factors cause an independence or objectivity issue. In this evaluation, the panel may consider, for example, whether (1) the other auditors will need to audit their own work or (2) whether the other auditors made management decisions or performed management functions.

.13 If possible, the auditor should have a role in contracting for the CPA firm or specialist. When the auditor does not participate in contracting for the CPA firm or specialist, the auditor generally should obtain an overview of the contracting process; this generally should include reading the statement of work or request for proposal and the proposal of the firm selected, and understanding the evaluations of the panel selecting the firm. The auditor should determine whether the firm provided a representation as to independence and objectivity (usually in its proposal). If the firm has not provided a representation as to independence and objectivity, the auditor should obtain a representation from the firm. If the auditor is not familiar with the firm, the auditor should inquire of professional organizations (such as the American Institute of Certified Public Accountants) as to the firm's professional reputation and standing.

.14 For government auditors, the auditor should decide whether the other audit organization is organizationally independent to report externally or whether it should be considered an internal audit organization. The auditor may refer to the work of organizationally independent government auditors but should not refer

to the work of internal audit organizations in the audit report; generally more extensive review and supervision are necessary when dealing with internal auditors. The auditor should obtain written representations from the head of the government audit organization that to the best of his or her knowledge, the organization and the individual auditors doing the work are independent of the entity being audited. This means that the individual auditors are free of personal impairments to independence and maintain an independent attitude and appearance; it also means that the organization is free from external impairments and is organizationally independent (see GAGAS 3.11). The representation letter may indicate the general criteria for determining independence, such as "under the criteria in GAGAS." The representations should be for the period of the financial statements to the date of the other auditors' report. Since the decision on the independence and objectivity of the other auditors is needed to plan the auditor's work, the auditor generally should obtain oral representations early in the audit, with written representations at the end of the audit.[7]

.15 Government auditors may be presumed to be free from organizational impairments to independence when reporting externally to third parties if their audit organization is organizationally independent of the audited entity. Government audit organizations may meet the requirement for organizational independence in a number of ways. There is a presumption that a government audit organization is organizationally independent (GAGAS 3.30.1) if the audit organization is

a. "assigned to a level of government other than the one to which the audited entity is assigned (federal, state, or local), for example, a federal auditor auditing a state government program, or

b. "assigned to a different branch of government within the same level of government as the audited entity, for example, a legislative auditor auditing an executive branch program."

.16 There is also a presumption of organizational independence if the head of the audit organization (GAGAS 3.30.2) meets one of the following:

a. "is directly elected by voters of the jurisdiction being audited,

b. "is elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to and is accountable to a legislative body,

[7] Obtaining a representation from the head of the audit organization is similar to the procedure for CPA firms under AU 543.10b.

c. "is appointed by someone other than a legislative body, so long as the appointment is confirmed by a legislative body and removal from the position is subject to oversight or approval by a legislative body, and reports the results of audits to and is accountable to a legislative body, or

d. "is appointed by, accountable to, reports to, and can only be removed by a statutorily created governing body, the majority of whose members are independently elected or appointed and come from outside the organization being audited."

.17 If the other audit organization or its head meets one of the above criteria, the auditor need not perform any procedures concerning organizational independence other than to obtain a representation letter from the head of the audit organization as noted in paragraph 650.14 (see paragraph 650.23 for tests of personal independence). However, if the auditor encounters evidence that the audit organization might not be organizationally independent, the auditor should consider the need for inquiries and other procedures; the auditor should then evaluate the results of these procedures.

.18 In addition to the presumptive criteria, GAGAS recognize that there may be other organizational structures under which a government audit organization could be free from organizational impairments. These other structures should provide sufficient safeguards to prevent the audited entity from interfering with the audit organization's ability to perform the work and report the results impartially. For the audit organization to be considered free from organizational impairments to report externally under a structure different from the ones listed above, the audit organization (GAGAS 3.30.3) should have **all** of the following safeguards:

a. "statutory protections that prevent the abolishment of the audit organization by the audited entity,

b. "statutory protections that require that if the head of the audit organization is removed from office, the head of the agency should report this fact and the reasons for the removal to the legislative body,

c. "statutory protections that prevent the audited entity from interfering with the initiation, scope, timing, and completion of any audit,

d. "statutory protections that prevent the audited entity from interfering with the reporting on any audit, including the findings, conclusions, and recommendations, or the manner, means, or timing of the audit organization's reports,

e. "statutory protections that require the audit organization to report to a legislative body or other independent governing body on a recurring basis,

f. "statutory protections that give the audit organization sole authority over the selection, retention, and dismissal of its staff, and

g. "statutory access to records and documents that relate to the agency, program, or function being audited."

.19 If the head of the audit organization concludes that the organization has all the safeguards listed above, the audit organization may be considered free from organizational impairments to independence when reporting externally. The audit organization should document the statutory provisions in place that provide these safeguards. The external quality assurance reviewer will review these provisions to determine whether the necessary safeguards are present.

.20 The auditor using the work of another auditor who meets these requirements should request a representation letter from the head of the audit organization; the auditor should review the above documentation and discuss it with the head of the audit organization. He or she also may discuss the matter with the external quality assurance reviewer, legal counsel for the audit organization, and his or her own legal counsel.

.21 If the auditor decides that the government audit organization is not organizationally independent to report externally (either because it does not meet the criteria in GAGAS or for another reason), the auditor should determine whether the other auditor is organizationally independent to report internally. These auditors are internal auditors. The Institute of Internal Auditors' (IIA) *Standards for the Professional Practice of Internal Auditing* defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." GAGAS contain guidance on organizational independence for government internal auditors. For example, internal auditors should be outside the staff or line management function of the unit under audit. They should report their results and be accountable to the head or deputy of their agency. IIA standards require internal auditors to be objective for the activities they audit. These concepts of independence differ from independence under the AICPA Code of Professional Conduct or independence for external auditors under GAGAS. The auditor generally should determine whether the internal auditors whose work is to be used are independent of the activities they audit.

The auditor also should consider the organizational status of the head of the audit organization, including (GAGAS 3.30.5) whether the head:

- "is accountable to the head or deputy head of the government entity;
- "is required to report the results of the audit organization's work to the head or deputy head of the government entity, and
- "is located organizationally outside the staff or line management function of the unit under audit."

.22 If the auditor concludes that the internal auditors are not independent under GAGAS and IIA standards, the auditor should treat the work as if the auditee prepared it. If the auditor concludes that the internal auditors are independent under GAGAS and IIA standards, the auditor may use their work to the extent permitted by AU 322. In either case, the auditor may not issue a report referring to or concurring with the work of internal auditors.

.23 In addition to evaluating the other auditors' organizational independence, the auditor should evaluate whether the audit team has any personal impairments. For both internal auditors and organizationally independent government audit organizations, the auditor generally should ask how the other auditors monitor the personal independence of individual staff members, especially those doing the work the auditor would like to use.

.24 The auditor should document the work performed and the conclusions reached as to independence and objectivity. The documentation should indicate the auditor's conclusion as to whether the other auditor is independent and objective and the basis for that conclusion. The auditor should consult with the Reviewer if there are questions about the other auditors' independence or objectivity.

EVALUATING THE OTHER AUDITORS' OR SPECIALISTS' QUALIFICATIONS

.25 After evaluating the other auditors' or specialists' independence and objectivity, the auditor should evaluate the other auditors' or specialists' qualifications to perform the specific tasks required. This involves evaluating the qualifications of the firm or audit organization and evaluating the qualifications of the specific audit team. Where the auditor has previously used the work of the same other auditors, the auditor generally should update the previous evaluation.

.26 For CPA firms and specialists, qualifications are generally evaluated through the contracting process. The firm submits resumes for the audit team and

demonstrates why its team is qualified to do the work. CPA firms should be asked to submit their latest peer review report, letter of comments, and response to the peer review report. The firm generally submits its plan for doing the work. The purpose of the technical evaluation panel is to select a qualified firm.

.27 Where the auditor did not participate in the contracting process, the auditor should consider how the qualifications of the firm were evaluated. For example, did the evaluation panel review resumes of the team; review the audit approach; and read the peer review report, the related letter of comments, and the firm's response to the peer review report? The auditor should read these documents and reach a conclusion as to qualifications.

.28 For auditors other than CPA firms, the auditor should ask whether the audit organization had a peer review and the date of that review. IGs have peer reviews performed every 3 years by other IGs. Most state auditors also have peer reviews every 3 years. To comply with GAGAS, the audit organization should have a peer review every 3 years. The IIA standards indicate that, "[e]xternal assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.". While reviews under the IIA standard are not designed to report whether the audit organization's quality control adheres to GAGAS, they do provide evidence about whether the work adheres to a recognized set of professional standards. The auditor should read the peer review report, the letter of comments, and the audit organization's response. Where the audit organization has received an unqualified peer review report recently (usually less than 1 year ago), further review of the audit organization's qualifications is generally not required.

.29 Where the peer review report is not recent, the auditor also should review the results of the audit organization's internal inspection program. If the peer review is not recent, the inspection is important in highlighting new quality control issues. The inspection generally should include reviews of documentation, interviews of staff members, and tests of functional areas. Where the inspection is recent (usually within the past year) and the inspection report is unqualified, further review of the audit organization's qualifications is generally not required.

.30 Where the peer review or inspection report is qualified or adverse, the auditor should evaluate whether the quality control system has since been strengthened to allow the auditor to use the other auditors' work. The auditor may review the organization's action plan for improving quality controls. Inspection results are helpful in determining whether quality controls have improved since the peer review. The auditor should consider the effect of the remaining weaknesses in determining the nature and extent of procedures the auditor will perform.

.31 Where the peer review is not recent and there is no inspection program, the auditor generally should obtain an overview of the important policies and procedures in the functional areas:

- independence, integrity, and objectivity (see above);
- personnel management (includes recruiting and hiring, advancement, professional development and training, and assigning personnel to assignments);
- audit performance (includes supervision and consultation);
- acceptance and continuance of assignments; and
- monitoring programs.

.32 This information usually is obtained through interviews of the audit organization's management and staff and through reading the audit organization's quality control summary document, if one has been written. The auditor also may read the organization's manuals and other guidance for conducting audits.

.33 In addition to evaluating the audit organization's qualifications, the auditor also should evaluate the overall qualifications of the other auditors' team assigned to do the work. Reviewing resumes of key team members may do this. The auditor should consider the specific education, training, certifications, and experience of key team members. In evaluating qualifications, the auditor should consider the specific role of staff members on the job. When the auditor has knowledge of qualifications from prior experience with key team members, the auditor should inquire about experience in the time since the last audit.

.34 Where the auditor is not fully satisfied as to the other auditors' qualifications, the auditor generally should perform a more detailed review of the documentation and/or perform supplemental tests of key line items (see paragraph 650.36). The auditor also may help the other auditors improve future audits.

.35 If the auditor has significant concerns about the other auditors' independence, objectivity, or qualifications, the auditor should revise the audit approach. For example, the auditor may:

- contract with another firm,
- ask the other auditors to substitute more highly qualified or objective staff members,
- do the audit without using the other auditors' work, treating any work done by the other auditors as prepared by the auditee,

- divide the work so that the other auditors test the areas where they are qualified, and the auditor does the rest of the audit, or
- issue a disclaimer of opinion.

PLANNING THE REVIEW AND TESTING OF THE OTHER AUDITORS' OR SPECIALISTS' WORK

.36 After evaluating the other auditors' or specialists' independence, objectivity, and qualifications, the auditor should develop a written plan for reviewing and, if necessary, testing the work done. This plan documents the level of review the auditor believes necessary. The level of review is high,[8] moderate, or low.[9] The plan should be reconsidered as the work progresses. The level of review is a judgment the auditor makes; this judgment generally should be made for each material line item and should consider the following factors:

a. The type of report or letter the auditor will issue (less review is needed for a transmittal letter than for reports in which the auditor takes responsibility for the other auditors' work). (See paragraph 650.10.)

b. Whether the other auditor issues a disclaimer of opinion because of a scope limitation (less work is needed to concur with a scope limitation than to concur with an unqualified opinion). (See paragraph 650.37.)

c. Whether the auditor's report might contain a disclaimer because of a scope limitation (less work is needed if the auditor's report will contain a scope limitation). (See paragraph 650.39.)

d. The other auditors' independence, objectivity, and integrity (both for the audit team and for the other audit organization) including whether the other audit organization is an independent auditor or an internal auditor (the level of review increases as independence, objectivity, and integrity decreases).

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[8] Some situations may require significantly more work than the work shown for the high level. In those situations, the auditor generally should perform significant supplemental tests; in some cases, the audit may be a joint audit.

[9] In some situations, the auditor may decide less review or no review is necessary. These situations typically involve entities or line items that are very small in relation to the financial statements taken as a whole. In these situations the auditor may decide to read the other auditors' report and the financial statements and ask questions if anything seems unusual.

e. The other auditors' qualifications to perform the work the auditor wishes to use (both for the audit team and for the other audit organization) (the level of review increases as the other auditors' qualifications decrease).

f. The auditors' prior experience with the other auditors (both for the audit team and for the other audit organization) (the level of review decreases as the auditor has favorable experience in working with the other auditors).

g. The materiality of the line item in relation to the financial statements the auditor is reporting on, taken as a whole (the level of review increases as the line item becomes more material).

h. The combined risk (combination of inherent risk and control risk) and the risk of material fraud for the line item and assertion in the financial statements the other auditor is auditing (the level of review increases as the combined risk and the risk of material fraud increase).

.37 A scope limitation on the other auditors' work generally affects the level of review. If the other auditor disclaims an opinion on the financial statements because of a scope limitation, the auditor should issue a disclaimer of opinion (unless the financial statements the other auditor audited are not material to the financial statements the auditor is auditing). It will not take much review to be satisfied that the disclaimer is appropriate. Supplemental tests are not required in this situation, and the review of documentation may be limited to summary documentation. Thus, the level of review is usually low or no review (see footnote 6). However, the auditor may decide to do additional work to learn about the entity, to help the other auditor plan future audits, or to help management correct the causes of the scope limitation.

.38 A scope limitation on the other auditor's work that results in a qualified opinion generally needs a moderate or high level of review to determine whether the other auditor should have disclaimed an opinion and that the only issues are those relating to the qualification.

.39 A scope limitation on the auditor's work that results in a disclaimer also may affect the level of review. Since the auditor has already decided that not enough work can be done on the overall financial statements, no amount of review of the other auditors' work is likely to change that conclusion. Thus, as in the situation above, supplemental tests are not required, the review of the other auditors' documentation may be limited to summary documentation, and the level of review is usually low or no review (see footnote 6). However, the auditor may decide to do additional work to learn about the entity, to help the other auditor

plan future audits, or to help management correct the causes of the scope limitation.

.40 A scope limitation on the auditor's work that results in a qualified opinion needs a similar amount of work as an unqualified opinion.

.41 Section 650 A illustrates the work that generally should be performed for each level of review for each significant line item as well as what to retain in the documentation.

REVIEW OF DOCUMENTATION

.42 The extent of the auditor's review of the other auditors' or specialists' documentation depends on the level of review and is a judgment based on the factors in paragraph 650.36. For the low level of review, the review of documentation may be limited to key summary planning and completion documentation. For the moderate level, the auditor generally should review more of the other auditors' or specialists' documentation, especially those evidencing important decisions. For financial statement audits, these include the General Risk Analysis (GRA) or audit plan or equivalent documents; the Account Risk Analysis (ARA) (or equivalent documentation) for significant accounts; the Specific Control Evaluations (SCE) (or equivalent documentation) for significant applications; the documentation for high-risk accounts, estimates, and judgments; the analytical procedures; the audit completion checklist (or equivalent documentation); the audit summary memorandum; and the summary of possible adjustments. For the high level of review, the auditor generally should review all of the items for the moderate level of review plus the important detailed documentation.

SUPPLEMENTAL TESTS AND OTHER ADDITIONAL STEPS WHERE LEVEL OF REVIEW IS HIGH

.43 Where the level of review is high, the auditor generally should perform procedures in addition to reviewing documentation. The auditor generally should discuss key items with auditee management, especially estimates and judgments; this discussion generally should be with the other auditors present. The auditor generally should attend the entrance and exit conferences and other key meetings held by other auditors or specialists.

.44 Where the level of review is high, the auditor also generally should perform supplemental tests of the accounting records.[10] These tests may be a selection of the other auditors' work or additional tests of the accounting records or both. To perform supplemental tests, the auditor should have access to the entity's personnel and their books and records. The auditor may coordinate access to the entity's personnel and records through the other auditor. The auditor and the other auditor also may jointly perform parts of a test, where the sample is planned jointly and the results are evaluated jointly. Although supplemental tests are usually performed only when the level of review is high, the auditor may decide to perform supplemental tests in other situations to learn about the entity, to help the other auditor plan future audits, or to help management correct problems.

.45 Where the other auditor is an internal auditor, there is even more need for supplemental tests and supervision of the work. Accordingly, for internal auditors, supplemental tests generally should be of greater scope.

.46 The auditor generally should limit supplemental tests to line items that are both high combined risk and material to the financial statements the auditor is reporting on, especially in areas involving estimates and judgments or that users rely on extensively. The auditor's supplemental tests generally should include some items that the other auditor tested which appear to be exceptions to determine whether they were appropriately considered in formulating an opinion. The auditor should consider performing supplemental tests while the other auditors are at the auditee location and have access to records; this can minimize the inconvenience to the auditee.

.47 It is not necessary to perform supplemental tests of the work of specialists. As indicated in AU 336.12, the auditor should understand the methods and assumptions used by the specialists, test the data provided to the specialists (extent of testing is based on risk and materiality), and evaluate whether the specialists' findings support the financial statement assertions. If the auditor believes the findings are unreasonable, the auditor should apply additional procedures and/or consider the need to obtain another specialist.

SUBSEQUENT EVENTS REVIEW AND DATING OF THE AUDITOR'S REPORT

.48 The auditor's report should be dated when the auditor completes fieldwork. If the other auditors' or specialists' report is dated earlier and the auditor's report

[10] When the auditor will take responsibility for or concur with the other auditor's report, the auditor should perform supplemental tests.

does not mention the other auditors' report or concurs with the other auditors' report (example 2 of section 650 C), the subsequent events review should be updated to the date of the auditor's report. The auditor may ask the other auditors to update the subsequent events work to the required date, or the auditor may update the subsequent events review. Since this requires additional work, the auditor should attempt to complete fieldwork when the other auditors complete fieldwork. This issue should be considered in planning. It is not necessary to update the subsequent events review when the auditor issues a transmittal letter (example 1 of section 650 C).

STAFFING THE REVIEW OF THE OTHER AUDITORS' OR SPECIALISTS' WORK

.49 When staffing the review, the auditor should consider that the other auditors or specialists may already have reviewed the work at several levels. The auditor's staff reviewing the work generally should have enough experience in financial statement auditing to understand the judgments that need to be made and to interact with the higher levels of the other audit organization. Most of the review generally should be done by or under the direction of an assistant director or a manager who has significant experience in performing and reviewing financial statement audit work. Supplemental tests may be done by less experienced staff members and supervised by an assistant director or an experienced audit manager. Primary review of the experienced audit manager's or assistant director's documentation should be performed by the audit director or an assistant director designated by the audit director. However, the assistant director or audit manager should review the documentation documenting supplemental tests performed by the less experienced staff members. Because of the high level of financial statement auditing experience of staff members doing and reviewing this work, secondary review should be performed only in very high-risk situations.

.50 When the other auditors' work involves the review of computer controls, an information systems auditor in a management role generally should do the auditor's review. An audit assistant director should review the information systems auditor's documentation to determine that related audit objectives were achieved.

EVALUATING THE WORK

.51 After the auditor has completed the review of the other auditors' work, and, if necessary, the supplemental testing, the auditor should determine whether the work is sufficient and acceptable for the auditors' use. The auditor should summarize the evaluation in the audit summary memorandum.

.52 Sometimes, the other auditors use methodologies or audit approaches that are different from those the auditor would have used. The auditor should recognize that auditing requires a great deal of professional judgment and that there often are alternative ways to achieve audit objectives. Thus, the auditor should first understand the basis for the nature, timing, and extent of the other auditors' procedures. The auditor should evaluate whether sufficient evidence has been obtained to meet the auditor's objectives; usually the auditor should consider materiality and combined risk for the particular line item in this evaluation. If the auditor has concerns about whether the other auditors' work provides sufficient evidence, the auditor should discuss the matter with the audit director and the Reviewer before formally discussing the issue with the other auditors.

.53 The auditor should consider the significance of the test results to the audit of the financial statements the auditor is reporting on. As an example, the other auditors might have selected a nonstatistical sample and/or the sample size might be smaller than the sample size the auditor would have selected. The auditor might decide that this provides sufficient evidence in an area that is less material or is not risky. However, if the area is material or risk is high, the auditor might conclude that sufficient evidence has not been obtained and that additional work is needed. In this case, after consulting with the audit director and the Reviewer, the auditor generally should either ask the other auditors to perform additional tests or should perform the additional tests; if the additional testing is not done, the auditor should consider the effect of this scope limitation on the auditor's report. Since reaching this conclusion after the work is performed is inefficient, when the level of review is high, the auditor generally should coordinate or concur with major planning decisions before the work is started.

.54 Sometimes, the auditor may disagree with the conclusions or judgments of the other auditors. In this case, the auditor should consider the other auditors' work as well as any other evidence necessary to determine the appropriate conclusion.

.55 The auditor should then discuss the issue with the other auditors to attempt to resolve the disagreement. In planning the audit, the auditor should try to identify potential disagreements early. Once identified, the auditor should discuss the issues with the other auditors as early as possible so that they can be resolved timely.

.56 If the auditor does not reach agreement with the other auditors, the auditor should consider how to report. For very material disagreements, the auditor may decide not to transmit the other auditors' report, instead issuing a disclaimer of opinion or doing additional work, if necessary, to issue an appropriate opinion. In less material disagreements, the auditor may transmit the other auditors'

report, issue the transmittal letter or report, and describe the disagreement and the basis for the auditor's conclusions.

DOCUMENTING THE REVIEW OF OTHER AUDITORS' OR SPECIALISTS' WORK

.57 Regardless of the type of reporting or the level of review, the auditor's documentation should contain the items listed in section 650 A under "documentation."

.58 In addition, where the auditor performs supplemental tests of the accounting records, the auditor's documentation should contain a description of the work (this may be a list of the documents the auditor examined or tick marks on a copy of the other auditors' documentation if that is the basis for the selection) and the auditor's conclusion. It is not necessary to retain copies of the documents examined.

.59 It is important to distinguish between the auditor's responsibilities to review the documentation of other auditors versus what the auditor might copy and retain from that documentation. The auditor should use judgment in deciding which of the other auditors' or specialists' documents to copy and retain. Copies of documents readily available from the other auditors or the auditee (such as invoices and contracts) need not be retained. Section 650 A indicates what documentation the auditor generally should retain.

.60 The auditor may decide to retain other documentation if it might be useful in understanding the entity, training staff members, planning future audits, reviewing the documentation, or writing the report. Documentation in this category includes the entity profile (or equivalent), the general risk analysis or audit plan, the audit programs, the ARA and SCE forms (or equivalent), the trial balance or lead schedules, the management representation letter, and the attorney representation letter. Auditors often find it helpful to keep copies of documents in case questions are raised in review but not to include those copies in the documentation unless they are needed to document the work performed. Documents should not be retained if they are no longer needed. The audit plan or audit program may indicate which documents to retain.

USING INTERNAL AUDIT STAFF TO PROVIDE DIRECT ASSISTANCE TO THE AUDITOR

.61 Sometimes the auditor or the auditee requests that internal auditors provide direct assistance to the auditor. Before this is done, the auditor should be satisfied with the independence, objectivity, and qualifications of the staff

assigned to do the work requested. AU 322.27 indicates that in these situations "the auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of procedures.... The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention." The auditor should direct, review, test, and evaluate the work done by internal auditors to the extent appropriate based on the auditor's evaluation of risk, materiality, objectivity, and qualifications.

USING AGENCY SPECIALISTS

.62 Many agencies have actuaries, security specialists, statistical specialists, and other specialists whose work the auditor would like to use. Unless these specialists are part of an organization that is organizationally independent or under contract to such an organization, the auditor should evaluate their work as the work of any auditee employee. The auditor generally should use specialists in the audit organization or contract for outside specialists to develop and implement appropriate tests.

MULTIPLE LEVELS OF OTHER AUDITORS

.63 Sometimes there are several levels of other auditors. For example, the IG might hire a CPA firm to do an audit. The IG may issue a report concurring with the CPA's report or a letter transmitting the CPA's report; GAO may then use the work of the IG.

.64 In these situations, each audit organization should follow the guidance in section 650. The IG should evaluate the independence (see paragraphs 650.11-. 24) and qualifications of the other auditors (see paragraphs 650.25-. 35), should review the documentation (see paragraph 650.42), and may need to perform supplemental tests of key accounts (see paragraphs 650.43-. 47) (depending on the level of review deemed appropriate). GAO should evaluate the qualifications of the IG organization (by reading the peer review report, the letter of comments, and the audit organization's response as described in paragraph 650.24) and the team doing the monitoring, should review the IG's documentation, and may perform supplemental tests. When GAO finds that the IG has done and documented adequate work including supplemental tests, GAO's supplemental tests would be quite limited—perhaps a walk-through of work done in high-risk and material areas. Often, GAO may attend fewer meetings than the IG staff attends and would concentrate the review on the IG's documentation. GAO may then issue a report on the financial statements.

.65 Because of the potential for inefficiency, there should be close coordination between the various auditors. The IG and GAO may perform the review jointly. Sometimes, a memorandum of understanding might be useful in documenting responsibilities. A chart that describes the review to be done by each organization may be useful. The following is a useful format for this chart (with more detail added as necessary under each phase):

Phase	Other auditor procedures	IG review procedures	GAO review procedures
Planning			
Internal control			
Testing			
Reporting			

REPORTS ON OTHER AUDITORS' WORK

.66 Auditors are sometimes asked to issue a report evaluating work done by other auditors in a situation where the auditor is not using the work of the other auditors. For example, the auditor might be asked to evaluate an audit done by a CPA firm. While AU 543, 322 and 336 are not directed towards these situations, the guidance in FAM 650 is helpful in planning and reporting on these assignments.

.67 The auditors generally should issue a report concurring with the other auditors' conclusions only when the auditors have performed enough work at the high level of review (see section 650 C, example 2). Where the auditors' work is limited to review of documentation, the report generally should state that the auditors found no instances where the other auditor did not comply, in all material respects, with GAGAS (similar to example 1 in section 650 C).

650 A - SUMMARY OF AUDIT PROCEDURES AND DOCUMENTATION FOR REVIEW OF OTHER AUDITORS' WORK

.01 The table in this section indicates the work that generally should be performed for each level of review, as well as what generally should be retained in the documentation. The table does not include work on other auditor's independence, objectivity, and qualifications. Where the other auditor uses equivalent documents, review those documents.

.02 In the table, steps to be performed and documents to be retained at the low level of review are indicated by regular font. The moderate level of review includes the low level plus those in **bold letters.** The high level of review includes the moderate level plus those in **BOLD CAPITALS.**

AUDIT PROCEDURES	
At entity level	For significant line items, accounts, or applications

- Communicate with the other auditors:
  - as to the objectives of the work
  - **discuss their procedures and results**
 	
- **Attend key entrance and exit meetings**
 	
- **COORDINATE OR CONCUR IN SIGNIFICANT PLANNING DECISIONS BEFORE MAJOR WORK IS STARTED**
 	
- Review:
  - general risk analysis
  - audit plan
  - scope of work
  - audit summary memorandum
  - summary of unadjusted misstatements
  - analytical procedures
  - completion checklist
  - **determination of planning and design materiality**
  - **information systems background**
  - **general and application controls documentation (done by information systems auditor)**
  - **representation letters**
  - **key documentation**
 	
- Read:
  - other auditor's report
  - financial statements and notes
  - stewardship report and required supplementary information
  - other accompanying information
  - management's response
	- Review:
	  - audit program
	  - conclusions about significant issues and their resolution (often in audit summary)
	  - **account risk analysis (ARA)**
	  - **specific control evaluations (SCE)**
	  - **cycle memo**
	  - **flowcharts**
	  - **determination of test materiality**
	  - **other auditors' key documentation**
	  - **documentation for high-risk accounts, estimates, and judgments**
	  - **analytical procedures**
	  - **summary of possible adjustments**
	
	- **PERFORM SUPPLEMENTAL TESTS; COMPARE CONCLUSIONS**
	
	- **ATTEND KEY MEETINGS (ESPECIALLY THOSE RELATED TO ESTIMATES AND JUDGMENTS)**
	
	- **DISCUSS KEY ITEMS WITH AUDITEE MANAGEMENT**

DOCUMENTATION	
Retain	Optional
Auditor prepared: - audit plan - audit program - **memo documenting entrance and exit conference** - **MEMOS DOCUMENTING KEY MEETINGS ATTENDED** - **results of review of documentation** - **SUPPLEMENTAL TEST DOCUMENTATION** - summary memo Other auditor prepared: At entity level: - other auditor's report - final financial statements and notes - stewardship report - management letter - other auditor's unadjusted misstatements, estimate of the imprecision of audit procedures, and comparison with materiality - audit completion checklist - other auditor's audit summary memo At line item level: - documentation that supports exceptions - **other auditor's documentation evidencing significant judgments and conclusions**	- entity profile - general risk analysis - other auditor's audit plan - other auditor's audit program - **account risk analyses** - **specific control evaluations** - **trial balance** - **lead schedules** - **management representation letter** - **legal representation letter**

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650 B - EXAMPLE AUDIT PROCEDURES FOR USING THE WORK OF OTHERS

This program is appropriate when using the work of other auditors to perform a full or partial audit of financial statements or the work of specialists. The steps should be tailored to the circumstances and the planned level of review by deleting inapplicable steps, modifying the steps, and adding additional steps. When the other auditors or specialists have done only part of an audit, many of the steps may be deleted. Many of the steps also may be deleted for the low level of review or when the auditor plans to issue a transmittal letter. The program consists of three sections: evaluating independence, objectivity, and qualifications for CPA firms and specialists; evaluating independence, objectivity, and qualifications for government auditors; and monitoring the work (for all types of other auditors and for specialists). The auditor generally should use one of the first two sections and the third section. A separate form generally should be used for each other auditor or specialist.

Entity:_____

Job code:_____

Period of audit:_____

Step	Done by/date	W/P ref
EVALUATING INDEPENDENCE, OBJECTIVITY, AND QUALIFICATIONS FOR CPA FIRMS AND SPECIALISTS 1. Read the statement of work or request for proposal to determine whether this contracting document provides sufficient background on the auditee and indicates the objectives of the work, what the contractor should include in its proposal, how proposals will be evaluated, and how the report will be used.		

Step	Done by/date	W/P ref
Independence and objectivity: 2. Determine whether proposal of selected firm includes a representation as to the firm's independence and objectivity.		
3. If proposal does not include a representation as to independence and objectivity, obtain written representation from firm.		
Qualifications: 4. Read proposal of selected firm. In reviewing proposal, evaluate the overall qualifications of the team performing the work. Review resumes and consider for key team members their educational level, professional certifications, and professional experience (including whether key team members have current knowledge and experience in the type of work done).		
5. If the auditor does not know the qualifications of the selected firm, review peer review report, letter of comments, and response letter.		
6. Communicate orally or in writing with the other auditors to be satisfied that they understand the requirements, the timetable, and the report or letter the auditor expects to issue.		

Step	Done by/date	W/P ref
EVALUATING INDEPENDENCE, OBJECTIVITY, AND QUALIFICATIONS FOR GOVERNMENT AUDITORS <u>Independence and objectivity</u>: 1. For all government audit organizations, obtain written representation from the head of the audit organization that the audit organization and the individual auditors are independent of the entity being audited.		
2. Determine whether the audit organization meets ONE of the criteria in paragraph 650.15, or the head meets ONE of the criteria in paragraph 650.16. If the organization (or its head) meets one of these criteria, no further work is needed unless the auditor finds contrary evidence as to independence and objectivity in other parts of the audit. Indicate which criterion is met; document the evaluation of any other evidence obtained. (Go to step 6.)		
3. If the audit organization (or its head) does not meet any of the criteria in step 2, determine whether it meets ALL of the criteria in paragraph 650.18.		
4. Review the audit organization's documentation of how it meets the requirements of step 3. Discuss with head of audit organization (consider discussing with external quality control reviewer, legal counsel for audit organization, and auditor's legal counsel). (Go to step 6.)		

Step	Done by/date	W/P ref
5. If the audit organization does not meet the criteria for organizational independence to report externally, determine whether the organization is an independent internal audit organization under GAGAS and IIA standards. Determine whether the internal auditors are objective for the activities they audit. Consider the organizational status of the head of the audit organization, including whether the head • is accountable to the head or deputy head of the government entity, • is required to report the results of the audit organization's work to the head or deputy head of the government entity, and • is located organizationally outside the staff or line management function of the unit under audit.		
6. For all government audit organizations, obtain an understanding of organization's policies to enhance the objectivity of individual auditors, including • policies to prohibit auditors from auditing areas where relatives are employed, • policies to prohibit auditors from auditing areas where they were recently assigned or are scheduled to be assigned after they complete their tour of duty in auditing, and • policies to require representations as to objectivity and lack of conflicts of interest from each auditor.		
7. Prepare memorandum documenting work performed and conclusions as to independence and objectivity.		

Step	Done by/date	W/P ref
Qualifications: 8. Read the latest peer review report, letter of comments, and the audit organization's response. Note date of report and whether it is unqualified. If report is recent (usually within the past year) and unqualified, go to step 12.		
9. If the peer review is not recent, review the latest inspection report, if any, and the organization's response. Note date of report and whether it is unqualified. If the inspection is recent (usually within the past year) and unqualified, go to step 12.		
10. If the organization has not had a recent peer review or inspection, obtain an overview of the important policies and procedures in the functional areas (through interviews of management and staff and through reading the summary quality control document, if any). Consult with Reviewer before performing this step.		
11. If the peer review or inspection report was qualified or adverse, determine whether the quality control system has since been strengthened. Review the organization's action plan for strengthening its quality control system. Consider the effect of remaining weaknesses in determining the level of review.		

Step	Done by/date	W/P ref
12. Inquire how the audit organization determined the staffing for the audit. Evaluate the overall qualifications of the team performing the work. Review resumes and consider for key team members: • educational level, professional certifications, and professional experience; • continuing professional education, especially whether key team members have received training and have current knowledge in the type of work done; • supervision and review of work; • whether the audit team has adequate sources for consultation and use of specialists, especially for audit sampling, audit methodology, and review of computer controls; and • quality of documentation, reports, and recommendations.		
13. If the auditor has significant concerns about the audit organization's or team's objectivity or qualifications, the auditor, in developing the audit plan, may either • ask the audit organization to substitute more objective or highly qualified staff members; • do the work, treating any work done by the other auditors as prepared by the auditee; • divide the work so that the other auditors test the areas where they are qualified and the auditor does the rest of the audit; or • issue a disclaimer of opinion.		

Step	Done by/date	W/P ref
MONITORING THE WORK (FOR ALL TYPES OF OTHER AUDITORS AND FOR SPECIALISTS) 1. Develop a plan for reviewing the other auditors' or specialists' work and, if necessary, performing supplemental tests of the accounting records. Determine the level of review for each line item.		
2. Monitor the planning of the audit (FOR MODERATE AND HIGH LEVEL OF REVIEW). • Attend entrance meeting and key planning meetings. • Review the entity profile. • Review the General Risk Analysis or equivalent document (and audit plan if prepared as a separate document) (FOR ALL LEVELS OF REVIEW). • Review the determination of planning materiality and design materiality. • Have an information systems auditor review the information resource management background information and the documentation for review of general and application controls. • Document line items and applications to be reviewed. • For each such line item, review the Account Risk Analyses, the Specific Control Analyses, the cycle flowcharts, the cycle memoranda, the determination of test materiality, and the audit program or equivalent documents.		

Step	Done by/date	W/P ref
3. Monitor the execution of the audit (for reports following example 2 of section 650 C or section 595 A and/or B WHERE LEVEL OF REVIEW IS HIGH). • Attend key meetings, especially those discussing high-risk areas, significant estimates and judgments, and the other auditors' conclusions. • Discuss key items with auditee management, especially significant estimates and judgments. • Perform supplemental tests of the accounting records. •• Generally do for high risk and material line items, especially in areas involving estimates and judgments or ones that users rely on extensively. •• Generally do while the other auditors are at the auditee location and have access to the records. •• Examine some of the same documents the other auditors examined or make own selection or both. •• Compare results of other auditors' work to results of supplemental tests. •• Document scope of supplemental testing and conclusions reached.		

Step	Done by/date	W/P ref
4. Monitor the completion of the audit (items with * are usually not necessary for LOW level of review) • Review the overall analytical procedures. • *Review the key documentation for the line item and for completing the audit; consider evaluations of sample results. (For example, were projections appropriate? Was appropriate action taken based on sample results?) • *Determine whether the subsequent events review was updated to the date of the auditor's report. • Review the audit summary memorandum, conclusions about line items, and summary of possible adjustments. • Review the audit completion checklist (or equivalent document). • Review the management representation letter and the legal representation letter. • *Attend key exit conference(s). • Read the other auditors' report, the financial statements, the notes, the other accompanying information, and management's response.		
5. Prepare summary memorandum.		
6. Write the auditor's report or transmittal letter.		

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650 C - EXAMPLE REPORTS WHEN USING THE WORK OF OTHERS

EXAMPLE 1 – TRANSMITTAL LETTER

We contracted with the independent certified public accounting firm of [name of firm] to audit the financial statements of [name of entity] as of [date] and for the year then ended. The contract required that the audit be done in accordance with generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

In its audit of [name of entity], [name of CPA firm] found

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- [entity] had effective[1] internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- [entity's] financial management systems substantially complied[2] with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- no reportable noncompliance with laws and regulations it tested.

[Name of CPA firm] also described the following significant matters:

[Discuss significant matters].

In connection with the contract, we reviewed [name of CPA firm]'s report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted

[1] If the other auditors did not provide an opinion on internal control, change this to "there were no material weaknesses in internal control" (and include a definition of material weakness in a footnote).

[2] If the other auditors did not provide an opinion on whether the entity's systems complied with FFMIA, change this to "no instances in which entity's financial management systems did not substantially comply"

government auditing standards, was not intended to enable us to express, and we do not express, opinions on [name of entity]'s financial statements or internal control[3] or on whether [entity]'s financial management systems substantially complied with FFMIA;[4] or conclusions on compliance with laws and regulations. [Name of CPA firm] is responsible for the attached auditor's report dated [date] and the conclusions expressed in the report. However, our review disclosed no instances where [name of CPA firm] did not comply, in all material respects, with generally accepted government auditing standards.[5]

[3] If the other auditors did not report on internal control, change this to read "conclusions about the effectiveness of internal control."

[4] If the other auditors did not provide an opinion on FFMIA, change "opinion" to "conclusions."

[5] If the auditor found that the other auditors did not comply with GAGAS, or if the auditor disagrees with the other auditors' conclusions, see paragraphs 650.54-.56.

EXAMPLE 2 – REPORT CONCURRING WITH OTHER AUDITORS' OPINION (PRESENTING REPORT OF OTHER AUDITORS AFTER THE AUDITOR'S REPORT)[6]

Under [citation of statute], we are responsible for auditing [name of entity]. To help fulfill these responsibilities, we contracted with [name of firm], an independent certified public accounting firm. [Name of firm]'s report dated [date] is attached.

We concur[7] with [name of firm]'s report that indicated:

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- [entity] had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- [entity's] financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- no reportable noncompliance with laws and regulations it tested.

Details of their conclusions are in their report.

OBJECTIVES, SCOPE, AND METHODOLOGY

Management is responsible for (1) preparing the financial statements in conformity with generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of 31 U.S.C. 3512 (Federal Managers' Financial Integrity Act) are met, (3) ensuring that [entity]'s financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

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[6] This example assumes the other auditors opined on internal control and on whether the financial management systems substantially complied with FFMIA. If the other auditors provided negative assurance, appropriate changes should be made.

[7] If the auditor does not concur with the other auditors' report, see paragraphs 650.54-.56.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S generally accepted accounting principles, and (2) management maintained effective internal control, the objectives of which are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with laws and regulations: Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and governmentwide policies identified by OMB audit guidance.

We are also responsible for (1) testing whether [entity's] financial management systems substantially comply with the three FFMIA requirements, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Accountability Report.

To help fulfill these responsibilities, we contracted with the independent certified public accounting (CPA) firm of [name of firm] to perform a financial statement audit in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*. We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of the CPA firm, met with partners and staff members, evaluated the key judgments, met with officials of [entity being audited], performed independent tests of the accounting records, and performed other procedures we deemed appropriate in the circumstances. We conducted our work in accordance with U.S. generally accepted government auditing standards.

660 – AGREED-UPON PROCEDURES

.01 In an engagement to apply agreed-upon procedures, a client engages an auditor to perform specific procedures on subject matter and report on the results to assist users in evaluating subject matter or an assertion. Agreed-upon procedures should be performed in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 10. The auditor should read appropriate sections (e.g., AT 101, *Attest Engagements*, and AT 201, *Agreed-Upon Procedures Engagements*) of SSAE No. 10 and thoroughly understand them before performing agreed-upon procedures.

.02 An agreed-upon procedures engagement may be applied to a variety of subject matter. The engagement will vary depending on the needs of the user. The engagement may assist entity management by providing information for making decisions and give report users some assurance on important areas. Examples of agreed-upon procedures are:

- compare payroll information reported to the Office of Personnel Management with the entity's payroll records and general ledger;

- compare entity reconciliations of intragovernmental activity and balances with supporting documentation and compare amounts with the financial statements and with reports to the Department of the Treasury (Treasury);

- trace tax collections from the master file to deposit confirmations, determine whether they were recorded in the appropriate period and in the correct tax class;

- trace amounts on the entity's financial statements to an "account grouping worksheet," foot the worksheet, read the CFO's explanation for any differences, and compare the explanation with supporting documentation; and

- examine official receipt documents to determine whether they were included in the weekly deposit; compare deposit amounts to amounts reported on the statement of funding.

.03 In agreed-upon procedures engagements, all parties involved, which include the report users, the entity responsible for the subject matter (which may or may not be the same as the user), and the auditor, should clearly understand the procedures to be applied. Since users may have different needs, the nature, timing, and extent of the agreed-upon procedures also may differ. Therefore, the users, and not the auditor, assume the responsibility for the sufficiency of the

design and extent of the procedures since they best understand their own needs, although the auditor may assist the user in designing the procedures.

.04 The auditor should establish and document an understanding with the users regarding the nature, timing, and extent of the agreed-upon procedures to be performed. The auditor may document this understanding using an engagement letter. (See example in section 660 A.)

.05 The subject matter should be capable of evaluation against criteria that are suitable and available to users. Suitable criteria should have objectivity, measurability, completeness, and relevance. The procedures should be subject to reasonably consistent measurement and the criteria should be agreed upon. The auditor should not perform overly subjective procedures or use terms with uncertain meaning unless they are defined within the agreed-upon procedures.

.06 The auditor need not perform additional procedures beyond the agreed-upon procedures. If matters come to the auditor's attention by other means that significantly contradict the subject matter (or assertion), the auditor should include these matters in the report. For example, if during the course of applying agreed-upon procedures regarding an entity's operation, the auditor becomes aware of a material weakness related to the assertion by means other than the agreed-upon procedures, the auditor should include this matter in the report. This may be done by mentioning the material weakness with a footnote reference to another report where it is described in detail.

.07 Where circumstances impose restrictions on the performance of the agreed-upon procedures, the auditor should attempt to obtain agreement from the users of the report to modify the agreed-upon procedures. When agreement cannot be obtained (for example, when the agreed-upon procedures are published by a regulatory agency that will not modify the procedures), the auditor should describe restrictions in the report or withdraw from the engagement.

WRITTEN REPRESENTATIONS

.08 The auditor should determine if a representation letter is necessary. The auditor may determine that a representation letter is necessary, for example, if (1) the responsible entity is so large there is a risk as to whether one person knows whether pertinent information has been made available to the auditor, (2) the subject matter depends on estimates, judgments, or future events (i.e., whether the subject matter is less objective and fact-based and more subjective), or (3) the user of the report believes written representations should be obtained. Although generally not required (unless specifically required by another attestation standard, such as in a compliance engagement) a representation letter

may nonetheless be a useful means of documenting the responsible entity's representations. (See FAM section 660 B for an example representation letter for an agreed-upon procedures engagement.)

.09 The responsible entity's refusal to furnish written representations determined by the auditor to be necessary constitutes a scope limitation. In such circumstances, the auditor should do one of the following:

- disclose in the report the inability to obtain representations from the responsible entity,
- withdraw from the engagement, or
- change the engagement to another form of engagement.

DOCUMENTATION

.10 In accordance with GAGAS, the auditor should prepare and maintain documentation in connection with an agreed-upon procedures engagement that are appropriate for the engagement. They should contain sufficient information to enable an experienced auditor having no previous connection with the engagement to ascertain from them the evidence that supports the auditors' agreed-upon procedures report.

.11 Although the quantity, type, and content of documentation varies with the circumstances, ordinarily it should be sufficient to demonstrate that the work was adequately planned and supervised and sufficient evidential matter was obtained to provide a reasonable basis for the report.

.12 The auditor generally should prepare a summary memorandum that recaps the work performed and refers to the detailed documentation. This memorandum generally should include the auditor's conclusion on whether the work was performed in accordance with GAGAS, including the attestation standards, and the GAO/PCIE FAM and whether the report is appropriate. (See FAM section 660 C for an agreed-upon procedures completion checklist.)

REPORTING

.13 An auditor should report on the agreed-upon procedures in the form of results. The auditor should not provide any opinion or negative assurance about whether the subject matter or the assertion is fairly stated based on the criteria. The report should include information such as the identification of the entities that agreed to the procedures and took responsibility for the sufficiency of the design

and extent of the procedures for their purposes, as shown in the example report in FAM section 660 D.

.14 The auditor should report all results arising from application of the agreed-upon procedures. The concept of materiality does not apply to results to be reported in an agreed-upon procedures engagement unless the users of the report agree to the definition of materiality. This could be included in the engagement letter. Any agreed-upon materiality limits should be described in the report.

.15 The auditor should include a statement indicating that the report is intended for the specified users who have agreed upon the procedures performed and taken responsibility for the sufficiency of the design and extent of the procedures for their needs. However, since governmental reports are generally a matter of public record, the distribution of the report is not limited.

.16 The auditor may have performed agreed-upon procedures on an element, account, or item of financial statements and also audited the same financial statements. If the audit report on the financial statements includes a departure from a standard report, the auditor generally should include a reference to the audit report and the departure from the standard report in the agreed-upon procedures report.

.17 The auditor also may include explanatory language about such matters as the following:

- stipulated facts, assumptions, or interpretations (including the source);
- description of the condition of records, controls, or data to which the procedures were applied;
- explanation that the auditor has no responsibility to update the report; or
- explanation of sampling risk.

.18 The auditor should state the results in definitive, rather than qualified, language and avoid vague or ambiguous language. The following table provides examples of appropriate and inappropriate descriptions of findings.

Examples of appropriate/inappropriate description of findings		
Procedures agreed-upon	**Appropriate description of findings**	**Inappropriate description of findings**
Based on the total tax liability, select and recompute the 50 largest excise tax returns from the quarter ended September 30 and compare these amounts with the certified audit file.	Recomputed amounts for the selected excise tax returns agreed with the amounts in the certified audit file.	Nothing came to our attention as a result of applying this procedure.
Select a random sample of 45 Treasury SF-224 reconciliations; determine if XYZ reported revenue receipts were properly classified and reconciled to Treasury FMS records.	Revenue receipts selected randomly from the monthly Treasury SF-224 reconciliation process were properly classified and agreed with Treasury FMS records.	The revenue receipts approximated the amount shown in the Treasury FMS records.
Examine personnel files of 40 individuals randomly selected from the timekeeping records for the year; determine if all the selected files contain a current and approved Notification of Personnel Action.	Thirty of the selected files contained a current and approved Notification of Personnel Action. Ten files did not contain a current and approved Notification of Personnel Action *(list and identify exceptions)*.	Some of the personnel files did not contain a current and approved Notification of Personnel Action.

Other Report Issues

.19 The date of completion of the agreed-upon procedures should be used as the date of the agreed-upon procedures report. If the audit organization's procedure is to date reports with the issue date, the date of completion of fieldwork may be stated in the report (e.g., "We completed the agreed-upon procedures on [date].").

.20 Agency comments should be obtained from the entity responsible for the subject matter. If time constraints present problems, oral comments may be obtained.

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660 A - EXAMPLE AGREED-UPON PROCEDURES ENGAGEMENT LETTER

[Date]

Management of ABC Agency

Subject: Fiscal Year 20x1 Agreed-Upon Procedures for the Tax Trust Fund

Dear Management Official:

Based on our discussions, we agree to perform agreed-upon procedures to assist ABC Agency in determining the completeness and accuracy of receipts transferred to the tax trust fund. XYZ Agency is responsible for the information to which these procedures will be applied.

This letter documents our agreement to perform these agreed-upon procedures related to fiscal year 20x1. We will perform these procedures in accordance with U.S. generally accepted government auditing standards, which incorporate the financial audit and attestation standards established by the American Institute of Certified Public Accountants (AICPA). The procedures are included in the enclosure to this letter. We will meet with you as needed to discuss the agreed-upon procedures, results, and other issues that may arise.

We are not engaged to perform, and will not perform, an examination, the objective of which would be to express an opinion on the amount of receipts transferred to the tax trust fund. Accordingly, we will not express such an opinion. Were we to perform additional procedures, other matters might come to our attention that we would report to you.

Our report will be intended solely for your information and use and should not be used by those who have not agreed to the procedures or taken responsibility for the sufficiency of the procedures for their purposes. However, the report will be a matter of public record and its distribution will not be limited.

Unless we hear from you, we will assume your concurrence with these procedures and their sufficiency for your purposes.[1] Please contact me at [telephone number] if you or your staff have any questions.

Sincerely yours,

[Name of Director]
Director

Enclosure

cc: XYZ Agency

[1] The auditor may request management of the entity using the report to document its agreement with the procedures and their sufficiency for its purposes by signing the engagement letter and returning it to the auditor.

Agreed-Upon Procedures for Tax Receipts and Refunds

General

- Compare fiscal year 20x1 tax collections for the ABC tax trust fund per XYZ's Statement of Custodial Activity with

  - the trust fund's accounting records and
  - ABC's consolidated financial statements.

- Obtain and examine explanations and supporting documentation for differences.

Sampling

A. Use dollar unit sampling (DUS) and an 80-percent confidence level to select a sample of ABC tax trust fund tax revenue receipts and refunds for the first 9 months of fiscal year 20x1. Use $300 million as the test materiality, which is 1 percent of the total revenue collected. Use an expected aggregate misstatement of $100 million, or 30 percent of test materiality. The projected sample size for this population is expected to be 40 transactions.

For the sample items selected:

- Receipts testing — Compare tax receipts transactions (for example cash receipts, federal tax deposit (FTD) receipts, reversals, and adjustments) with source documents to determine whether the amounts agree, the transactions are recorded in the appropriate period based on the transaction date, and they are properly categorized as ABC tax trust fund receipts.

- Refunds testing — Compare refund transactions with the source documents (for example, payment vouchers, FTD coupons, tax returns) to determine whether the amounts agree, the transactions are recorded in the appropriate period based on the transaction date, and they are properly categorized as ABC tax trust fund refunds.

B. Use DUS and the same sampling parameters as above to extract statistical samples of total XYZ revenue receipts and refunds for the first 9 months of fiscal year 20x1.

For the sample items selected:

- Test whether the tax receipt or refund amounts and tax category from source documentation agrees with amounts recorded for each of the revenue receipts or refunds sample items.

Analytical tests

- Compare reported net tax revenue as of the interim test period (June 30, 20x1) and as of the end of the fiscal year (September 30, 20x1) with the respective prior periods.

660 B - EXAMPLE REPRESENTATION LETTER FROM RESPONSIBLE ENTITY ON AGREED-UPON PROCEDURES ENGAGEMENT

[XYZ Agency letterhead]

[Date]

Dear Auditor:

In connection with the agreed-upon procedures engagement for XYZ's budget execution process for the period from October 1, 20x0 through September 30, 20x1, we confirm to the best of our knowledge and belief, the following representations made to you in performing these agreed-upon procedures.

- We acknowledge responsibility for XYZ's budget execution process.
- We acknowledge responsibility for selecting the criteria [state criteria] and for determining the appropriateness of the criteria for our purposes.
- Our budget execution process is [state assertion about budget execution process based on the criteria selected].
- We know of no matters that would contradict our assertion about our budget execution process.
- There have been no communications from regulatory or oversight agencies concerning our budget execution process or noncompliance with budgetary laws or the Antideficiency Act.
- We have made available to you all records and related data pertaining to our budget execution process during the period from October 1, 20x0 through September 30, 20x1.
- XYZ's budget execution process is designed to meet the requirements of the Antideficiency Act.
- The accounting records and fund status reports are checked quarterly to determine whether all source documents that affect the appropriation and fund balance have been recorded properly, accurately, and on a timely basis.

- The agency's accounting system provides timely disclosure of total valid obligations incurred to date and total budgetary resources available for obligations within each apportionment.

- The system also provides timely disclosure of the authorization or creation of commitments, obligations, or expenditures that exceed apportionments and allotments.

- We are not aware of instances of noncompliance with the above-stated procedures.

- There has been no fraud involving management, employees, or contractor staff who have significant roles in the operation of our budget execution process.

- We have no plans or intentions that would materially affect our budgetary process or operations.

Sincerely yours,

Management, XYZ Agency

660 C - AGREED-UPON PROCEDURES COMPLETION CHECKLIST

Entity:_____

Job code:_____

Principal report:_____

.01 This checklist is a tool to help auditors comply with the requirements for agreed-upon procedures engagements. No specific signatures are required on the checklist in the planning phase.

.02 Several of the last questions include steps in GAO's quality control process, including the GAO workpaper set, second partner review, and review by the Technical Accounting and Auditing Expert (Chief Accountant at GAO) when that person is not the second partner. GAO auditors should complete these questions and forms. IG auditors and other auditors may use these questions and forms or may substitute questions and forms that consider their reporting style and quality control.

Step	N/A	Yes	No	W/P ref
1. Has the audit team documented an understanding with the users?				
2. Does the documentation cover the following? • The nature of the engagement. • Identification of the subject matter, the responsible entity, and the criteria. • Identification of the users of the report. • Auditor's responsibilities. • Reference to GAGAS and the attestation standards. • Agreement on procedures. • Disclaimers expected. • Any involvement of a specialist. • Materiality limits.				

Step	N/A	Yes	No	W/P ref
3. Was an entrance conference held with the responsible entity?				
4. Has the auditor determined whether a letter of representation from the responsible entity is necessary? (Note: This is not a requirement.)				
5. Were applicable laws and regulations documented if part of the procedures?				
6. Were review responsibilities communicated to individuals on the assignment?				
7. Does the documentation contain the following? a. The scope and methodology, including any sampling criteria used. b. Documentation of the work performed to support reported results. c. Descriptions of transactions and records examined. d. Evidence of supervisory review.				
8. Does the documentation record that the applicable standards were followed (SSAE No. 10, AT 201 and AT 101)?				
9. Does the documentation record a reasonable basis for the results of the agreed-upon procedures?				
10. Does the summary memorandum summarize the results of the procedures and refer to the documentation?				

Step	N/A	Yes	No	W/P ref
11. Were any deviations from the standard reporting elements documented and the basis approved by the assistant director with copies of the documentation sent to the audit director and Reviewer (AT 201.31)?				
12. Was the report referenced?				
13. Did the assistant director review the following? a. Understanding with the client. b. Memorandum of entrance conference with the responsible entity. c. Completed work programs. d. Memorandums on key engagement issues. e. Summary of the results of the procedures. f. Memorandum of exit conference with the responsible entity. g. Deviations from standard reporting language. h. Financial schedules/statements. i. Report. j. GAO workpaper set (or equivalent).				
14. Did the audit director review the following? a. Understanding with the client. b. Summary of results of the procedures. c. Memorandum of exit conference with responsible entity. d. Deviations from standard reporting language. e. Report. f. GAO workpaper set (or equivalent).				
15. Did the assistant director or the auditor in charge determine that all significant review notes were resolved appropriately?				

Step	N/A	Yes	No	W/P ref
16. Did the assistant director initial all documentation bundle covers to indicate that all documentation was sufficiently reviewed?				
17. Is the report appropriate as to the following? a. Wording. b. Scope of work. c. GAGAS. d. Explanatory paragraphs.				
18. Was the report reviewed by the following? a. Office of the General Counsel. b. Technical Accounting and Auditing Expert. c. Second partner (or equivalent), if not Technical Accounting and Auditing Expert.				
19. Is the agreed-upon procedures report dated appropriately or does the report indicate when the auditor completed fieldwork? (SSAE No. 10)				

SECOND PARTNER'S (OR EQUIVALENT) CONCURRENCE ON AGREED-UPON PROCEDURES WORK

Objective of second partner (or equivalent) review: To objectively review significant engagement matters to conclude, based on all facts the second partner (or equivalent) has knowledge of, that no matters were found that caused the second partner (or equivalent) to believe that (1) the procedures were not performed in accordance with GAGAS, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants and (2) the report does not meet professional standards and audit organization policies.

Procedures: Before the report was issued, I performed the following procedures:

- as necessary, discussed significant engagement issues with the audit director;
- read documentation of key decisions and consultations;
- read the agreed-upon procedures report; and
- confirmed with the audit director that there are no unresolved issues.

Conclusions: Based on all the relevant facts of which I have knowledge, I found no matters that caused me to believe that (1) the agreed-upon procedures were not performed in accordance with GAGAS and the AICPA's attestation standards related to agreed-upon procedures engagements and (2) the report is not in accordance with professional standards and audit organization policies.

Title	**Signature**	**Date**

TECHNICAL ACCOUNTING AND AUDITING EXPERT'S CONCURRENCE ON AGREED-UPON PROCEDURES WORK

Objective of review: When the Technical Accounting and Auditing Expert is not the second partner (or equivalent), the Technical Accounting and Auditing Expert should read the report. The Technical Accounting and Auditing Expert should then sign the conclusions below.

Conclusions: Based on my reading of the report, I found no matters that caused me to believe that (1) the agreed-upon procedures were not performed in accordance with GAGAS and the AICPA's attestation standards related to agreed-upon procedures engagements and (2) the report is not in accordance with professional standards and audit organization policies.

Title	**Signature**	**Date**

660 D - EXAMPLE AGREED-UPON PROCEDURES REPORT

Management of ABC Agency

Subject: Applying Agreed-Upon Procedures: Count of Cash and Related Items

Dear Management Official:

We have performed the procedures contained in the enclosure to this letter, which we agreed to perform and with which you concurred, solely to meet your needs for an independent count of cash and cash-related items as of September 30, 20x1.

We conducted our work in accordance with U.S generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance when performing and reporting the results of agreed-upon procedures.

You are responsible for the adequacy of the procedures to meet your objectives and we make no representation in that respect. The procedures we agreed to perform consist of counting amounts for cash and related receipts and comparing combined totals to the authorized amounts. The enclosure contains the agreed-upon procedures and our results.

We were not engaged to perform, and did not perform, an examination, the objective of which would have been to express an opinion on the amount of cash on hand. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed our agreed-upon procedures on [date of completion].

We provided a draft of this letter, along with the enclosure, to your representatives for review and comment. They agreed with the results presented in this letter and its enclosure.

This letter is intended solely for the use of the management of ABC Agency and should not be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the report is a matter of public record and its distribution is not limited.

If you have any questions, please call [name, title, and telephone number].

Sincerely yours,

[Name of Director]
Director

Enclosure

RESULTS OF CASH COUNTS

Procedures

We counted and totaled cash on hand for the petty cash fund as of [date]. We also listed and totaled the receipts on hand evidencing disbursements from the fund. Finally, we compared the combined total of cash and receipts available to the amount authorized for the fund ($500).

Results

We counted cash totaling $258.96 and scheduled 14 receipts totaling $174.85. The combined total of cash and receipts on hand accounted for $433.81 of the $500 in authorized petty cash funds. In addition, the custodian provided us two separate Expense Summary Report and Petty Cash Itemization Sheets and related receipts for an additional $65.09, which had been submitted for reimbursement to the fund. Thus, the unexplained difference between the authorized amount and the total cash and receipts evidencing petty cash fund disbursements was $1.10.

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701 – ASSESSING COMPLIANCE OF AGENCY SYSTEMS WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

.01 FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions and to ensure ongoing accountability. FFMIA requires the 24 CFO Act departments and agencies[1] to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* (SGL) at the transaction level. The law also requires auditors to report whether agency financial management systems comply with the FFMIA requirements. OMB has provided FFMIA implementation guidance to help agencies and their auditors determine compliance. This section also provides guidance for assessing agency systems' compliance with FFMIA. It explains FFMIA's requirements and discusses audit issues related to testing for compliance with the act. An example audit program is included as an appendix.

FFMIA REQUIREMENTS

.02 OMB Circular A-127, *Federal Financial Systems*, also addresses the three FFMIA requirements. OMB Circular A-127 prescribes policies and standards for executive branch departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. OMB, in Circular A-127, refers to the federal financial management systems requirements, a series of publications issued by the Joint Financial Management Improvement Program (JFMIP), as the source of governmentwide requirements for financial management systems software functionality. JFMIP has developed a framework to describe the basic elements of an integrated financial management system, including the core financial system. Agency financial management systems fall into four categories: core financial systems, other financial and mixed systems[2] (such as procurement, property, budget, payroll, and travel systems), shared

[1] OMB also requires certain designated entities to determine FFMIA compliance.

[2] Mixed systems are any information systems that support both financial and non-financial functions of the federal government. Mixed systems can also be feeder systems.

systems,[3] and departmental executive information systems (systems to provide information to all levels of management.)

.03 JFMIP has developed publications of systems requirements for the core financial system and for some of the mixed or feeder systems. The systems requirements in the publications are stated as either mandatory (required) or value-added (optional). Agencies should use the mandatory functional and technical requirements in planning system improvement projects, whereas value-added requirements should be used as needed. The core financial management system affects all financial event transaction processing because it maintains reference tables used for editing and classifying data, controls transactions, and maintains security. The core financial management system consists of six functional areas: general ledger management, funds management, payment management, receivable management, cost management, and reporting. OMB Circular A-127 requires agencies to use for agency core financial management systems commercial-off-the-shelf (COTS) software that has been tested and certified through the JFMIP software certification process. According to JFMIP, core financial management system certification does not mean that agencies that install qualified software packages will have financial systems that are in compliance with FFMIA. JFMIP's certification process does not eliminate or significantly reduce the need for agencies to develop and conduct a comprehensive testing effort to ensure that the software product meets their requirements.

.04 The federal accounting standards, the second requirement of FFMIA, are promulgated by the Federal Accounting Standards Advisory Board (FASAB). FASAB develops accounting standards after considering the financial and budgetary information needs of Congress, executive agencies, and other users of federal financial information as well as comments from the public. FAM section 560 describes the relationship of the FASAB standards to the hierarchy of accounting principles.

.05 Implementing the SGL at the transaction level is also a requirement of FFMIA. The SGL provides a uniform chart of accounts and guidance for use in standardizing federal agency accounting and supports the preparation of standard external reports required by OMB and Treasury. The SGL is defined in the latest supplement, which is released annually, to the Department of the Treasury's *Treasury Financial Manual (TFM)*. The supplement is composed of five major sections (1) chart of accounts, (2) account descriptions, (3) accounting transactions, (4) SGL attributes, and (5) report crosswalks. Each agency should

[3] Shared systems are governmentwide systems used by agencies with information and data definitions common to all users.

implement a chart of accounts that is consistent with the SGL and meets the agency's information needs. OMB Circular A-127 states that application of the SGL at the transaction level means that financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the SGL. Transaction detail supporting SGL accounts are required to be available in the financial management systems and directly traceable to specific SGL account codes. In addition, the criteria for recording financial events in all financial management systems should be consistent with accounting transaction definitions and processing rules defined in the SGL.

.06 OMB FFMIA implementation guidance requires the CFO act agency auditors to perform tests of the compliance of the entity's systems with FFMIA. Auditors who are reporting that agency financial management systems do not comply with FFMIA requirements are to include in their reports (1) the entity or organization responsible for the financial management systems that have been found not to be substantially compliant and all pertinent facts relating to the noncompliance, (2) the nature and extent of the noncompliance including areas in which there is substantial but not full compliance, (3) the primary reason or cause of the noncompliance, (4) the entity or organization responsible for the noncompliance, (5) any relevant comments from any responsible officer or employee, and (6) a statement with respect to the recommended remedial actions for each instance of noncompliance and the time frames for implementing these actions. OMB FFMIA implementation guidance also requires agencies to report whether the agencies' financial management systems comply with FFMIA's requirements and prepare remediation plans that include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.

.07 According to OMB's FFMIA implementation guidance, auditors are to plan and perform their audit work in sufficient detail to enable them to determine the degree of compliance and report on instances of noncompliance for all of the applicable FFMIA requirements. The guidance describes specific minimum requirements that agency systems should meet to achieve compliance and provides indicators of compliance. The indicators included in OMB's implementation guidance are characterized as examples and are not all-inclusive.

AUDIT ISSUES

.08 While financial statement audits will offer some assurances regarding FFMIA compliance, auditors should design and implement additional testing to satisfy the criteria in FFMIA. For example, in performing financial statement audits, auditors generally focus on the capability of the financial management systems to

process and summarize financial information that flows into agency financial statements. In contrast, FFMIA requires auditors to assess whether an agency's financial management systems comply with systems requirements and provide complete, accurate, and timely information for managing day-to-day operations. This is based on Congress' expectation, in enacting FFMIA, that agency managers would have any necessary information to measure performance on an ongoing basis rather than just at year-end. Financial statement auditors generally review performance measure information for consistency with the financial statements, but do not assess whether managers have the performance-related information to manage during the fiscal year.

.09 As a result of the overlapping scope and nature of FFMIA assessments and financial statements audits, the auditor should use, where appropriate, the audit work performed as part of the financial statement audit. In the example audit program (FAM 701 A) for testing compliance with FFMIA, several procedures indicate that the auditor may have performed the procedure as part of the financial statement audit; whereas, other procedures needed to assess FFMIA compliance require additional work not normally contemplated by financial statement auditors. The determination of FFMIA compliance need not be performed simultaneously with the financial statement audit. The determination of FFMIA compliance may be performed by different staff or staggered throughout the assessment time frame. While the example audit program provides steps the auditor should perform, the auditor may tailor the steps to satisfy the objectives or intent of the step if the step cannot be completed as described. Auditors may also rely on other work products that address the objectives of the example audit procedures.

.10 As discussed in FAM section 350, the auditor need not perform specific tests of the systems compliance with FFMIA requirements for agencies with longstanding, well-documented financial management systems weaknesses that severely affect the systems' ability to comply with FFMIA requirements. The auditor should understand management's process for determining whether its systems comply with FFMIA requirements and report any deficiencies in management's process along with previously identified problems.

.11 FAM paragraphs 580.62 through .66 and FAM section 595 A provide FFMIA reporting guidance. When reporting a lack of substantial compliance, the auditor should refer to FAM 595 B for suggested modifications to the report. FAM Part III, section 1603, provides guidance that GAO will use to provide an affirmative statement when reporting on compliance with FFMIA.

701 A – EXAMPLE AUDIT PROCEDURES FOR TESTING COMPLIANCE WITH FFMIA

Entity _____

Date of review _____

Job code _____

Objective: FFMIA requires the 24 major departments and agencies covered by the CFO Act to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* (SGL) at the transaction level. OMB also requires certain designated entities to determine FFMIA compliance. The objective of this audit program is to assess whether agencies' systems' comply with FFMIA.

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
I. Planning (May be combined with the work to plan the financial statement audit) A. To understand the FFMIA requirements, read: • Federal Financial Management Improvement Act, P.L. 104-208. • *Audit Requirements for Federal Financial Statements* (OMB Bulletin). • OMB Memorandum, January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act.* • JFMIP Publications of Federal Financial Management System Requirements including the Framework and Core Financial System Requirements. • *Form and Content of Agency Financial Statements* (OMB Bulletin) • FASAB Standards.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
• *Treasury Financial Manual* (TFM) sections related to the SGL (see transmittal letter S2-01-02 and TFM Part 2, Chapter 4000). • OMB Circular No. A-123, *Management Accountability and Control.* • OMB Circular No. A-127, *Financial Management Systems.* • OMB Circular No. A-130, *Management of Federal Information Resources.* • Government Information Security Reform (GISR) legislation, Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. 106-398.		
B. Read the prior year's workpapers and audit report to identify (1) the auditors' FFMIA determinations, (2) reported instances of noncompliance with FFMIA, and (3) material weaknesses and reportable conditions related to the agency's financial management systems. • Prepare a schedule of the previously identified problems to follow up on the status of these specific problems. See section 701 B for an example of the schedule.		
C. Read the most recent FMFIA report, IG reports, GAO reports, internal control workpapers from the financial statement audit or other reports related to financial systems and consider the impact of any reported weaknesses on the FFMIA assessment. • Obtain an update on the status of the issues and document problems identified in the schedule in section 701 B.		
D. Read the cycle memoranda for each of the audit cycles completed for the current year audit. Document issues related to FFMIA compliance in the schedule in section 701 B.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
E. From the work performed in part I (planning), decide whether it is necessary to perform the remaining test steps. If the information gathered indicates "longstanding, well-documented financial management systems weaknesses" that preclude compliance with FFMIA requirements, then: 1. Document recognition of longstanding, well-documented financial management systems weaknesses and identify the source for this conclusion. 2. Obtain and document an understanding of management's process for determining whether its systems comply with FFMIA requirements. Report any deficiencies identified in management's process. 3. Complete step V (summary), except for completion of the schedule in FAM section 701 B.		
II. Testing for Compliance with Federal Financial Management Systems Requirements A. Ask whether the agency has an agencywide inventory of its systems. If so, obtain the inventory and any supporting documentation.		
B. From the agency's inventory of systems, identify the core financial management systems and the feeder systems. 1. Document the key internal controls and the information flows between the core financial systems and the feeder systems in a flowchart or narrative. (This step may be performed as part of the internal control phase). a. Determine whether the feeder systems are integrated or interfaced with the core financial system. Note: Feeder systems that are integrated with the core financial system share data tables. Therefore, reconciliations should not be necessary.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
b. If the feeder systems interface with the core systems, determine whether reconciliations are performed between the systems. If reconciliations are performed, determine how often and by whom; assess the adequacy of the reconciliation, including follow-up activities and supervisory review. c. Through interviews with agency management and reading of systems documentation, determine if the agency's systems have detective controls (i.e., batch control or hash totals or supervisory reviews) and preventive controls (i.e. segregated duties, appropriate authorizations, or access controls) to process transactions properly and timely. (May be performed as part of the internal control phase).		
2. Using the documentation prepared in step II.B.1 above, identify those JFMIP financial management systems requirements that are applicable to the agency's operations. For example, for those agencies that do not have grant or loan programs, the auditor would not need to assess whether JFMIP requirements related to grants or loans are applicable. Document the results.		
C. Determine whether the agency's core financial management system and the financial portions of its applicable feeder systems, as identified in step II.B.2 above, conform to JFMIP's federal financial management systems requirements. • Ask whether the agency's core financial management system is a JFMIP certified COTS system. If so, ask which version of the software is being used and obtain the agency's JFMIP certification for that software version.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
1. Ask whether there have been significant changes in the agency's automated business processes since compliance testing with JFMIP requirements was last performed. If so, ask whether the agency has performed an assessment of any new functionality using the JFMIP system requirements documents, GAO checklists, or similar tools. Document the results.		
2. For those agencies with a core financial management system that is not a JFMIP- certified COTS and for any feeder systems, obtain any analyses performed by agency management to support its FFMIA and FMFIA assessments that document how the agency's systems conform to the applicable JFMIP systems requirements. If management has not performed an analysis of systems functionality, go to step C.5.		
3. Select several important functions that management has reported as complying with the systems requirements and determine if management's assessment can be relied upon.		
4. If management's results cannot be relied upon for each system, perform an assessment of the functionality of the applicable systems using JFMIP system requirement documents, GAO checklists or other similar tools.		
5. Document in section 701 B, the instances and related impact in which the agency's systems did not comply with JFMIP requirements.		
D. Ask if management receives appropriate reports that are significant to performing day-to-day management operations. 1. Determine the adequacy of reports used to manage day-to-day operations that are produced by the systems. a. Ask knowledgeable users, read the agency's financial management systems documentation, and from other audit work, determine if the reports produced by the systems are timely,		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
useful, reliable, complete, and appropriately summarized for the management level receiving the report. Document the results. b. If the reports were not produced by the agency's financial management systems, ask how the reports were prepared and perform a similar assessment as described in step D.1.a.		
2. Determine whether appropriate levels of management are receiving adequate and timely management information. See FAM paragraph 903.12 for questions related to determining FFMIA compliance with SFFAS No. 4. a. Using professional judgment and industry best practices, identify internal management performance-related information that should be available for managing day-to-day operations. b. Determine whether appropriate levels of management are receiving the information identified in step D.2.a. c. If full costing is not used in these management reports, assess whether the lack of full cost information affects the usefulness of the information. Review management's justification that full costing would not be beneficial for the internal reports. This may need to be assessed on a case-by-case basis.		
3. Include any deficiencies identified and related impact in the schedule shown in section 701 B.		
E. Identify the agency's external reports that are related to financial management such as those used for budget formulation and execution, fiscal management of agency programs, funds management, payments and receipts management, and to support the legal, regulatory, and other special requirements of the agency. 1. Through interviews with knowledgeable users and reading of the agency's financial management system documentation, determine if the reports are produced by the systems.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
a. For external reports that are tested as part of the financial statement audit, include any deficiencies identified and the related impact in section 701 B. b. For external reports that are not tested as part of the financial statement audit, select several reports and assess whether the reports are reliable, timely, and complete. Include any deficiencies identified and the related impact in section 701 B.		
2. As an indicator of systems deficiencies, determine the magnitude and type of adjustments made by both management and the auditors to derive financial statements after the end of the accounting period.		
F. Determine if the agency's financial management systems track financial events and summarize information to facilitate the preparation of auditable financial statements. This determination can result from work performed as part of the financial statement audit. Document the deficiencies and the related impact in the schedule shown in section 701 B.		
G. Determine if the financial management systems enable the agency to prepare, execute, and report on the agency's budget in accordance with the requirements of OMB Circular No. A-11. This determination can result from work performed as part of the financial statement audit. Document the deficiencies and the related impact in the schedule shown in section 701 B.		
H. Determine if the agency's financial management systems capture and produce the financial information required to measure program performance. 1. Identify the agency's performance measures from its most recent accountability report that include data from the agency's financial management systems.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
2. Ask agency management whether an assessment was performed of the validity of the financial data used to derive the performance measures. If so, obtain and review the assessment and any supporting documentation.		
3. If agency management has not assessed the validity of the financial data used to derive the agency's performance measures, include this deficiency in section 701 B.		
4. Determine if recent GAO or IG reports have addressed the validity of financial data used to derive performance measures.		
5. If any deficiencies were identified, include them along with the related impact in the schedule shown in FAM section 701 B.		
I. Coordinate with the Information Security (IS) auditors to determine if the agency has implemented and maintains a program to provide adequate security for all agency information that is collected, processed, transmitted, stored, or disseminated in financial management systems. 1. Have the IS auditors review the annual management evaluation and the annual independent evaluation conducted in accordance with the Government Information Security Reform (GISR) legislation.		
2. Document the deficiencies and related impact identified by the IS auditors in the schedule shown in section 701 B.		
J. Determine if the financial management systems include internal control to safeguard resources against waste, loss, and misuse, and whether reliable data are obtained, maintained, and disclosed in system generated reports. Some of the information needed to make this determination may be obtained from the work performed in the internal control phase. Document the results in section 701 B.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
III. Testing for Compliance with the Federal Accounting Standards A. Determine if the agency's financial statements are compiled in accordance with applicable accounting standards. 1. Ask agency management and review financial statement audit results to determine whether any FASAB standards are not applicable. Document the results.		
2. Determine if any issues reported as part of the financial statement audit were related to the lack of the agency's implementation of the accounting standards in their systems. Document the results in the schedule shown in section 701 B.		
B. Perform tests to determine if the agency's cost accounting systems • use the agency's accounting classification elements to identify and establish unique cost objects to capture, accumulate, and report costs and revenues; • allocate and distribute the full cost and revenue of cost objects as defined by OMB including services provided by one federal entity to another for external reporting; and • transfer cost data directly to and from other cost systems/applications that produce or allocate cost information. Also, see step II.D.2 of this audit program.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
C. From the deficiencies identified in performing steps in part II (testing for compliance with federal financial management systems requirements) and from tests conducted as part of the financial statement audit, determine if the financial systems record and summarize transactions in accordance with applicable accounting standards. Note that the systems functionality assessments performed in step II. B. should have determined any compliance issues related to accounting standards since the accounting standards are used as a source for systems functionality requirements. Document the results and the related impact in the schedule shown in section 701 B.		
IV. Testing for Compliance with the SGL A. Determine whether the agency financial management systems use financial data that can be traced directly to SGL accounts to produce reports providing financial information for both internal and external reporting. 1. Ask agency management and from the documentation prepared in step II.B.1 above, determine how financial transaction data are summarized from the financial systems to the core financial system.		
2. Compare the agency's chart of accounts to the SGL accounts and identify any deviations.		
3. Review all of the standard entries allowed by the core financial system to determine if these entries conform to the SGL posting rules.		
4. Document any deficiencies and the related impact in the schedule shown in section 701 B.		
B. Ask whether the agency uses a crosswalk from its chart of accounts for its core financial management system to the SGL. If so, perform tests to determine the accuracy of the crosswalk. 1. Trace all SGL accounts to the crosswalk.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
2. Identify any SGL accounts that are not included in the crosswalk. Identify any agency accounts not associated with an SGL account in the crosswalk.		
3. Compare the posting rules used by the system to those included in the SGL to determine whether the posting rules used by the system conform to the SGL.		
4. Document deficiencies and the related impact in the schedule shown in section 701 B.		
V. Summary A. Summarize the results of the work performed above and assess the agency's compliance with the federal financial management systems requirement of FFMIA. 1. Finalize the schedule of the FFMIA noncompliances identified in the schedule prepared in step I.B.1 above.		
2. Read the agency's management representation letter covering the fiscal year under audit to obtain the agency management's FFMIA determination. a. Document the entity or organization responsible for the financial management systems that have been found not to comply. b. Document all facts pertaining to the: i. nature and extent of the noncompliance and areas where there is substantial but not full compliance; ii. primary reason or cause of the noncompliance; iii. impact of the noncompliance; iv. entity or organization responsible for the noncompliance; and v. relevant comments from any responsible officer or employee. c. Assess the recommended remedial actions for each instance of noncompliance and the time frames for implementing these actions. Include this assessment in the schedule in section 701 B.		

FFMIA example audit procedures: Description of Procedure	Done by/date	W/P ref.
3. Prepare the FFMIA section of the compliance with laws and regulations report. See FAM paragraphs 580.62 through .66 and sections 595 A, 595 B, and 1603, as appropriate.		

701 B – SUMMARY SCHEDULE OF INSTANCES OF NONCOMPLIANCE WITH FFMIA

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Prior year's reported instances of noncompliance (Step I.B.)											
Prior year's material weak-nesses and reportable conditions that affect FFMIA determination (Step I.B.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Weaknesses in the agency's most recent FMFIA report that affect FFMIA determination (Step I.C.)											
Weaknesses in Recent IG and GAO reports that affect FFMIA determination (Step I.C.)											
Cycle memo-randa for the current year's audit (Step I.D.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Instances in which the agen-cy's systems did not comply with JFMIP's functional requirements (Step II.C.)											
Preparation of internal manage-ment reports (Step II.D.)											
Preparation of external agency reports (Step II.E.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Preparation of auditable financial statements (Step II.F.)											
Preparation, execution, and reporting on agency budget in accordance with OMB require-ments (Step II.G.)											
Management's assessment of the validity of information used to derive perfor-mance measures (Step II.H.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Implementation and maintenance of an information security program (Step II.I.)											
Internal controls as part of finan-cial management (Step II.J.)											
Preparation of agency financial statements in accordance with applicable ac-counting stan-dards (Step III.A.)											

Source of information used in identifying deficiencies in agency systems	Nature and extent of noncom-pliance	Substan-tial but not full com-pliance? (Y or N)	Applicable criteria (JFMIP, FASAB citation)	Respon-sible entity	Primary reason or cause of noncom-pliance	Impact of noncom pliance	Agency comments on noncom-pliance	Corrective action in remediation plan? (Y or N)	Assessment of corrective actions and time frames	W/P refer-ence	Com-ments
Compliance issues related to the implemen-tation of applic-able accounting standards (Step III.C.)											
Agency financial systems' imple-mentation of the SGL accounts (Step IV. A.)											
Agency use of a crosswalk from its core financial management system to the SGL (Step IV. B.)											

802 - General Compliance Checklist

.01 The compliance testing section consists of a General Compliance Checklist (questionnaire) for identifying laws and regulations for compliance testing and supplements for the laws OMB requires auditors of CFO Act agencies to test for (see section 295 H) and other laws of general applicability auditors may consider during federal financial audits. The compliance supplements provide detailed guidance for assessing the effectiveness of compliance controls and testing compliance with the significant provisions of each law.

.02 The General Compliance Checklist (Form 802), or equivalent, generally should be completed for federal financial audits. If an individual law is considered to be significant for purposes of compliance testing, the related supplement should be completed. Supplements should be completed only for laws required to be tested for CFO Act agencies and for other laws identified for compliance testing on the General Compliance Checklist. Use of these documents is described below.

.03 To understand and evaluate compliance controls, the auditor also should follow the guidance in FAM 260 on identifying risk factors and in FAM 320 on understanding information systems. The FAM also provides additional guidance on compliance considerations for all audit phases.

INSTRUCTIONS FOR GENERAL COMPLIANCE CHECKLIST

.04 The checklist contains a summary of each law. The auditor generally should use this checklist or equivalent to determine which of these laws are considered to be significant for purposes of testing compliance, as discussed in FAM 245. The auditor should indicate whether each law meets the criteria for significance by placing a check mark in the appropriate column (yes or no). OMB audit guidance requires auditors of CFO Act agencies to test for five of the laws, as noted in section 295 H. Auditors also may test for the other four laws if they have determined they are material to the financial statements being audited.

.05 The auditor may need to use estimates or interim information in the preliminary column. The final amounts (based on the audited amounts or the final amounts of available budget authority) are used to determine whether all laws that would be significant in quantitative terms have been identified for control and compliance testing. The sources of all amounts included in this checklist should be documented. If the law is considered to be significant from a qualitative standpoint, the reasons for this conclusion should be documented.

Entity _____

Period of financial statements _____

Job code _____

Description of Law	Yes	No
Antideficiency Act - 31 U.S.C. 1341, 1342, 1514, 1517 This law imposes restrictions on the amounts of budgetary authority that may be obligated or expended. As discussed in FAM 250, the auditor should obtain information on the entity's budget authority, from sources such as appropriation legislation, and identify all legally binding restrictions on budget execution. Do the amounts of any legally binding budget execution restrictions on budget authority in effect during the audit period exceed planning materiality or are provisions of the Antideficiency Act otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) Preliminary Final Individual appropriations _____ _____ budget authority _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 803.	____	____

Description of Law	Yes	No
Federal Credit Reform Act of 1990 (FCRA), 2 U.S.C. 661-661f This law contains numerous provisions relating to the recording of activity related to direct loans, loan guarantees, and related modifications for budget accounting purposes. The law provides that after October 1, 1991, an agency may incur new direct loan obligations or make new loan guarantee commitments only to the extent that Congress has provided budget authority to cover the costs of the loan or loan guarantee. Does the entity's budget authority available during the audit period for direct loan obligations, loan guarantee commitments, or any related modifications exceed planning materiality or are provisions of the FCRA of 1990 otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) Preliminary / Final Total appropriations or other budget authority available during the fiscal year for costs of FCRA activities (direct loans, loan guarantees, and related modifications) _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 808.	____	____

Description of Law	Yes	No
Provisions Governing Claims of the U.S. Government, including the Debt Collection Improvement Act of 1996 (DCIA) These provisions address the collection of amounts owed to the federal government. Interest generally accrues from the date that a notice stating the amount due and the interest policies is first mailed to the debtor. Interest generally accrues at a rate established by the Secretary of the Treasury. Administrative costs and penalties shall also be charged. The provisions also require the entity to take all appropriate steps to collect the debt before discharging it and to notify Treasury about delinquent debt for administrative offset, collection by a debt collection center, or tax refund offset. Entities shall also participate in a computer match of delinquent debt with federal employees, and when collection actions are terminated, the entity holding delinquent debt shall sell it. Provisions also require the entity (or entities making loans the government guarantees) to notify credit-reporting agencies about delinquent debt and not make or guarantee loans to persons who owe delinquent debt. Does the cumulative amount of receivables created during the audit period that are subject to provisions governing claims of the U.S. government, including DCIA, exceed planning materiality; does the amount of receivables at the end of the audit period that are subject to provisions governing claims of the U.S. government, including DCIA, exceed planning materiality; or are provisions governing claims of the U.S. government, including the DCIA, otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) (continued on next page)	____	____

Description of Law	Yes	No
Provisions Governing Claims of the U.S. Government, including the Debt Collection Improvement Act of 1996 (DCIA) (continued) Preliminary Final Cumulative amount of receivables created during the audit period that are subject to provisions governing claims of the U.S. government, including DCIA _____ _____ or: Amount of receivables at the end of the audit period that are subject to provisions governing claims of the U.S. government, including DCIA _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 809. Note: These provisions of the law generally do not apply to amounts payable to the entity under the Internal Revenue Code, the Social Security Act, or tariff laws. Those laws contain specific provisions for these amounts.		

Description of Law	Yes	No
Prompt Payment Act, 31 U.S.C. 3901 et seq. The Prompt Payment Act requires federal entities to make payments for property or services by the due date specified in the related contract or, if a payment date is not specified in the contract, generally 30 days after the invoice for the amount due is received. If payments are not made within the appropriate period, the entity shall pay an interest penalty. Also, discounts offered by vendors may be taken only during the specified period. If they are taken after the time period has expired, an interest penalty shall be paid. Do the entity's payments for property or services subject to the Prompt Payment Act for the audit period exceed planning materiality or are provisions of the Prompt Payment Act otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) Preliminary Final Amount of payments made for property and services subject to the Prompt Payment Act _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 810.	____	____

Description of Law	Yes	No
Pay and Allowance System for Civilian Employees (Chapters 51-59 of Title 5, U.S. Code) These laws require that employees be paid at the appropriate rates established by law, including general pay increases, and that employees be paid at least minimum wage. Does the entity's payroll expense for the audit period exceed planning materiality or are related provisions of the Pay and Allowance System for Civilian Employees (as provided primarily in Chapters 51-59 of Title 5, U.S. Code) otherwise considered to be significant? (OMB audit guidance requires auditors of CFO Act agencies to test for compliance with this law.) Preliminary / Final Payroll expense _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 812. It is not expected that the entity's expense for performance awards, cash awards, overtime, travel, transportation, subsistence, or allowances for the audit period would exceed planning materiality. However, if these items or related provisions of the Pay and Allowance System for Civilian Employees are otherwise considered to be significant, the auditor should consult with the Office of General Counsel (OGC) for specific provisions to be considered for compliance testing.	____	____

Description of Law	Yes	No
Civil Service Retirement Act, 5 U.S.C. 8331 et seq. This law provides retirement benefits to employees who were hired prior to January 1, 1984. For each employee, the entity withholds a percentage of basic pay from the employee's compensation and contributes an equal amount for retirement. The employee and entity amounts are remitted to Treasury. Does the entity's expense for retirement costs under the Civil Service Retirement Act for the audit period exceed planning materiality or are provisions of the Civil Service Retirement Act otherwise considered to be significant? Preliminary / Final Expense for retirement contributions _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 813.	____	____

Description of Law	Yes	No
Federal Employees Health Benefits Act, 5 U.S.C. 8901 et seq. This law provides health insurance coverage to employees who elect health insurance benefits. For each employee who elects coverage, the entity pays an amount set by OPM for insurance costs. The entity portion cannot exceed 75 percent of the insurance cost. The employee pays the remainder of the total cost. Information on the employee and entity cost of the insurance is published by OPM. The entity withholds the amount of the employee's portion of the cost from the employee's pay and remits this amount, along with its own contribution, to Treasury. Does the entity's expense for health insurance costs for the audit period exceed planning materiality or are provisions of the Federal Employees Health Benefits Act otherwise considered to be significant?	____	____
Preliminary / Final Expense for health insurance _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 814.		

Description of Law	Yes	No
Federal Employees' Compensation Act, 5 U.S.C. 8101 et seq. This law provides for the compensation of employees injured or disabled while performing their duties. Claims are paid out of the Federal Employees' Compensation Fund. Federal entities are billed annually by the fund for claims paid on their behalf. Does the entity's expense for the audit period for benefits paid by the Federal Employees' Compensation Fund on the entity's behalf exceed planning materiality or are provisions of the Federal Employees' Compensation Act otherwise considered to be significant? Preliminary / Final Expense for Compensation Fund claims _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 816.	____	____

Description of Law	Yes	No
Federal Employees' Retirement System Act of 1986, 5 U.S.C. 8401 et seq. This law provides retirement benefits for employees who were hired after December 31, 1983. For each employee, the entity withholds a percentage of basic pay from the employee's compensation and contributes an amount equal to the employing agency's applicable normal cost percentage less the employee deduction rate for retirement. The employee and entity amounts are remitted to Treasury. Does the entity's expense for retirement costs under the Federal Employees' Retirement System Act for the audit period exceed planning materiality or are provisions of the Federal Employees' Retirement System Act of 1986 otherwise considered to be significant?	____	____
Preliminary / Final Expense for retirement contributions _____ _____ Planning materiality _____ _____ If yes, complete compliance supplement 817.		

Description of Law	Yes	No
Other laws Perform the following procedures and include references to supporting documentation: 1. As described in FAM 245.02, read the list of laws and regulations identified by the entity as significant to others. (See _____.) 2. With OGC assistance, identify any other laws or regulations that have a direct effect on determining financial statement amounts. Determine whether any such laws or regulations are material to the financial statements. (See _____.) 3. Consider whether to test compliance with any indirect laws or regulations and make inquiries of management as discussed in FAM 245.04-.06. (See _____.) 4. For all laws or regulations identified for testing above, identify significant provisions using the criteria in FAM 245.02. Test compliance controls and compliance as described in FAM 300 and 460. Are any other laws or regulations identified for compliance testing? If yes, attach a list of the laws or regulations identified to this form and reference it to control and compliance work performed.	____	____

.06 Supplements to the General Compliance Checklist (Form 802)

Law	Supplement number
Antideficiency Act (required for CFO Act agencies)	803
Federal Credit Reform Act of 1990 (required for CFO Act agencies)	808
Provisions Governing Claims of the U.S. Government as provided primarily in 31 U.S.C. 3711-3720E (including provisions of the Debt Collection Improvement Act of 1996 (DCIA)) (required for CFO Act agencies)	809
Prompt Payment Act (required for CFO Act agencies)	810
Pay and Allowance System for Civilian Employees as provided primarily in Chapters 51-59 of Title 5, U.S. Code. (required for CFO Act agencies)	812
Civil Service Retirement Act	813
Federal Employees Health Benefits Act	814
Federal Employees' Compensation Act	816
Federal Employees' Retirement System Act of 1986	817

INSTRUCTIONS FOR COMPLIANCE SUPPLEMENTS

.07 Each compliance supplement consists of (1) a compliance summary, (2) a compliance audit program, and (3) notes.

Compliance Summary

.08 For each law identified for compliance testing on the General Compliance Checklist, the auditor generally should complete the related compliance summary or equivalent. The compliance summary is designed to assist the auditor in planning compliance control tests and summarizing the results of compliance control tests and compliance tests for reporting the results of the work performed.

.09 The first column contains a description of the specific provisions of the law that have been identified for compliance testing, the type of provision, and the reference to the law.

.10 The second column contains the objective related to the specific provision to be used for both compliance control and compliance testing.

.11 The auditor should identify the control activities that the entity has in place to achieve each objective and document the control activity in the third column. If the entity does not have a control activity that achieves the objective, the auditor should document this condition in the third column.

.12 The fourth column is used to indicate whether the control activity is information system (IS)-related as described in FAM 270.04. IS controls are those the effectiveness of which depends on computer processing. They can generally be classified into general, application, and user controls. Testing of IS controls generally should be performed by an IS auditor, although the audit team may assist the IS auditor.

.13 The auditor should design control tests to determine whether the control activities that have been identified in the third column are in place and operating effectively. A control activity is considered to be effective if it achieves the control objective. The control testing program and the control tests should be recorded in the documentation. The results of these tests and the auditor's conclusions on the effectiveness of the compliance controls should be documented in the fifth column of the Compliance Summary. A reference to supporting documentation should be included in this column.

.14 Compliance tests should be performed using the related Compliance Audit Program as described below. The results of the compliance tests should be indicated in the last column of the Compliance Summary along with a reference to the supporting documentation.

Compliance Audit Program

.15 A compliance audit program has been developed for the provisions identified on the related compliance summary for each law. For each law identified for compliance testing on the General Compliance Checklist, the auditor generally should perform each step of the related compliance audit program. Because the subject matter of some laws is closely related to matters the auditor will be planning to test for other parts of the audit, the auditor should consider coordinating with that other testing and designing multipurpose tests. For example, payroll compliance testing could be performed using multipurpose tests

of payroll controls and/or substantive payroll testing. The auditor generally should initial in the "performed by" column of the compliance audit program when he or she performs the procedure. A reference to the documentation recording the work performed for each step generally should be included in the last column of the compliance audit program.

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803 - ANTIDEFICIENCY ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Antideficiency Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

OMB guidance on budget execution, including the Antideficiency Act, is included in OMB Circular A-11, Part 4.

Name of entity: _____
Audit period: _____

Compliance Summary

Prepared by: _____
Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. The entity shall not make expenditures or obligations that exceed the amount available for expenditure or obligation in an appropriation or fund. Type: Quantitative-based Ref: 31 U.S.C. 1341(a)(1)(A) and (C)	1. Expenditures or obligations do not exceed the amount available for expenditure or obligation in an appropriation or fund.	[Document the control activities used by the entity to achieve the objective.] (See note 2.)	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 803 Step 3.

Name of entity: _____
Audit period: _____

Compliance Summary

Prepared by: _____
Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. The entity shall not make expenditures or obligations that exceed (1) the amount of an apportionment; or (2) a lesser amount, if any, established by agency regulations (such as the allotment level). See note 1. Type: Quantitative-based Ref: 31 U.S.C. 1517(a)	2. Expenditures or obligations do not exceed the legally binding limit on the entity's budget authority. (The amount of the apportionment or a lesser amount, if any, established by the entity's regulations.) See note 1.	(See note 2.)			See Compliance Audit Program 803 Step 4.

Note: Complete this program or prepare equivalent documentation only if provisions of the Antideficiency Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary for this law.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
1. List the appropriations or other budget authority and the related budget accounts that were identified for compliance testing on Form 802 - General Compliance Checklist. Per page 802-2, the auditor should identify all legally binding restrictions on budget execution, from sources such appropriation legislation. (The following tests for compliance with the Antideficiency Act should be coordinated with tests of the Statement of Budgetary Resources and with tests of expenses.)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. As discussed in FAM 460.03, the auditor needs assurance that the summarized budget information (obligations and expenditures) used for compliance tests is reasonably accurate and complete. This assurance may be provided through effective controls (usually the budget controls) or, if the controls are not effective, through substantive testing of budget amounts for validity, completeness, cutoff, recording, classification, and summarization as described in FAM 495 B. For the accounts listed in step 1, document if this assurance is provided through effective controls (as indicated on Form 803 - Compliance Summary) or if substantive tests of the budget information are necessary. If the controls are not considered to be effective in meeting some or all of the budget control objectives listed in FAM 395 F, perform substantive tests of the budget amounts (obligations and expenditures) as discussed in FAM 495 B. These substantive tests should be performed only for those potential misstatements for which the entity does not have effective budget controls. After the auditor is satisfied as to the reasonableness of the budget amounts to be used for the compliance tests, perform the compliance tests in steps 3 and 4.		
3. Compare the actual amounts of budget obligations and expenditures with the related <u>appropriation or other budget authority</u> listed in step 1. If the entity does not appear to have complied with the provision, perform step 5. (31 U.S.C. 1341(a)(1)(A) and (C))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
4. Determine the entity's legally binding level of budget authority (below the appropriation level) that was identified during the planning phase. This level is usually the apportionment level unless the entity has elected a lower level, such as allotments. Compare the amount of actual obligations and expenditures to the legally binding level of restrictions on budget authority identified for compliance testing (the apportionment or allotment level). If the entity does not appear to have complied with the provision, perform step 5. (31 U.S.C. 1517(a))		
5. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in controls that allowed the noncompliance to occur, if not previously identified during control testing; • report the nature of any weakness in controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75.).		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
6. Document conclusions on compliance with each provision on Form 803 - Compliance Summary.		

Note 1: Entities are required to establish regulations that provide for a system of administrative controls over their execution of budget authority (31 U.S.C. 1514(a)). As discussed in FAM 250.03, the entity may elect to lower the level at which budget limitations are legally binding in these regulations. For example, the entity may elect to reduce the legally binding limit on the obligation and expenditure of budget funds from the apportionment to the allotment level. The auditor should determine the level at which the entity's legally binding limit has been established.

Note 2: The auditor should consider the results of the evaluation and testing of budget controls. These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act. Accordingly, additional consideration of controls that achieve the compliance objective generally is not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F. The auditor should reference this compliance summary to the budget control evaluation and testing and perform any additional procedures considered necessary to conclude if compliance controls are effective.

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808 - FEDERAL CREDIT REFORM ACT OF 1990

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Credit Reform Act of 1990 (FCRA) are considered to be significant as indicated on Form 802 - General Compliance Checklist.

OMB guidance on FCRA is included in OMB Circular A-11, part 5, *Federal Credit Programs*.

Name of entity: _____
Audit period: _____

Compliance Summary

Prepared by: _____
Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. Direct loan obligations may be incurred on or after October 1, 1991, only to the extent that an appropriation or other budget authority is available to cover these costs. (See notes 1, 2, and 5-7.) Type: Quantitative-based Ref: 2 U.S.C. 661c(b)	1. Direct loan obligations made on or after October 1, 1991, do not exceed the available appropriation or other budget authority. (See notes 1, 2, and 5-7.)	[Document the control activities used by the entity to achieve the objective.] (See note 10.)	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 808 Steps 3 and 4.

Name of entity: _____
Audit period: _____

Compliance Summary

Prepared by: _____
Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. A direct loan obligation or outstanding direct loan shall not be modified in a manner that increases its cost unless budget authority for the additional cost is available. (See notes 5 and 8.) (See note 9 for matters to discuss with OGC prior to testing.) Type: Quantitative-based Ref: 2 U.S.C. 661c(e)	2. Modifications made to direct loan obligations or outstanding direct loans do not exceed the available budget authority. (See notes 5, 8, and 9.)	(See note 10.)			See Compliance Audit Program 808 Step 3.
3. Loan guarantee commitments may be made on or after October 1, 1991, only to the extent that an appropriation or other budget authority is available to cover these costs. (See notes 3 to 7.) Type: Quantitative-based Ref: 2 U.S.C. 661c(b)	3. Obligations for new loan guarantee commitments made on or after October 1, 1991, do not exceed the available appropriation or other budget authority. (See notes 3 to 7.)	(See note 10.)			See Compliance Audit Program 808 Steps 3 and 4.

Name of entity: _____
Audit period: _____

Compliance Summary

Prepared by: _____
Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
4. A loan guarantee commitment or outstanding loan guarantee shall not be modified in a manner that increases its cost unless budget authority for the additional cost is available. (See notes 5 and 8.) (See note 9 for matters to discuss with OGC prior to testing.) Type: Quantitative-based Ref: 2 U.S.C. 661c(e)	4. Modifications made to loan guarantee commitments or outstanding loan guarantees do not exceed the available budget authority. (See notes 5, 8, and 9.)	(See note 10.)			See Compliance Audit Program 808 Step 3.

Note: Complete this program or prepare equivalent documentation only if provisions of the Federal Credit Reform Act (FCRA) are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

OMB guidance on FCRA is included in OMB Circular A-11, part 5, *Federal Credit Programs*.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
1. List the appropriations or other budget authority and the related budget accounts that were identified for compliance testing on Form 802 - General Compliance Checklist.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. As discussed in FAM 460.03, the auditor needs assurance that the summarized budget information (obligations and expenditures) used for compliance tests is reasonably accurate and complete. This assurance may be provided through effective controls (usually the budget controls) or, if the controls are not effective, through substantive testing of budget amounts for validity, completeness, cutoff, recording, classification, and summarization as described in FAM 495 B. For the accounts listed in step 1, document whether this assurance is provided through effective controls (as indicated on Form 808 - Compliance Summary) or whether substantive tests of the budget information are necessary. If the controls are not considered to be effective in meeting some or all of the budget control objectives listed in FAM 395 F, plus the supplemental objectives for FCRA listed in FAM 395 F Sup, perform substantive tests of the budget amounts (obligations and expenditures) as discussed in FAM 495 B. These substantive tests should be performed only for those potential misstatements for which the entity does not have effective budget controls. After the auditor is satisfied as to the reasonableness of the budget amounts to be used for the compliance tests, perform the compliance tests in steps 3 and 4.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
3. For each appropriation account or other budget authority listed in step 1, perform the following procedures that are applicable (for direct and guaranteed loan programs that have a negative subsidy (i.e., cash inflows exceed cash outflows), perform step 4): (a) Compare the amount of obligations for direct loans to the amount of the available appropriation or other budget authority. (Note: This budget restriction is applicable only to obligations for direct loans made on or after October 1, 1991.)		
3. (b) Compare the amount of obligations for modifications of direct loan obligations or outstanding direct loans to the amount of available budget authority. (Note: The sale of a direct loan is considered a modification. Discuss applicability of this budget restriction to direct loans and direct loan obligations that were outstanding prior to October 1, 1991, with OGC prior to performing compliance test.)		
3. (c) Compare the amount of obligations for loan guarantee commitments to the amount of the available appropriation or other budget authority. (Note: This budget restriction is only applicable to obligations for loan guarantee commitments made on or after October 1, 1991.)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
3. (d) Compare the amount of obligations for modifications of loan guarantee commitments or outstanding loan guarantees to the amount of available budget authority. (Note: Discuss applicability of this budget restriction to loan guarantees and loan guarantee commitments that were outstanding prior to October 1, 1991, with OGC prior to performing compliance test.) (2 U.S.C. 661c(b) and (e)) If the amounts of obligations in any of these comparisons exceed the available budget authority, the entity may not be in compliance. Perform step 5.		
4. Direct and guaranteed loan programs that have a negative subsidy (cash inflows exceed cash outflows) do not receive an appropriation. However, such programs have a loan limit that cannot be exceeded, i.e., a maximum number of loans that can be made or guaranteed. For these programs, compare the total number and dollar volume of loans made to the loan limit in the applicable Presidents' Budget. Perform step 5.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
5. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in controls that allowed the noncompliance to occur, if not previously identified during control testing; • report the nature of any weakness in controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
6. Document conclusions on compliance with each provision on Form 808 - Compliance Summary.		

Note 1: A direct loan is a disbursement of funds by the government to a non-federal borrower under a contract that requires the repayment of such funds with or without interest. The term also includes the purchase of, or participation in, a loan made by another lender. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default claims or the price support loans of the Commodity Credit Corporation. (2 U.S.C. 661a(1))

Note 2: A direct loan obligation is a binding agreement by a federal agency to make a direct loan when specified conditions are fulfilled by the borrower. (2 U.S.C. 661a(2))

Note 3: A loan guarantee is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a nonfederal borrower to a nonfederal lender, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (2 U.S.C. 661a(3))

Note 4: A loan guarantee commitment is a binding agreement by a federal agency to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement. (2 U.S.C. 661a(4))

Note 5: Appropriations or other budget authority to cover the cost of budget obligations for direct loan obligations and loan guarantee commitments must be made in advance by Congress. For revolving or other funds that otherwise would be available for these budget obligations, Congress must enact a limit on the use of such funds for these purposes to make them available for use. (2 U.S.C. 661c(b))

Note 6: Costs are defined as the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. These calculations are described in further detail under the valuation control objective for obligations in FAM 395 F. (2 U.S.C. 661a(5))

Note 7: There is an exemption from this requirement for entitlements (mandatory programs such as the guaranteed student loan program and the VA home loan guaranty program) and credit programs of the Commodity Credit Corporation existing on the date of enactment of the act (November 5, 1990). (2 U.S.C. 661c(c))

Note 8: Modifications are government actions that alter the estimated net present value of a direct loan or loan guarantee for which an obligation has been recorded, for example, the sale of a direct loan, per SFFAS No. 2, paragraph 53, or a policy change affecting the repayment period or interest rate for a group of existing loans. Changes within the terms of existing contracts or through other existing authorities are not considered to be modifications. Also, "work outs" of individual loans, such as a change in the amount or timing of payments to be made, are not considered modifications. The effects of these changes should be included in the annual reestimates of the estimated net present value of the obligations. Permanent indefinite authority is provided by FCRA for these reestimates.

Note 9: Discuss applicability of this budget restriction to direct loans, direct loan obligations, loan guarantees, or loan guarantee commitments that were outstanding prior to October 1, 1991, with OGC prior to performing control or compliance tests.

Note 10: The auditor should consider the results of the evaluation and testing of budget controls and testing of the Statement of Budgetary Resources. These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act and the Federal Credit Reform Act. Accordingly, additional consideration of controls that achieve the compliance objective generally is not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F, including the supplemental control objectives for the Federal Credit Reform Act. The auditor should reference to the budget control evaluation and testing and perform any additional procedures considered necessary to conclude if compliance controls are effective.

809 - PROVISIONS GOVERNING CLAIMS OF THE U.S. GOVERNMENT (31 U.S.C. 3711-3720E) (INCLUDING THE DEBT COLLECTION IMPROVEMENT ACT OF 1996 (DCIA))

Note: Complete this compliance summary or prepare equivalent documentation only if provisions governing claims of the U.S. government, as provided primarily in sections 3711-3720E of Title 31, U.S. Code (including provisions of the Debt Collection Improvement Act of 1996), are considered significant, as indicated on Form 802 - General Compliance Checklist.

Name of entity:_____ Compliance Summary Prepared by:_____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. Interest shall be charged on an outstanding debt (or claim) owed to the entity. Interest accrues from the date the notice of the amount due and interest policies is first mailed to the debtor. Interest is charged at the rate established by the Secretary of the Treasury that is in effect on that date. The rate remains fixed at that rate for the duration of the indebtedness. (See notes 1, 2, and 3.) Type: Transaction-based Ref: 31 U.S.C. 3717(a), (b), and (c)	1. Interest is properly calculated and charged on past due amounts owed to the entity at the correct rates. (See notes 1, 2, and 3.)	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 809 Steps 3 (a), (b), and (c).

Name of entity:_____ Compliance Summary Prepared by:_____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. The entity shall assess, on a claim owed to it, a charge to cover the cost of processing and handling a delinquent claim plus a penalty charge (of not more than 6 percent a year) for failure to pay a part of a claim more than 90 days past due. These additional charges do not accrue interest. (See note 3.) Type: Transaction-based Ref: 31 U.S.C. 3717(e) and (f)	2. Administrative charges and late payment penalties are properly calculated and charged on past due amounts. (See note 3.)				See Compliance Audit Program 809 Step 3(d).
3. The entity may compromise, terminate, or suspend claims that are not more than $100,000. Claims of more than $100,000 (excluding interest, penalties, and administrative costs) shall be referred to the Justice Department for compromise, termination, or suspension. (See note 4.) Type: Procedural-based Ref: 31 U.S.C. 3711(a)	3. Claims of more than $100,000 (excluding interest, penalties, and administrative costs) are referred to the Justice Department for compromise, termination, or suspension. (See note 4.)				See Compliance Audit Program 809 Step 5(a).

Name of entity:_____ Compliance Summary Prepared by:_____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
4. If the entity is owed a valid and legally enforceable, nontax debt delinquent over 180 days, and there are no bars to collection, it shall notify Treasury about the debt for administrative offset and refer the debt to Treasury or a Treasury-designated debt collection center for collection action. (See notes 5, 6, and 7.) Type: Procedural-based Ref: 31 U.S.C. 3711(g)(1) and (9), 31 U.S.C. 3716(c)(6), 31 U.S.C. 3719 (a), 31 U.S.C. 3720A(a), and 5 U.S.C. 5514(a)(1).	4. When nontax debt becomes delinquent over 180 days, it is referred to Treasury for administrative offset and collection. (See notes 5, 6, and 7.)				See Compliance Audit Program 809 Step 5(b).
5. Unless waived by the entity, a person may not obtain any loan (other than a disaster loan) or loan insurance or guarantee administered by the entity if the person has outstanding nontax delinquent federal debt. (Delinquency is determined by Treasury regulations.) Type: Transaction-based Ref: 31 U.S.C. 3720B	5. Loans and loan insurance or guarantees are not granted to persons with delinquent nontax debt.				See Compliance Audit Program 809 Step 4(b).

Note: Complete this program or prepare equivalent documentation only if provisions governing claims of the United States government as provided primarily in sections 3711-3720E of Title 31, U.S. Code (including provisions of the Debt Collection Act of 1996) are considered significant, as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 809 - Compliance Summary), select a sample of amounts owed to the entity during or at the end of the audit period. (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 8 regarding sampling efficiencies and completeness of the sample population. Sample size _____ Sample selection method_____		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. For each item selected in step 1 obtain the loan file or other supporting documentation and note the following information as of the date selected for testing: • due date of debt; • amount owed; • date the notice of the amount due and the interest policies is first mailed to the debtor; • amount of interest accrued and other administrative charges and penalties charged, if any; and • number of days the debt is past due, if any. Perform step 3 if the debt is past due. Perform step 4 if the debt is not past due.		
3. If the amount selected is past due: (a) Calculate the number of days that interest should be accrued on the debt as of the date selected for testing. Interest generally accrues from the date that the notice of the amount due is first mailed to the debtor. (See note 1.) Compare the auditor's calculation with the calculation performed by the entity and obtain explanation and examine support for any differences. (31 U.S.C. 3717(b))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
3. (b) Determine the interest rate that should be used to accrue interest on the debt. The rate is published in the *Federal Register* and should be the rate that was in effect on the date that the notice of the amount due is first mailed to the debtor. (The web site for the *Federal Register* is: http://www.access.gpo.gov/su_docs/aces/aces140.html.) Compare the auditor's determination of the rate to the rate used by the entity and obtain explanation and examine support for any differences. (31 U.S.C. 3717(a) and (c))		
3. (c) Calculate the amount of interest that should be owed as of the date selected for testing using the number of days tested in (a) and the interest rate tested in (b). Compare the auditor's calculation to the amount calculated by the entity and obtain explanation and examine support for any differences. See notes 2 and 3 regarding the waiver of interest.		
3. (d) Obtain the entity's schedule of administrative charges and late payment penalties and determine if the appropriate amounts were charged to the debtor. See note 3 regarding the waiver of these charges. (31 U.S.C. 3717(e) and (f))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
4. If the debt is not past due, determine through examination of the entity's records whether (a) interest, administrative charges, or penalties are not being charged; and (b) the debtor had no outstanding nontax delinquent federal debt at the time the loan was obtained. (31 U.S.C. 3720 B)		
5. The objectives listed below relate to procedural-based provisions. As discussed in FAM 460.06, sufficient procedures usually are performed in conjunction with tests of compliance controls for these procedural-based provisions to conclude on the entity's compliance without performing additional procedures. Additional procedures should not be performed to obtain evidence regarding compliance with the provisions related to the following objectives unless sufficient evidence regarding compliance was not obtained during compliance control tests documented on Form 809 - Compliance Summary. (a) Claims of more than $100,000 (excluding interest, penalties, and administrative costs) are referred to the Justice Department for compromise, termination, or suspension. See note 4. (31 U.S.C. 3711) (b) Claims delinquent for a period of 180 days have been referred to Treasury for collection. See notes 5, 6, and 7. (31 U.S.C. 3711 (g))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
6. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the conclusion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
7. Document conclusions on compliance with each provision on Form 809 - Compliance Summary.		

Note 1: Claims are amounts owed to the government, including amounts owed for loans insured or guaranteed by the government. The term "claim" is used interchangeably with the term "debt" in this law. (31 U.S.C. 3701(b))

Interest normally accrues from the date that notice of the debt and the agency's interest policies is first mailed to the debtor. If the agency sends a bill to the debtor in advance of the due date and that bill states the interest policies, interest would accrue from the due date specified in the bill.

The provisions regarding accrual of interest and other charges do not apply to the extent that a statute, related regulation, loan agreement, or contract provides otherwise, or if a claim is under a contract executed before October 25, 1982, that is in effect on October 25, 1982. (31 U.S.C. 3717(g)) Accrual of interest and penalties under this law does not apply to amounts owed by other agencies of the federal government, a state government or a unit of general local government or to amounts payable to the entity under the Internal Revenue Code, the Social Security Act, or tariff laws. (31 U.S.C. 3701 (c) and (d)) This law, however, does not preclude the charging of interest to state and local governments under authority provided under other laws.

Note 2: The entity shall waive the collection of interest on a claim (or any portion of the claim) that is paid within 30 days after the date on which interest began to accrue. The agency may extend this 30-day period. (31 U.S.C. 3717(d)) Interest that is either accrued or collected on claims that are paid within the 30-day period would usually not be material or otherwise significant for purposes of compliance testing. If the auditor considers this provision to be significant for compliance testing, this form should be tailored to include the appropriate testing procedures.

Note 3: The entity has the authority to waive the collection of interest, penalties, and administrative charges. The entity should follow its own regulations when determining whether a waiver is appropriate. Such regulations should be in conformity with the standards set jointly by the Comptroller General, the Attorney General, and the Secretary of the Treasury described in 31 CFR 901.9. (31 U.S.C. 3717(h))

The entity may increase an administrative claim (debt not based on an extension of government credit through direct loans, guarantees, or insurance, including fines, penalties, and overpayments) annually by the

cost of living adjustment in lieu of charging interest and penalties. (31 U.S.C. 3717(i))

Note 4: Compromise is the term used when an amount less than the total amount of the claim is accepted by the entity as payment in full. Suspension refers to the temporary deferral of collection activities until collection activity is expected to be more successful. Termination refers to stopping of collection activities.

Only the Justice Department has the authority to compromise, terminate, or suspend collection on claims that are greater than $100,000 (excluding interest, penalties, and administrative charges). Pursuant to 31 CFR Parts 902.1 and 903.1, entities generally should use a Claims Collection Litigation Report (CCLR) to refer such matters to the Justice Department.

Note 5: Exceptions to the requirement to transfer nontax debt delinquent for a period of 180 days to Treasury for collection are

(a) a debt or claim that
  (1) is in litigation or foreclosure;
  (2) will be disposed of under an asset sales program within 1 year after becoming eligible for sale, or later than 1 year if consistent with an asset sales program and a schedule established by the entity and approved by OMB;
  (3) has been referred to a private collection contractor for collection for a period determined by Treasury;
  (4) has been referred by, or with the consent of, Treasury to a debt collection center for a period determined by Treasury; or
  (5) will be collected under internal offset, if such offset is sufficient to collect the claim within 3 years after the date the debt or claim is first delinquent; and

(b) to any other specific class of debt or claim, as determined by Treasury at the request of an entity. (31 U.S.C. 3711(g)(2)) Examples include
  (1) debts in bankruptcy meeting the criteria for an automatic stay (11 U.S.C. 362),
  (2) foreign debt considered uncollectable by Treasury due to foreign diplomacy considerations and affairs of state,
  (3) debts in forbearance or appeals.

Note 6: Exceptions to the requirement to notify Treasury of nontax debt delinquent over 180 days for administrative offset are a claim that has

been outstanding for more than 10 years or when a statute explicitly prohibits using administrative offset or setoff to collect the type of claim involved. (31 U.S.C. 3716(e)) Also, this section does not prohibit the use of any other administrative offset authority existing. (31 U.S.C. 3716 (d))

Prior to referring debts to Treasury, an agency shall inform the debtor of the amount and nature of the debt (such as overpayment, etc.), and actions which may be taken to enforce recovery of a delinquent debt. These include

(a) offset of any payments which the debtor is due, including tax refunds, and salary;
(b) referral of the debt to a private collection agency;
(c) referral of the debt to the Department of Justice or agency counsel for litigation;
(d) reporting of the debt to a credit bureau;
(e) reporting of the debt, if discharged, to IRS as a potential taxable income.

In the future, the agency also will need to inform the debtor that the debt may be subject to administrative wage garnishment, his/her identity may be published or publicly disseminated, and/or the debt may be sold.

The notice must tell the debtor that he/she has the opportunity

(a) to inspect and copy records relating to the debt,
(b) for a review by the agency; and
(c) to enter into a written repayment agreement.

Note 7: Before an entity refers past-due debt to Treasury for reduction of tax refund, it must

(a) notify the person incurring such debt that the entity proposes to refer to Treasury for tax refund offset,
(b) give such person at least 60 days to present evidence that all or part of the debt is not past due or not legally enforceable,
(c) consider any evidence presented by such person and determine that an amount of such debt is past due and legally enforceable,
(d) satisfy such other conditions Treasury may prescribe to ensure the above determination is valid and that the entity has made reasonable efforts to obtain payment, and

(e) certify that reasonable efforts have been made by the entity to obtain payment. (31 U.S.C. 3720A (b))

Treasury issues regulations prescribing the times at which entities shall submit notices of past-due legally enforceable debts, the manner of submitting them, and the information to be contained in them. The regulations also specify the minimum amount of debt that may be referred for tax refund offset and the fee the entity shall pay to reimburse Treasury for its costs.

Note 8: If multipurpose testing is used for the compliance test and/or compliance control test and/or a substantive test of accounts or loans receivable details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test as described in FAM 430. Otherwise, the items should be selected using attribute sampling as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity, accuracy, and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of the population.

810 - PROMPT PAYMENT ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Prompt Payment Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

OMB guidance on the Prompt Payment Act is included in 5 CFR Part 1315.

Name of entity: _____ Compliance Summary Prepared by: _____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. If payment for property or services from a business concern is not made by the required due date, an interest penalty shall be paid to the concern on the amount of the payment due. The interest penalty shall be paid for the period beginning on the day after the required payment date and ending on the date on which payment is made. (See notes 1, 2, 3, 4, and 5.) Type: Transaction-based Ref: 31 U.S.C. 3902(a) and (b)	1a. All payments for property or services that are not made by the payment due date are identified. (See note 1.) 1b. Interest penalties are calculated and paid on the past due amount using the appropriate interest rate and period. (See notes 2, 3, 4, and 5.)	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 810 Step 4(a) and (b).

Name of entity: _____ Compliance Summary Prepared by: _____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. Penalties shall be paid out of amounts made available to carry out the program for which the penalty is incurred. Type: Transaction-based Ref: 31 U.S.C. 3902(f)	2. Interest penalties are paid out of the appropriation used to pay related program expenditures.				See Compliance Audit Program 810 Steps 4(c), 5(c), and 6.
3. Discounts offered by a business concern may be taken only if payment is made within the specified time as determined from the date of the invoice. An interest penalty shall be paid on improperly taken discounts. Type: Transaction-based Ref: 31 U.S.C. 3904	3a. Discounts taken after the specified time period are identified. 3b. Interest penalties are properly calculated and paid on the amount of any improperly taken discounts using the appropriate interest rate and period.				See Compliance Audit Program 810 Step 5(a) and (b).

Note: Complete this program or prepare equivalent documentation only if provisions of the Prompt Payment Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

OMB Guidance on the Prompt Payment Act is included in 5 CFR Part 1315.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 810 - Compliance Summary), select a sample of payments from throughout the audit period. (The sample size will vary based on the expected effectiveness of compliance controls as discussed in FAM 460.02.) Document the sampling approach using the documentation in FAM section 495 E. See note 6 regarding sampling efficiencies and completeness of the population. Sample size _____ Sample selection method _____		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. For each item selected in step 1, obtain the supporting documentation for the payment such as the invoice voucher package. (a) Document the following items in the documentation: • invoice number; • payee; • invoice amount; • invoice date; • invoice receipt date (or other date used for determining compliance with this law - see step 2 (b)); • payment date; • amount of interest penalty paid, if any; • amount of discount taken, if any; and • appropriation account(s) charged for the expenditure and interest penalty, if any.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. (b) For each item selected, note whether the payment was made by the required due date. The required due date may be the date specified in the contract or, if a date is not specified, 30 days after receipt of the invoice (31 U.S.C. 3903(a)(1)(A) and (B)). If payment is for meat or meat food products, perishable agricultural products, dairy products or construction contracts, consult with OGC to determine payment due date. Specific payment due dates to avoid interest penalties are established by law for these items. (31 U.S.C. 3903(a)(2), (3), (4), and (6)) The invoice receipt date is the later of (1) the date the entity's designated representative or office actually receives a proper invoice or (2) the 7th day after the date on which, in accordance with the terms and conditions of the contract, the property is actually delivered or performance of the services is actually completed (unless the entity accepted the property or services before the 7th day or a longer acceptance period is specified in the contract). If the date of actual invoice receipt is not indicated, the entity must use the invoice date. (31 U.S.C. 3901(a)(4)(A) and (B)) If the payment was made prior to the payment due date, perform step 3. If the payment was made after the payment due date, perform step 4. If a discount was taken, perform step 5.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
3. If the payment was made prior to the payment due date, and no discount was taken, determine that no interest penalty was paid. (Note: If the entity did not take advantage of a discount for which it was eligible or if an interest penalty was paid when it was not owed, the auditor generally should determine the cause of these items for purposes of reporting findings.)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
4. If the payment was made after the payment due date, determine whether (a) an interest penalty was paid; (b) the amount of the interest penalty was properly calculated; and (c) the interest penalty was paid out of the appropriation used to pay the related expenditures. Review the accounting codes indicated on the expense voucher. Determine whether the accounting codes used to record the interest penalty are the same as those used for the related expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (See step 6 regarding proper summarization of amounts.) (31 U.S.C. 3902 (a), (b), and (f)) Investigate any differences between the amount of interest penalty calculated by the auditor and the amount paid by the entity, including any instances when an interest penalty was owed but not paid. See note 5. Investigate any instances when the proper appropriation account was not charged. See note 2 regarding the interest rate to be used. See notes 3 and 4 regarding the period the penalty should cover.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
5. If a discount was taken, determine whether it was taken during the specified period the discount was available. If the discount was taken during the specified period, further consideration is not necessary. If any discounts are taken after the appropriate time period, determine whether (a) an interest penalty was paid, (b) the amount of the interest penalty was properly calculated, and (c) the interest penalty was charged against the appropriation used for the related expenditures. Review the budget accounting codes indicated on the expense voucher. Determine whether the budget accounting codes indicated on the voucher for the interest penalty are the same as those used for the related expenditure. Determine whether the codes and amounts on the voucher agree with those recorded in the budgetary accounting records. (See step 6 regarding proper summarization of the budgetary amounts.) (31 U.S.C. 3902 (a), (b), and (f), and 31 U.S.C. 3904) Interest penalties should be calculated on the amount of the discount. The penalty accrues on the amount of the discount from the last date specified that the discounted amount may be paid (31 U.S.C. 3904). See note 2 regarding the interest rate to be used to calculate the interest penalty. (continued)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
5. (continued) Investigate any differences between the amount of interest penalty calculated by the auditor and the amount paid by the entity, including any instances when an interest penalty was owed but not paid. Investigate any instances when the proper appropriation account was not charged.		
6. Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F. If the auditor has assessed the entity's controls as effective in achieving the control objective of summarization of expenditure balances, further procedures are not necessary to obtain assurance as to whether interest penalties are paid out of the proper appropriation account. If the auditor has assessed the controls as ineffective, the auditor should perform procedures to determine if the entity has properly summarized the expenditure balances as described in FAM 495 B.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
7. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
8. Document conclusions on compliance with each provision on Form 810 - Compliance Summary.		

Note 1: The required due date is generally the date specified in the contract or, if a date is not specified, 30 days after receipt of the invoice (31 U.S.C. 3903(a)(1)(A) and (B)) If payment is for meat or meat food products, perishable agricultural products, dairy products or construction contracts, consult with OGC to determine payment due date. Specific payment due dates to avoid interest penalties are established by law for these items. (31 U.S.C. 3903(a)(2), (3), (4), and (6))

The invoice receipt date is established as the later of (1) the date the entity's designated representative or office actually receives a proper invoice or (2) the 7th day after the date on which, in accordance with the terms and conditions of the contract, the property is actually delivered or performance of the services is actually completed, unless the entity accepted the property or services before the 7th day or a longer acceptance date is specified in the contract. If the date of actual invoice receipt is not indicated, the entity must use the invoice date. (31 U.S.C. 3901(a)(4)(A) and (B))

Note 2: Interest shall be calculated at the rate set by the Secretary of the Treasury under section 12 of the Contract Disputes Act of 1978 (41 U.S.C. 611) that is in effect at the time the entity accrues the obligation to pay a late payment interest penalty. The rates are published in the *Federal Register*. (31 U.S.C. 3902(a))

Note 3: The interest penalty shall be paid for the period beginning on the day after the required payment date and ending on the date on which payment is made. (31 U.S.C. 3902(b))

An interest penalty not paid after any 30-day period shall be added to the principal amount of the debt, and a penalty accrues thereafter on the combined amount of principal and interest. (31 U.S.C. 3902(e))

Note 4: A payment is deemed to be made on the date a check for payment is dated or an electronic transfer is made. (31 U.S.C. 3901 (a)(5))

Note 5: The temporary unavailability of funds to make a timely payment due for property or services does not relieve the entity head of the obligation to pay interest penalties under this law. (31 U.S.C. 3902 (d))

Note 6: If multipurpose testing is used for the compliance test and/or compliance control test and/or a substantive test of payments details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive

test as described in FAM 430. Otherwise, the items should be selected using attribute sampling as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity, accuracy, and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of the population.

812 - PAY AND ALLOWANCE SYSTEM FOR CIVILIAN EMPLOYEES, AS PROVIDED PRIMARILY IN CHAPTERS 51-59 OF TITLE 5, U.S. CODE

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51-59 of Title 5, U.S. Code, are considered to be significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: _____
Audit period: _____

Compliance Summary

Prepared by: _____
Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. Pay for a specific position should be based on the appropriate pay schedule or pay rate. Type: Transaction-based Ref: 5 U.S.C. 5332, 5343, and 5383	1. Employees are paid at appropriate rates.	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 812 Step 4(b).
2. Employer shall pay employees at least minimum wage. (See note 1.) Type: Transaction-based Ref: 29 U.S.C. 206	2. Employees are paid at least minimum wage. (See note 1.)				See Compliance Audit Program 812 Step 4(b).

Note: Complete this program or prepare equivalent documentation only if provisions of the Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51-59 of Title 5, U.S. Code, are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
Note: These tests are closely related to procedures performed for substantive tests of payroll expense details. Use of multipurpose testing in this situation is strongly encouraged.		
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 812 - Compliance Summary), select an appropriate sample of disbursements from the payroll records throughout the audit period. (The sample size will vary based on the expected effectiveness of compliance controls as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 2 regarding sampling efficiencies and completeness of the population. Sample size _____ Sample selection method _____		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. For each item selected in 1, note the following information: • employee name; • pay period (number and dates); • amount of gross pay for the period; • pay rate; • total hours worked; and • number of hours worked at regular pay and other pay (i.e., overtime, premium pay, etc.).		
3. For each item selected in 1, obtain the employee's personnel file and note the following in effect for the pay period selected: • the employee's grade and step and • the employee's pay rate.		
4. For each item selected in 1, (a) Calculate the amount of gross pay using the hours worked and the employee's pay rate indicated on the payroll records. Compare the amount of gross pay calculated by the auditor to the amount shown on the payroll records for the selected pay period and obtain explanation and examine support for any differences. Note: To convert basic annual amount to a daily, weekly or biweekly amount, divide the annual rate by 2,087 for an hourly rate. Multiply the hourly rate by number of either daily hours, 40 for weekly, or 80 for biweekly amounts. (5 U.S.C. 5504)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
4. (b) Compare the employee's pay rate in the payroll records to the appropriate pay rate for the employee's approved grade and step on the pay schedules established by executive order. (Use the approved grade and step indicated in the employee's personnel records for this test.) Obtain explanation and examine support for any differences between the actual pay rate for the period selected and the authorized amounts. (5 U.S.C. 5332, 5343, and 5383) If the employee's pay is not set by these pay schedules, determine whether the amount paid is properly authorized and whether the pay rate is at least minimum wage. (29 U.S.C. 206)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
5. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
6. Document conclusions on compliance with each provision on Form 812 - Compliance Summary.		

Note 1: To convert basic annual amount to a daily, weekly, or biweekly amount, divide the annual rate by 2,087 for an hourly rate. Multiply the hourly rate by number of either daily hours, 40 for weekly, or 80 for biweekly amounts. (5 U.S.C. 5504)

Note 2: If multipurpose testing is used for the compliance test and/or compliance control test and a substantive test of payroll expense details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the items should be selected using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Note 3: If the entity outsources payroll processing, the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated, although the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AU 324 (SAS 70). Or the service organization's auditor may assist the entity auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under SSAE No. 10, section 201 (see FAM 660).

813 - CIVIL SERVICE RETIREMENT ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Civil Service Retirement Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: _____
Audit period: _____

Compliance Summary

Prepared by: _____
Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. For each employee employed prior to January 1, 1984, the entity shall withhold a percent of the basic pay of the employee. (See notes 1 and 2.) Type: Transaction-based Ref: 5 U.S.C. 8334(a)(1)	1. The appropriate amount is withheld from employee's pay. (See notes 1 and 2.)	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 813 Step 4(b).

Name of entity: _____ Compliance Summary Prepared by: _____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. An amount equal to the amount withheld from the employee's pay shall be contributed by the entity from the appropriation or fund used to pay the employee. Type: Transaction-based and Quantitative-based Ref: U.S.C. 5 U.S.C. 8334(a)(1)	2. The entity contribution for employee retirement is calculated properly, summarized properly, and charged to the proper appropriation account or fund.				See Compliance Audit Program 813 Steps 4(c) and 5.
3. Amounts withheld from employees and the sum contributed by the entity for retirement benefits shall be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. Type: Procedural-based and Quantitative based Ref: 5 U.S.C. 8334(a)(2)	3. Withholdings from employees and entity contributions for retirement benefits are properly summarized and deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund.				See Compliance Audit Program 813 Steps 6 and 7.

Note: Complete this program or prepare equivalent documentation only if provisions of the Civil Service Retirement Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 813 - Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period for employees covered by the Civil Service Retirement Act system (CSRS). (See note 1.) (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 3 regarding sampling efficiencies and completeness of the population. These tests should be coordinated with other tests of payroll-related expenses and with the agreed-upon procedures agency auditors perform for the Office of Personnel Management (OPM), per OMB audit guidance, if performed. Sample size _____ Sample selection method _____		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. For each selection made in 1, document the following for the pay period selected: • the amount withheld for the cost of retirement benefits; • the amount of basic pay; and • if indicated in the payroll disbursement records, document the retirement plan under which the withholdings were made (CSRS or FERS). (Only employees covered by CSRS should be included in this compliance test. See FAM 817 for the FERS compliance test.)		
3. For each item selected in 1, obtain the employee's personnel file and note the following: • employee hire date, • amount of basic pay, and • the retirement plan under which the employee is covered.		
4. For each selection made in 1, (a) Compare the amount of basic pay indicated in the employee's personnel file with the amount indicated in the payroll records and obtain an explanation and examine support for any differences. (This procedure would be performed only if not already performed as part of other testing.)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
4. (b) Calculate the amount of the withholdings for retirement costs based on 7 percent of basic pay for executive branch employees (see note 2 for percentages for other employees) for the selected pay period and document the amount in the documentation. Compare to the actual amount withheld for the selected pay period and obtain an explanation and examine support for any differences. (5 U.S.C. 8334(a)(1))		
4. (c) Determine whether the entity contributed an equal amount for the employee's retirement for the selected pay period. Obtain explanation and examine support for any differences between the employee and entity contributions. (5 U.S.C. 8334(a)(1))		
5. Determine whether amounts contributed by the entity are charged to the appropriation or fund used to pay the employee for the selected pay period by performing the following procedures: (a) Review the accounting codes indicated on the supporting documentation. (b) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (This step assumes other payroll testing would have included checking that the codes represent the proper appropriation.)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
5. (c) Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F. If the auditor has assessed the entity's controls as effective in achieving the control objective of summarization of expenditure balances, further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account. If the auditor has assessed the controls as ineffective, the auditor should perform procedures to determine whether the entity has properly summarized the expenditure balances as described in FAM 495 B. (5 U.S.C. 8334 (a)(1))		
6. Determine whether the entity has effective controls over the proper summarization of (a) the amounts withheld from employees for retirement costs under this law and (b) the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, test the summarization of the totals that include the items selected for testing in step 1.		
7. Compare the combined totals of employee withholdings and entity contributions that include each selection made in step 1 to the deposit made to Treasury and the remittance sent to OPM and obtain an explanation and examine support for any differences. The funds should be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. (5 U.S.C. 8334(a)(2))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
8. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
9. Document conclusions on compliance with each provision on Form 813 - Compliance Summary.		

Note 1: Employees may be covered by the Civil Service Retirement Act (CSRS) or the Federal Employees' Retirement System Act (FERS), generally depending on their employment date.

Note 2: The percentage to be withheld for the service period after December 31, 2000, for (1) executive branch employees is 7 percent and (2) Congressional employees is 7.5 percent. The percentage to be withheld for the service period between January 1, 2001 and December 31, 2002, for Members of Congress is 8.5 percent. The percentage withheld for service after December 31, 2002, for Members of Congress is 8 percent. (5 U.S.C. 8334(a)(1))

Note 3: If multipurpose testing is used for the compliance test and/or compliance control test and a substantive test of payroll expense details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the items should be selected using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Note 4: If the entity outsources payroll processing, the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated, although the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AU 324 (SAS 70). Or the service organization's auditor may assist the entity auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under SSAE No. 10, section 201 (see FAM 660).

814 - FEDERAL EMPLOYEES HEALTH BENEFITS ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees Health Benefits Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: _____ Compliance Summary Prepared by: _____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. For each full-time employee enrolled in a health benefits plan, a biweekly contribution shall be made by the entity in an amount determined by OPM for each type of insurance plan. (See note 1 for part-time career employees.) Type: Transaction-based Ref: 5 U.S.C. 8906(b)(1)	1. The amount of the entity contribution for health insurance benefits is calculated properly for employees who elect to enroll in a health benefits plan.	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 814 Step 4(b).
2. For employees generally, the entity contribution for the cost of health insurance shall be paid from the appropriation or fund that is used to pay the employee. Type: Transaction-based and Quantitative-based Ref: 5 U.S.C. 8906(f)	2. Entity contributions for the cost of employee health insurance are summarized properly and charged to the proper appropriation account or fund.				See Compliance Audit Program 814 Step 4(c).

Name of entity: _____ Compliance Summary Prepared by: _____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
3. An amount shall be withheld from the employee's pay to cover the total cost of enrollment in the health benefit plan selected by the employee after the amount of the entity contribution is subtracted. Type: Transaction-based Ref: 5 U.S.C. 8906(d)	3. Withholdings are made for the employee's share of the cost of health insurance and are calculated properly.				See Compliance Audit Program 814 Step 4(a).
4. Amounts withheld from employees and the sum contributed by the entity for health insurance costs shall be deposited in the Treasury to the credit of the Employees Health Benefits Fund. Type: Procedural-based and Quantitative-based Ref: 5 U.S.C. 8909	4. Withholdings from employees and entity contributions for health insurance costs are properly summarized and deposited in the Treasury to the credit of the Employees Health Benefits Fund.				See Compliance Audit Program 814 Steps 5 and 6.

Note: Complete this program or prepare equivalent documentation only if provisions of the Federal Employees Health Benefits Act of 1959 are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 814 - Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period. (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 2 regarding sampling efficiencies and completeness of the population. These tests should be coordinated with other tests of payroll-related expenses and with the agreed-upon procedures agency auditors perform for OPM, per OMB audit guidance, if performed. Sample size _____ Sample selection method _____		
2. For each selection made in step 1, document the employee, the pay period selected, and the amount withheld for the pay period selected, if any, for the cost of health insurance. If available, document the health plan enrollment code.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
3. For each selection made in step 1, obtain the employee's personnel file and note whether the employee elected health insurance coverage for the period to which payroll disbursement relates. Such coverage should be indicated on OPM form SF 2809. If the employee did not elect health insurance coverage, ask why amounts are being withheld for the cost of insurance and determine whether any entity contributions are being made inappropriately as well.		
4. If the employee identified in step 3 elected coverage, perform the following steps: (a) Obtain the schedule of health insurance costs for all plans published by OPM. Using the enrollment code for the plan selected by the employee on OPM form SF 2809, calculate the employee's portion of the health insurance cost and record it in the documentation. Compare it to the amount actually withheld for the selected pay period and obtain an explanation and examine support for any differences. (5 U.S.C. 8906(d))		
4. (b) For each employee in (a), determine the appropriate amount of the entity's contribution for its share of health insurance costs by using the OPM schedule of costs. Compare it to the amount actually contributed by the entity for the employee's health insurance for the selected pay period and obtain an explanation and examine support for any differences. (See note 1 for part-time career employees.) (5 U.S.C. 8906(b)(1))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
4. (c) For each employee in (b), determine if amounts contributed by the entity are charged to the appropriation or fund that is used to pay the employee for the selected pay period by performing the following procedures: (1) Review the accounting codes indicated on the supporting documentation. (2) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (This step assumes other payroll testing would have included checking that the codes represent the proper appropriation.)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
4. (c) (3) Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F. If the auditor has assessed the entity's controls as effective in achieving the control objective of summarization of expenditure balances, further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account. If the auditor has assessed the controls as ineffective, the auditor should perform procedures to determine whether the entity has properly summarized the expenditure balances as described in FAM 495 B. (5 U.S.C. 8906(f))		
5. Determine whether the entity has effective controls over the proper summarization of the amounts withheld from employees for health insurance costs under this law and the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, test the summarization of the totals that include the items selected for testing in step 1.		
6. Compare the total cost of health insurance on the entity's records (employee and employer portions) for the selected pay period to the deposit made to Treasury and the documentation sent to OPM and obtain an explanation and examine support for any differences. The funds should be deposited in the Treasury to the credit of the Employees Health Benefits Fund. (5 U.S.C. 8909)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
7. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
8. Document conclusions on compliance with each provision on Form 814 - Compliance Summary.		

Note 1: For part-time career employees, the biweekly entity contribution shall be calculated on a prorata basis based on the ratio of number of scheduled part-time hours to the number of scheduled regular hours for an employee serving in a comparable position on a full-time basis. (5 U.S.C. 8906(b)(3))

Note 2: If multipurpose testing is used for the compliance test and/or compliance control test and a substantive test of payroll expense details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the items should be selected using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Note 3: If the entity outsources payroll processing, the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated, although the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AU 324 (SAS 70). Or the service organization's auditor may assist the entity auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under SSAE No. 10, section 201 (see FAM 660).

816 - FEDERAL EMPLOYEES' COMPENSATION ACT

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees' Compensation Act are considered to be significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: _____ Compliance Summary Prepared by: _____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. If the agency receives a statement showing the costs of amounts paid from the Employees' Compensation Fund (the Fund), the agency shall include a request for an appropriation to cover such amounts during the next fiscal year when submitting its budget request. (See note 1.) Type: Procedural-based Ref: 5 U.S.C. 8147	1. The entity's budget request includes a request for an appropriation for any amounts paid by the Fund on the entity's behalf for the prior fiscal year.	[Document the control activities used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 816 Step 1.

Name of entity: _____
Audit period: _____

Compliance Summary

Prepared by: _____
Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. Amounts appropriated pursuant to the request (described in 1 above) shall be credited to the Fund within 30 days after they are available. (See note 2 for entities that are not dependent on annual appropriations.) Type: Procedural-based Ref: 5 U.S.C. 8147	2. Appropriations received for the costs of amounts paid out of the Fund on behalf of the entity are credited to the Fund within 30 days after they are available.				See Compliance Audit Program 816 Step 1.

Note: Complete this program or prepare equivalent documentation only if provisions of the Federal Employees' Compensation Act are considered to be significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary for this law.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
Note: The provisions identified for testing are procedural-based provisions. As discussed in FAM 460.06, sufficient procedures usually are performed in conjunction with tests of compliance controls for these procedural-based provisions to conclude on the entity's compliance without performing additional procedures. Additional procedures should <u>not</u> be performed to obtain evidence regarding compliance with the provisions related to the following objectives unless sufficient evidence regarding compliance was not obtained during compliance control tests documented on Form 816 - Compliance Summary.		
1. Reference to conclusions on compliance controls on Form 816 - Compliance Summary and indicate whether any additional procedures are necessary.		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the opinion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
3. Document conclusions on compliance with each provision on Form 816 - Compliance Summary.		

Note 1: A statement showing the total cost of benefits and other payments made from the Employees' Compensation Fund during the preceding July 1 through June 30 expense period on account of the injury or death of employees or individuals under the jurisdiction of the entity is required to be provided by the Secretary of Labor to the entity by August 15 of each year. (5 U.S.C. 8147)

Note 2: Entities not dependent on an annual appropriation shall make the required deposit to Treasury from funds under its control during the first 15 days of October after receipt of the statement showing the costs paid on the entity's behalf. (5 U.S.C. 8147)

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817 – FEDERAL EMPLOYEES' RETIREMENT SYSTEM ACT OF 1986

Note: Complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees' Retirement System Act of 1986 are considered significant as indicated on Form 802 - General Compliance Checklist.

Name of entity: _____ Compliance Summary Prepared by: _____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
1. For each employee employed after December 31, 1983, the entity shall withhold 0.8% of the basic pay of the employee. (See notes 1 and 2.) Type: Transaction-based Ref: 5 U.S.C. 8401(11), 5U.S.C. 8422(a)(1)	1. The appropriate amount is withheld from employee's pay. (See notes 1 and 2.)	[Document the control techniques used by the entity to achieve the objective.]	[Is control dependent on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Program 817 Step 4(b).

Name of entity: _____ Compliance Summary Prepared by: _____
Audit period: _____ Reviewed by: _____

Provision description	Objective	Control activities	IS (Y/N)	Effective compliance controls?	Instances of noncompliance noted?
2. An amount equal to the employing agency's applicable normal cost percentage less the employee deduction rate shall be contributed by the entity from the appropriation or fund used to pay the employee. (See note 3.) Type: Transaction-based and Quantitative-based Ref: 5 U.S.C. 8423(a)(1) and 5 U.S.C. 8401(23)	2. The entity contribution for employee retirement is calculated properly, summarized properly, and charged to proper appropriation account or fund. (See note 3.)				See Compliance Audit Program 817 Steps 4(c) and 5.
3. Amounts withheld from employees and the sum contributed by the entity for retirement benefits shall be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. Type: Procedural-based and Quantitative based Ref: 5 U.S.C. 8422(c)	3. Withholdings from employees and entity contributions for retirement benefits are properly summarized and deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund.				See Compliance Audit Program 817 Steps 6 and 7.

Note: Complete this program or prepare equivalent documentation only if provisions of the Federal Employees' Retirement System Act of 1986 are considered significant as indicated on Form 802 - General Compliance Checklist. The procedures in this program are designed to test compliance with the provisions listed on the Compliance Summary.

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
1. Based on the preliminary assessment of compliance control effectiveness (as documented on form 817 - Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period for employees covered by the Federal Employees' Retirement System (FERS). (See note 1.) (The sample size will vary based on the expected effectiveness of compliance controls as discussed in FAM 460.02). Document the sampling approach using the documentation in FAM section 495 E. See note 4 regarding sampling efficiencies and completeness of the sample population. These tests should be coordinated with other tests of payroll-related expenses and with the agreed-upon procedures agency auditors perform for OPM, per OMB audit guidance, if performed. Sample size _____ Sample selection method _____		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
2. For each selection made in 1, document the following for the pay period selected: • the amount withheld for the cost of retirement benefits, • the amount of basic pay, and • if indicated in the payroll disbursement records, document the retirement plan under which the withholdings were made (CSRS or FERS). (Only employees covered by FERS should be included in this compliance test. See FAM 813 for the CSRS compliance test.)		
3. For each item selected in 1, obtain the employee's personnel file and note the following: • employee hire date, • amount of basic pay, and • the retirement plan under which the employee is covered.		
4. For each selection made in 1, (a) Compare the amount of basic pay indicated in the employee's personnel file with the amount indicated in the payroll records and obtain an explanation and examine support for any differences. (This procedure would be performed only if not already performed as part of other testing.)		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
4. (b) Calculate the amount of the withholdings for retirement costs based on 0.8% of basic pay for most employees (see note 2 for percentages for certain employees) for the selected pay period and record the amount in the documentation. Compare to the actual amount withheld for the selected pay period and obtain an explanation and examine support for any differences. (5 U.S.C. 8422(a)(1))		
4. (c) Determine whether the entity contributed the correct amount for the employee's retirement for the selected pay period. Obtain an explanation and examine support for any differences between the entity contributions and the amount calculated using OPM's normal cost percentage. (5 U.S.C. 8423(a)(1) and 5 U.S.C. 8401(23))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
5. Determine if amounts contributed by the entity are charged to the appropriation or fund used to pay the employee for the selected pay period by performing the following procedures: (a) Review the accounting codes indicated on the supporting documentation. (b) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree to those recorded in the budgetary accounting records. (This step assumes other payroll testing would have included checking that the codes represent the proper appropriation.) (c) Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F. If the auditor has assessed the entity's controls as effective in achieving the control objective of summarization of expenditure balances, further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account. If the auditor has assessed the controls as ineffective, the auditor should perform procedures to determine whether the entity has properly summarized the expenditure balances as described in FAM 495 B. (5 U.S.C. 8423(a)(1))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
6. Determine whether the entity has effective controls over the proper summarization of the amounts withheld from employees for retirement costs under this law and the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, test the summarization of the totals that include the items selected for testing in step 1.		
7. Compare the combined totals of employee withholdings and entity contributions that include each selection made in step 1 to the deposit made to Treasury and the remittance sent to OPM and obtain explanation and examine support for any differences. The funds should be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. (5 U.S.C. 8422(c) and 5 U.S.C. 8401(6))		

Name of entity: _____
Audit period: _____ Reviewed by: _____

Audit Procedures	Done by/date	W/P ref
8. If the entity does not appear to be in compliance based on the results of tests performed, discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if not previously identified during compliance control testing; • report the nature of any weakness in compliance controls and consider modification of the conclusion on internal control as appropriate (see FAM 580.32-.61); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.67-.75).		
9. Document conclusions on compliance with each provision on Form 813 - Compliance Summary.		

Note 1: Employees may be covered by the Civil Service Retirement Act (CSRS) or the Federal Employees' Retirement System Act (FERS), generally depending on their employment dates.

Note 2: For most employees, the percentage to be withheld is 0.8 percent (7 percent less the Social Security tax rate). For congressional employees, Members of Congress, and law enforcement officers, firefighters, air traffic controllers, and nuclear materials couriers, the withholding rates are higher. (See 5 U.S.C. 8422(a)(1).).

Note 3: The Office of Personnel Management (OPM) computes the normal cost percentage. For FY 2001, it is 11.5 percent for regular employees. For congressional employees, Members of Congress, and law enforcement officers, firefighters, air traffic controllers, and nuclear materials couriers, the normal cost percentages are higher. OPM lists the percentages in its Benefits Administration Letters, accessible on its Internet site, http://www.opm.gov/asd/htm/bal01.htm (where the 2 digits after "bal" represent the calendar year of the letters). (5 U.S.C. 8401(23))

Note 4: If multipurpose testing is used for the compliance test and/or compliance control test and a substantive test of payroll expense details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the items should be selected using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Note 5: If the entity outsources payroll processing, the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated, although the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AU 324 (SAS 70). Or the service organization's auditor may assist the entity auditor by performing agreed-upon procedures at the

service organization (e.g., substantive testing) under SSAE No. 10, section 201 (see FAM 660).

902 - RELATED PARTIES, INCLUDING INTRAGOVERNMENTAL ACTIVITY AND BALANCES

.01 This section provides detailed guidance on the procedures that the auditor should perform with respect to related parties, as described in FAM sections 280 and 550. AU 334 (SAS No. 45) provides general guidance on the procedures that should be performed to identify related party relationships and transactions so that the auditor may satisfy him or herself that they are appropriately accounted for and disclosed. In addition, the American Institute of Certified Public Accountants (AICPA) has issued a toolkit for accountants and auditors titled, *Accounting and Auditing for Related Parties and Related Party Transactions*[1]. This toolkit includes selected authoritative accounting and auditing literature, an illustrative audit program, disclosure checklist, confirmation letter, and letter to other auditors and is available at the AICPA's website: http://www.aicpa.org/news/relpty1.htm.

.02 The federal government in its entirety is an economic entity. Federal entities are components of the U.S. government; therefore, transactions between federal entities are considered intragovernmental. Within the federal government, many reporting entities rely on other federal entities to help them achieve their missions and fulfill their operating objectives. These arrangements may be voluntary, stipulated by law, or established by mutual agreement of the entities involved and may not be carried out on an arm's-length basis. In many cases, the entity receiving goods or services will reimburse the providing entity in accordance with some agreed-upon price, which may or may not represent market value. Often, however, one entity provides goods or services to another entity free of charge (without reimbursement). For example, the General Services Administration, in some cases, provides property management services and contract award and administration to other entities without charge.

.03 In addition, certain federal entities can significantly influence the operating policies of the transacting entities. For example, the Office of Management and Budget (OMB) provides policy and/or general management guidance to other federal entities, and the Office of Personnel Management (OPM) helps federal entities recruit nationwide and sets human resources management rules with the

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

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

.04 Thus, in the federal government, the most significant related parties are other federal government entities. Other possible related parties outside of the federal government include states, members of the entity's management, and individuals and firms with which members of management may be related.

.05 The auditor should consider the possible existence of related parties with material activity and balances that could affect the financial statements, including intragovernmental activity and balances. The identification of related parties and activity and balances is important because of (1) the requirement under generally accepted accounting principles to disclose material related-party transactions and certain control relationships, (2) the instances of fraudulent financial reporting and misappropriation of assets that have been facilitated by the use of an undisclosed related party, and (3) the potential for distorted or misleading financial statements in the absence of adequate disclosure.

.06 The reason for disclosing related party information is that financial statement users may need that information to make informed judgments. As stated above, if parties are related, the transactions between them may not be based on an arm's-length relationship. For example, certain goods or services may be donated or be at an amount that does not represent market value, thus affecting the cost of the receiving entity's operations. In addition, if the entity has transactions with another entity based on a common control situation, such as when the entity controls or can significantly influence the management or operating policies of the transacting entity, the users of financial statements should know the nature of the relationship since this control relationship could result in operating results or financial positions significantly different from those that would have been achieved in the absence of such relationship.

.07 Disclosures generally should include the nature of the relationship between the entity and its related parties, a description of the transactions, including donations, dollar amounts of transactions that occurred during the period, and amounts due to or from related parties as of the end of the period. Disclosures could include aggregation of similar transactions by type. In cases of common control relationships, the nature of the control relationship generally should be disclosed even if there are no transactions between the entities. Disclosure of related party transactions is not required for transactions between components of the audited entity that are eliminated in consolidation. However, if separate statements of the components are issued, the disclosures should be presented in the separate component statements.

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

INTRAGOVERNMENTAL ACTIVITY AND BALANCES

.09 Intragovernmental amounts represent activity and balances within or between federal entities. Intradepartmental amounts are activity and balances within the same department (a department here means any department, agency, administration or other entity designated by OMB as a financial reporting entity that is not part of a larger financial reporting entity other than the government as a whole). Interdepartmental amounts are activity and balances between two different departments. The intradepartmental and interdepartmental amounts are subsets of intragovernmental activity and balances.

.10 Intragovernmental activity includes:

- Intragovernmental fiduciary transactions such as
  - Transactions with the Department of Labor (Labor) relating to the Federal Employee's Compensation Act, including routine payments to Labor;
  - Transactions with the OPM relating to employee benefit programs (the Federal Employees' Retirement System, the Civil Service Retirement System, and federal employees' life insurance and health benefits programs) including routine payments, imputed financing, and accruals;
  - Investments in federal securities issued by Treasury's Bureau of the Public Debt, including interest accruals, interest income and expense, and amortization of premiums and discounts; and
  - Borrowings from the Treasury and the Federal Financing Bank, including interest accruals, interest income, and expenses;
- Goods and services provided from one federal entity to another (trade transactions) including any related revenues earned, costs incurred, and reimbursable costs (including both interdepartmental and intradepartmental activity);
- Transfers between entities based on agreements or legislative authority, expended appropriations, taxes and fees collected, collections for others, accounts receivable from appropriations, transfers payable, and custodial

revenue (including both interdepartmental and intradepartmental activity); and

- Imputed costs such as fiduciary transactions with OPM and Labor mentioned above and costs of litigation paid by the judgment fund (including both interdepartmental and intradepartmental activity).

.11 Activity and balances between federal entities (intragovernmental transactions) should be eliminated at the U.S. Government's Consolidated Financial Statements level, while the activity and balances within the same department (intradepartmental) should be eliminated at the department's consolidated financial statements level.

Accounting and Reporting Guidance

.12 In accounting for and reporting of related parties, including intragovernmental activity and balances, the entity should refer to Statements of Federal Financial Accounting Standards (SFFAS), Statements of Financial Accounting Standards, OMB guidance, and Treasury guidance. The following paragraphs illustrate these relevant guides.

.13 Although, there are no SFFAS specifically covering related party disclosures, SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards,* addresses the accounting standards for interentity cost activities. The reporting entities should also consult with the funding and administering agencies, such as OPM, for information needed to properly record interentity costs. Note that SFFAS No. 4 directs OMB to designate the costs of goods and services received from other departments that should be recognized, which it has done in the guidance mentioned below.

.14 Statement of Financial Accounting Standards No. 57, *Related Party Disclosures,* defines related parties and provides examples of related party transactions and general guidance on disclosures of transactions between related parties.

.15 The OMB bulletin entitled *Form and Content of Agency Financial Statements* indicates that federal entities should:

- Present intragovernmental amounts by trading partner (reciprocal federal entity) as required supplementary information (RSI). Intragovernmental asset and liability categories reported as RSI should agree with the intragovernmental asset and liability line items reported on the balance sheet. The intragovernmental RSI may be limited to the consolidated departmentwide financial statements of the Chief Financial Officers (CFO)

Act departments and agencies covered by the form and content bulletin. The intragovernmental RSI reporting requirement does not extend to federal components that are required to prepare financial statements. All amounts should be net of intraentity transactions.

- Reconcile intragovernmental asset, liability, and revenue amounts reported as RSI with their trading partners; and

- Report intragovernmental gross cost to generate earned revenue from trade transactions, as well as total entity gross cost and earned revenue, by budget functional classification.

.16 To emphasize the agency management's responsibility for identifying intragovernmental activity and balances and reconciling data with relevant trading partners, the entity should include specific representations in the management representation letter that intragovernmental, including intradepartmental, transactions have been properly accounted for, reconciled with trading partners, and disclosed (see FAM section 1001). If such disclosure is included in the financial statements and the auditor believes that the disclosure is not supported by management, or if management refuses to disclose related party transactions, the auditor generally should give a qualified or adverse opinion because of the inadequate disclosure, depending on materiality, and include the necessary disclosures in a separate paragraph in the audit report.

.17 *Treasury Financial Manual* (TFM) section "Federal Intragovernmental Transactions Process" and the *Federal Intragovernmental Transactions Accounting Policies Guide* (Guide) provide governmentwide procedures for federal entities to account for and reconcile transactions occurring within and between each other. The procedures in these guides do not apply to transactions between federal entities and nonfederal entities. The TFM and the Guide are available at the Treasury/Financial Management Service's (FMS) websites (http://fms.treas.gov/tfm/vol1/v1p2c400.html and http://www.fms.treas.gov/cfs/dev/index.html).

.18 The TFM includes procedures for CFO Act departments to reconcile and confirm with their trading partners intragovernmental activity and balances as of and for the fiscal year ended September 30. Each department's CFO is to provide the department Inspector General (IG) with representations indicating whether the department completed the reconciliation. In addition, the department is to describe noncompliance with the reconciliation requirements. (See TFM.) These CFO representations should be included in the management representation letter (see above).

.19 The Guide provides detailed guidance on accounting and reconciling intragovernmental balances. According to the Guide, federal entities should identify trading partners[2] for all intragovernmental transactions and accumulate detail and summary information for each activity by trading partner from their accounting records. The trading partner code may be incorporated (1) as part of account coding classification or (2) in the customer/vendor identification code in accounts receivable and payable systems. These codes are the same as the Treasury index agency code used by the Treasury to prepare the governmentwide consolidated financial statements. If the two-digit Treasury index number is not adequate to identify the trading partner, entities may expand the partner code to components below the department level and communicate these codes to their trading partners.

.20 Federal entities also should use *Standard General Ledger* (SGL) account attributes to indicate the nature of account balances and to identify intragovernmental transactions. For example, the federal "F" and nonfederal "N" attributes used in conjunction with an SGL account in the Federal Agencies' Centralized Trial Balance System (FACTS) I submissions enable Treasury/FMS to prepare elimination entries for the governmentwide financial statements. When the federal attribute "F" is used with an SGL account, a trading partner should be designated for each transaction posted to the account.

Audit History

.21 Prior years' audits of several federal entities' financial statements have identified instances where entities did not identify, summarize, or reconcile intragovernmental activity and balances by trading partner. Controls over the intragovernmental transactions were not adequate. For example, one department instructed its components to make buyer's intragovernmental transaction amounts agree with seller's information without requiring an adequate reconciliation or verification if goods or services were provided. Similar issues were also identified concerning activity and balances within the same entity (intradepartmental). Accordingly, there was no assurance that the entity records contained fairly stated balances.

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

Intragovernmental Payment and Collection (IPAC) System[3]

.22 IPAC is the primary method used by most federal entities to electronically bill and/or pay for services and supplies within the government, and to communicate to the Treasury and the trading partner agency that the online billing and/or payment for services and supplies has occurred. IPAC, however, is not intended to be a control over the intragovernmental transactions (reciprocal accounts). The auditor should understand that IPAC was not designed as an accounting system and does not require trading partners to record transactions at the same time or in the same amounts. In addition, unreconciled IPAC differences could affect the existence and completeness of intragovernmental activity and balances.

.23 The IPAC billing entity initiates an IPAC transaction either as a collection or a payment. The IPAC customer entity receives an IPAC transaction either as a payment or a collection. Monthly, the Treasury compares the customer and billing entities' Statement of Transactions with the IPAC data. If there is a difference, a Statement of Differences, including a detailed list of all transactions charged or credited to a particular agency location code, is generated monthly. Entities should investigate the differences and make any necessary corrections on their next Statement of Transactions.

.24 The auditor should examine the entity's IPAC reconciliation procedures to determine if the entity performs the reconciliation and researches and resolves differences reflected on the statement of differences properly and timely. The auditor may coordinate with the Fund Balance with Treasury (FBWT) procedures to assess the effectiveness of the entity's IPAC reconciliation.

.25 The auditor should also design procedures to understand whether the entity uses other systems (credit cards, standard forms used to transfer funds between appropriations, and others) in addition to the IPAC system to process intragovernmental activity and balances. The auditor should determine whether these systems affect the fairness of intragovernmental activity and balances. (See audit procedures below and FAM section 902 C.)

Audit Procedures

.26 The auditor should consider audit risk and materiality in determining the nature, timing, and extent of procedures for auditing intragovernmental activity and balances and in evaluating the results of these procedures. Throughout the audit,

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

the auditor should consider the possible existence of material intragovernmental activity and balances that could affect the financial statements. The auditor should evaluate all the information available concerning material intragovernmental activity and balances and determine that the financial statement disclosures are adequate and appropriate.

.27 During the planning phase, the auditor should assess inherent, fraud, and control risk. In assessing the inherent risk related to intragovernmental activity and balances, there are several conditions that the auditor should consider. For example, inherent risk may exist because of the nature of the intragovernmental activity, such as a significant volume of transactions and number of trading partners or complex transactions. The auditor should assess the impact of inherent and control risk on control testing and substantive testing. The auditor should determine whether similar conditions continue to exist and understand management's response to such conditions.

.28 In assessing control risk, the auditor should obtain an understanding of management responsibilities and the relationship of each component to the total department and of each department to other departments. The auditor should obtain an understanding of the entity's operations to identify, respond to, and resolve accounting and auditing problems early in the audit. For example, the auditor should know what trading partners the entity has, the nature of intragovernmental transactions that occur, the volume and dollar amount of transactions, and management's attitude and awareness with respect to reconciliations of intragovernmental activity and balances.

.29 The auditor should assess the effectiveness of the entity's internal control over intragovernmental activity and balances. The auditor should identify the policies and procedures that pertain to the entity's ability to record, process, summarize, and report intragovernmental activity and balances by trading partner. The agency should emphasize the importance of identifying and classifying intragovernmental transactions by trading partner when they are initiated and on all documentation thereafter; without this initial identification, the system will not be able to keep track of them.

.30 Without proper and timely reconciliation of intragovernmental activity and balances, misstatements in these account balances at the component and/or department level could materially affect the balances at the governmentwide level (as well as at the department or component level). In addition, when preparing consolidated financial statements, the preparer must eliminate intragovernmental activity and balances within and between departments or components. Because the amounts reported for entity trading partners for certain intragovernmental accounts could be significantly out of balance, the

preparer would not be able to eliminate these accounts in the consolidated financial statements. The auditor may advise the entity about the need for monthly confirmation and reconciliation of these transactions with trading partners. An annual reconciliation is generally not sufficient to detect and resolve misstatements promptly.

.31 If the auditor determines that the entity's reconciliation control for intragovernmental transactions is not effectively designed and placed in operation, the auditor should consider the effect on the financial statements. Where intragovernmental transactions are or could be material, significant additional work is usually necessary to express an unqualified opinion. In some cases where the auditor finds material weaknesses in the intragovernmental reconciliation control and no other mitigating controls exist, the auditor may decide to modify the audit opinion (see FAM section 580).

.32 The TFM contains agreed-upon procedures for the department inspectors general to perform for federal intragovernmental activity and balances. These procedures are intended to assist with accounting for and eliminating intragovernmental activity and balances in the preparation of department and governmentwide financial statements and reports. The IG should perform these procedures regardless of the opinion on the department consolidated financial statements.

.33 To avoid duplicate procedures, the auditor should consider the agreed-upon procedures contained in the TFM when designing the tests for intragovernmental activity and balances. Examples of the account risk analysis (ARA), specific control evaluation (SCE), and audit procedures for the audit of intragovernmental activity and balances are in sections 902 A, 902 B, and 902 C. The ARA, SCE(s), and audit procedures generally should be customized for the particular entity. For example, if the auditor determines that the intragovernmental accounts receivable line item is significant, the auditor generally should prepare a separate ARA, SCE(s), and audit procedures for the intragovernmental accounts receivable account and its related accounting applications. (Note that a single SCE for a line-item/account-related accounting application is presented. There are likely transaction-related accounting applications listed on the ARA that also would have SCEs.) In addition, to improve efficiency, the auditor may coordinate tests of intragovernmental activity and balances with tests of nonfederal activity and balances.

OTHER RELATED PARTIES

.34 To effectively plan and perform an audit, the auditor should understand the entity's organization and its characteristics. The auditor should consider the

possible existence of other related parties and other related party transactions throughout the audit to satisfy him or herself that they are properly accounted for and disclosed (see paragraph 902.07). Other related parties may include states that federal entities made payments to in carrying out or executing their federal programs. Examples of these programs are Department of Health and Human Services grants to states for Medicaid,[4] Department of Transportation Federal Highway Administration programs such as federal aid for highways and highway safety construction programs, and Department of Labor State Unemployment Insurance and Employment Service Operations.

.35 The auditor may attempt to detect these relationships by inquiry of management, reviewing major contracts/agreements, and reading financial disclosure statements. The documentation generally should include the names of related parties so all audit staff may become aware of transactions with them. Work done to test transactions with such parties may be coordinated with sensitive payments work, as discussed in paragraph 280.05.

.36 In addition to the procedures on related parties, the auditor also generally should inquire about other parties that may not be related parties, but that the agency may wish to disclose because of a public perception that they might be related, although professional standards do not require disclosure if the parties are not related (as defined in AU 334). Section 902 C shows examples of audit procedures for other related parties as well as for intragovernmental activity and balances. The steps should be customized for the particular audited entity.

PRACTICE AIDS

.37 The following practice aids are appended:

- Section 902 A – Example Account Risk Analysis (ARA),
- Section 902 B – Example Specific Control Evaluation (SCE), and
- Section 902 C – Example Audit Procedures

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

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

Entity: Agency

Preparer:

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region:

Line Item: Intragovernmental balances

File: _____

Date: _____ Page _1_of_8

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
Intragov-ernmental assets, liabilities, revenues, expenses		**Existence or occurrence** Recorded intragovernmental balances do not exist.	Inherent risk arises from (1) the nature of intra-governmental transactions, which is susceptible to errors because of the signi-ficant high volume of trans-actions and number of multiple reporting entities/ trading partners, and (2) prior years' significant	~~Cycles~~ Revenues, Expenses, various ~~Accounting applications~~ Receipts, Disburse-ments,				F	Confirm balances with trading partners. Review the reconciliation of intragovernmen-tal accounts by trading partners and reconciling	III.A & B.1.b III.A

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____ Page 2 of 8

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

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____ Page 3 of 8

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

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____ Page 4 of 8

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
									Review the results of FBWT accounts reconciliation, specifically with unreconciled IPAC transac-tions and sus-pense accounts.	III.B.1.c
									Review results of AUP related to employee benefits and FACTS I verification.	IV.5

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____ Page 5 of 8

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

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____ Page 6 of 8

PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial statement assertions / risks	Inherent, fraud, and control risk factors	Cycle/ accounting application	Effective-ness of control activities	Con-trol risk	Com-bined risk	Tim-ing I/F	Nature & extent	W/P ref.& audit step
Name	Balance									
		Rights and obligations The agency does not have rights to recorded intragovernmental balances.	Same as existence above	Same as existence above				F	Review confirmations for indication of any disputes. Review pre-arranged agreements between trading partners.	I.4.a.ii & III.A-B I.4.a.iv

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Intragovernmental balances

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____ Page 7 of 8

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

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902 B - EXAMPLE SPECIFIC CONTROL EVALUATION FOR INTRAGOVERNMENTAL ACCOUNTS

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 1 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
Existence or occurrence	various	various	**Substantiation** 1. Recorded intragovernmental assets and liabilities do not exist at a given date.	1a. Recorded intragovernmental assets and liabilities should exist at a given date.	1. Quarterly, intragovernmental balances recorded in the agency's general ledgers are confirmed and reconciled with trading partners.	N		II.1.g-i
					2. The agency and trading partners work together to exchange data/ correct errors promptly concerning the intragovernmental balances.	N		II.1.g-i

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 2 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
					3. Reconciliation adjustments and supporting documents are reviewed and approved by authorized personnel before being entered in the general ledgers.	N		III.A.1-7
					4. Reconciliation between intragovernmental general ledger balances and subsidiary ledger balances are performed quarterly and reviewed by supervisory personnel.	Y		III.A.1-7

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 3 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
				1b. Recorded intragovernmental assets and liabilities of the entity, at a given date, should be supported by appropriate detailed records that are accurately summarized and reconciled to the account balance.	1. Same as 1a. above. 2. The agency maintains the transaction logs and detailed records of transactions to facilitate the reconciliation process and to provide sufficient information for the location of the supporting documents.	 Y		Same as above. II.1.l
				1c. Access to intragovernmental assets, critical forms, records, and processing and storage areas should be permitted only in accordance with laws, regulations, and management's policy.	1. The agency's critical forms and records are protected by safes and locks, guards, cameras, alarm systems, and backup of electronic data. 2. Changes made to the trading partner codes file are restricted to authorized accounting personnel.	Y Y		Example control tests are omitted from the example audit pro-cedures.

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 4 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
Complete-ness	various	various	**Account Completeness** 2. Intragovernmental assets and liabilities of the entity exist but are omitted from the financial statements.	2. All intragovernmental accounts that belong in the financial state-ments should be so included. There should be no undisclosed assets or liabilities.	Same as existence above.			Same as above.
					1. The agency reviews all transac-tions to identify and properly code intragovernmental transactions.	Y		II.1.a-f
					2. The agency reconciles and resolves IPAC differences (and differences from other systems/ methods, if any, used to process intragovernmental transactions) promptly and records adjustments properly.	Y		II.2 & III.B.1.c
					3. Supervisory personnel review and approve monthly account analyses of intragovernmental accounts and examine budget-to-actual and trend analyses.	Y		II.1.m

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 5 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
					4. Elimination journal entries and supporting documentation are reviewed and approved by authorized personnel.	N		II.1.k & III.E
					5. Elimination entries are supported by schedules summarizing the SGL accounts that are combined to total the amounts eliminated.	Y		II.1.k & III.E

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 6 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
Valuation or allocation	Valua-tion or alloca-tion	Valua-tion or alloca-tion	**Valuation** 3. Intragovernmental assets and liabilities included in the financial statements are valued on an inappropriate basis.	3. Intragovernmental assets and liabilities included in the financial statements should be valued on appropriate valuation bases.	Same as existence and completeness above.			Same as above.
					1. The agency periodically evaluates the condition and marketability of intragovernmental assets, for example receivables are evaluated for collectibility.	N		I.4.a.ii & iii
					2. The agency accounting records are compared with the assessed values such as independent appraisals or assets.	N		I.4.a.ii & iii

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 7 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
			Measurement 4. Intragovernmental revenues and expenses included in the financial statements are measured improperly.	4. Intragovernmental revenues and expenses included in the financial statements should be properly measured.	Same as existence and completeness above.			Same as above.
Rights and obligations	Rights and obliga-tions	Rights and obliga-tions	**Ownership** 5. Recorded intragovernmental assets are owned by others because of sale, or other contractual arrangements.	5. Recorded intragovernmental assets should be owned by the entity.	Same as existence and completeness above.			Same as above.

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 8 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
			Rights 6. The entity does not have certain rights to recorded intragovernmental assets because of certain restrictions.	6. Intragovernmental assets should be the entity's rights at a given date.	Same as existence and completeness above.			Same as above.
			Obligations 7. The entity does not have an obligation for recorded intragovernmental liabilities at a given date.	7. Intragovernmental liabilities should be the entity's obligations at a given date.	Same as existence and completeness above.			Same as above.

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 9 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
Presentation and disclosure	Presen-tation and dis-closure	Presen-tation and dis-closure	**Account classification** 8. Intragovernmental accounts are not properly classified and described in the financial statements.	8. Intragovernmental accounts should be properly classified and described in the financial statements.	1. The agency uses trading partner codes to identify and track trading partners when the intragovernmental transactions are initiated and on all documentation thereafter.	Y		II.1
					2. The agency uses SGL account attributes to identify the nature of account balances and to identify intragovernmental transactions by trading partner.	Y		II.1
					3. The agency classifies, summarizes, and reports intragovernmental accounts by trading partner and presents them as required supplementary information (RSI).	Y		IV.1

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 10 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
					4. The CFO staff checks that the intragovernmental asset and liability categories reported as RSI agree with the intragovern-mental asset and liability line items reported on the balance sheet.	Y		IV.1
					5. The agency discloses intragovern-mental gross cost and earned revenue by budget functional classification as required by OMB	Y		IV.1
			Consistency 9. The financial state-ment components are based on accounting principles different from those used in prior periods.	9. The financial statement components should be based on accounting principles that are applied consistently from period to period.	See # 8 above.			Same as above.

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application:
Intragovernmental accounts

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 11 of 11

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effective-ness of control activities	W/P ref, control testing step
	various	various						
			Disclosure 10. Required information is not disclosed in the financial statements or in the notes thereto.	10. The financial statements or notes should contain all information required to be disclosed.	See # 8 above.			Same as above.

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

Entity_____

Period of financial statements_____

Job code_____

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

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

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

Audit Procedures[1]	Done by/date	W/P ref.
ii. The nature and terms of all significant activities and balances. For example, • for a seller entity, •• Obtain information on the types of significant revenues, any markup percentage(s) over full cost, and the settlement/payment due date. •• Inquire as to how the full cost of products and services sold is determined.		
• for a buyer entity, •• Inquire about the minimum requirements (business rules) that must be met *before* an intragovernmental trading partner may provide goods or services.		
• Inquire as to amounts, if any, that are in dispute at year-end.		
iii. Whether the audited entity receives services without reimbursement or for less than full reimbursement, for example, donated services, such as space or detailed employees. If so, ask if the entity is complying with GAAP and/or OMB requirements with respect to accounting and reporting treatment of these transactions. Also, if applicable, ask about the approximate fair value and/or financial statement disclosure for such goods and/or services.		
iv. Whether the entity centrally maintains contracts, agreements, and support for the terms of all significant transactions with related parties.		
b. Review, if any: i. The entity policy for advance approval of related party transactions by senior management.		
ii. The entity policy for requiring disclosure by employees to appropriate officials of potential conflicts of interest, such as related party transactions by employees of the entity. Also determine if summaries of such transactions are communicated to financial management for its consideration.		

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

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

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

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

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

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

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

Audit Procedures[1]	Done by/date	W/P ref.
6. Consider whether these agreed-upon procedures are sufficient to achieve financial statement audit objectives. For example, whether the agreed upon procedures are applied to all significant assertions for all significant intragovernmental activity and balances. Typically these procedures alone will not be sufficient for financial statement audit purposes.		
7. If the agreed-upon procedures are not sufficient, then design additional procedures that in combination with the agreed-upon procedures will be sufficient. For example: <u>Reconciliation/confirmation (existence, completeness, valuations, rights and obligations, and classification)</u> • OMB's bulletin on *Form and Content of Agency Financial Statements* requires an entity to reconcile and confirm intragovernmental activity and balances with trading partners semiannually, beginning with the six-month period ending March 31, 2002 and quarterly, beginning with the three-month period ending December 31, 2002. If the entity performed monthly, quarterly, or semiannual reconciliations, test reconciliations to determine if the entity's reconciliation control is effective throughout the year. • There should be a *separate* reconciliation/ confirmation for each trading partner. • This reconciliation/*confirmation* also may be used for within entity reconciliation/confirmation (intraentity). a. Determine the completeness of population: Determine if the entity performed reconciliations and confirmations for all trading partners by comparing the trading partners on the reconciliations and confirmation forms to subsidiary records or the entity's trading partner list obtained during the planning phase.		
b. For each reconciliation/confirmation: i. Determine if the reconciliation/confirmation was reviewed and approved by the appropriate personnel.		

Audit Procedures[1]	Done by/date	W/P ref.
ii. Compare the total amounts and SGL accounts of the activity and balances reported on the reconciliation/confirmation form with the general and subsidiary ledger accounts, and the total amounts to audited financial statements and footnote disclosures. If differences are found, document each such difference. Consider potential impact on financial statements and post the differences identified to summary of unadjusted misstatements.		
iii. Test whether the entity used appropriate SGL accounts and whether these SGL accounts include the proper attribute(s) to indicate that they result from intragovernmental transactions. (Note: For example, when the federal attribute "F" is used with an SGL account, a trading partner should be designated for each transaction posted to the account.) Entities can modify SGL accounts listed on the form to be more specific.		
iv. Consider whether the entity is using the reciprocal accounts delineated in the FMS Guide. Entities should use these accounts to account for intragovernmental activity and balances in the specified categories. Use of these reciprocal accounts will facilitate the reconciliation and confirmation process.		

Audit Procedures[1]		Done by/date	W/P ref.
v.	For fiduciary activity and balances, compare amounts on the reconciliation forms to amounts on the Intragovernmental Fiduciary Confirmation System. (Note: Fiduciary activity and balances include loans from the Federal Financing Bank and Bureau of Public Debt, investments with Bureau of Public Debt, Federal Employees Compensation Act transactions with Labor, and employee benefit transactions with OPM. The seller entity—Bureau of Public Debt, Treasury, Federal Financing Bank, Labor, and OPM—will make balances information and other details available through the Intragovernmental Fiduciary Confirmation System for the buyer entities' use in reconciling amounts to their records. The Intragovernmental Fiduciary Confirmation System is the official confirmation system for federal entities that engage in fiduciary intragovernmental transactions with Bureau of Public Debt, Federal Financing Bank, OPM, and Labor.)		
vi.	For transfers, test whether • the classification of transfers as expenditure or nonexpenditure is proper, and • the accounting and reporting are appropriate.		
vii.	For trust fund transfers such as highway and airport trust funds, also test whether the trust fund amounts are properly accounted for and maintained in accordance with laws that established these funds. (Note: Test either by the trust fund auditor or as agreed-upon procedures by the auditor who audits the entity that collects the revenue for it.)		

Audit Procedures[1]	Done by/date	W/P ref.
Reconciliation adjustments and differences (all intragovernmental categories) (Note: Exhibit I to FAM 902 C provides an illustration of a reconciliation tool that may be used to summarize reconciling items and prove amounts between a buyer and a seller entity.) c. Determine whether adjustments, if any, are supported and timely: i. Trace the adjustments and reconciling items identified in the reconciliation process to the entity general and subsidiary ledgers.		
ii. Examine the adjustments and supporting documents to determine if • The entity timely and properly performed the research and identified causes for differences. • The adjustments are agreed upon by both entities and made to proper SGL accounts. (Note: Examples of adjustments and reconciling items are: •• Adjustments in estimated accruals: For example, the seller entity has recorded unbilled revenue and the buyer entity was not timely advised of the estimated accrual. •• Adjustments due to timing differences: For example, timing differences caused by a buyer entity's delay in recording IPAC transactions into proper SGL accounts. •• Reconciling item for capitalization of assets: For example, the buyer entity purchased property and equipment or inventory and recorded them as assets.)		
iii. Obtain or prepare aging of outstanding unadjusted reconciling amounts for all significant intragovernmental balance sheet accounts. Identify old and/or unusual reconciling items and obtain explanations from the entity.		

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

Audit Procedures[1]	Done by/date	W/P ref.
B. For intragovernmental activity and balances, if the auditor preliminarily determines that the entity's reconciliation/ confirmation control with trading partners is not effective, or if the reconciliations and/or confirmations are not performed by the entity, the auditor should consider the effect on substantive tests and on the audit report. In some cases, the auditor may decide to modify the audit opinion when no reconciliation and other mitigating controls existed. However, when intragovernmental activity and balances are material, significant additional work may be necessary to express an unqualified opinion such as: 1. Coordinate work with other related line items to test existence, completeness, valuation, rights and obligations, and classification of intragovernmental activity and balances. For example, a. In conjunction with cash receipts, revenues, and accounts receivable testing, determine if intragovernmental accounts receivable were collected subsequent to test date. Examine supporting documentation for the posting of collections to the cash records; determine if intragovernmental revenues and receivables are included in nonfederal balances.		
b. Test completeness of intragovernmental activity and balances by reviewing vendor and customer master files to determine if intragovernmental vendors and customers are properly included in intragovernmental accounts.		
c. Consider sending confirmation requests to trading partners for both balance sheet and net cost activity and balances. Especially if combined risk is assessed as high, consider applying similar confirmation procedures as to the nonfederal accounts.		

Audit Procedures[1]	Done by/date	W/P ref.
Cut off test (existence and completeness) d. Determine if there are unrecorded transactions and if the transactions are recorded in the correct period. i. Coordinate with the FBWT audit team to review results of the FBWT reconciliation tests. For example, review IPAC transactions reconciliations and the recording of IPAC transactions in accounting systems; consider how timely and whether appropriate; review IPAC transactions after 9/30–subsequent billing and collecting transactions–to determine unrecorded transactions as of 9/30.		
ii. Search for unrecorded sales revenue, accounts receivable, purchases, and accounts payable (completeness). For example, • To search for unrecorded sales revenue and accounts receivable, select sales invoices for trading partners recorded in the xx-day period subsequent to year-end. Trace the selected invoices to shipping records or evidence of service performance. Determine whether the sales revenue and accounts receivable were recorded in the correct period. Alternatively, select from shipping records to trading partners prior to year-end and trace to sales invoices.		
• To test the completeness of amounts recorded as accounts payable at the balance-sheet date, select disbursements after the end of the audit period and test if the amounts were recorded in accounts payable.		
2. Review the test results of other related line items to determine if there are issues related to existence, completeness, valuation, rights and obligations, and classification in the tested accounts and transactions and the impact on the intragovernmental activity and balances. In testing these other accounts, consider whether items tested were from trading partners.		

Audit Procedures[1]	Done by/date	W/P ref.
3. Summarize the results and propose adjustments, if necessary.		
4. Determine if the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and whether the audit procedures should be revised.		
<u>Control and substantive tests of details—other related parties</u> C. Attain satisfaction about the purpose, nature, and extent of material other related party transactions and their effect on the financial statements. Coordinate with sensitive payments work, including the review of executive compensation, travel, official entertainment funds, unvouchered expenses, and consulting services (see FAM section 280.05). 1. Based on the work performed during the planning and internal control phases, determine and document the methodology used to select the transactions for testing. • Examine all transactions, • Dollar unit sampling (DUS), • Classical variables estimation sampling, or • Other (describe).		
2. For the selected transactions, a. examine documentation such as invoices, contracts, agreements, and receiving and shipping reports;		
b. determine whether the transactions have been properly approved;		
c. confirm transaction terms and amounts with the other party to the transaction; and		
d. test the compilation of amounts that may be disclosed in the financial statements for reasonableness.		
3. Summarize the results.		
4. Determine if the results of testing and the nature of misstatements indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

Audit Procedures[1]	Done by/date	W/P ref.
Substantive analytical procedures (FAM 475) D. Substantive analytical procedures: Perform analytical procedures to assess whether balances are reasonable and reflect appropriate activities (existence and completeness). If the entity performs reconciliation and confirmation of intragovernmental activity and balances and the auditor places reliance on those tests of details, less rigorous, supplemental analytical procedures may be used to increase the auditor's understanding of intragovernmental activity and balances after performing tests of details in Testing, step III.A, above. However, in the absence of good reconciliation and confirmation controls, some or all of these procedures may be necessary to obtain sufficient evidence, if possible. For example, 1. Develop expectations of the accounts payable and receivable balances overall or for all significant trading partners in light of the payment cycle during the year. Then, compare the recorded balance overall or by trading partner to the expected amount and investigate differences in the recorded balance if differences exceed _____ (insert an amount such that the total uninvestigated difference for all trading partners, including those not selected, does not exceed the limit).		
2. Develop expectations of recorded intragovernmental sales overall or for all significant trading partners based on independent data; for example, consider using trading partners' orders. Then compare the expectations to the recorded sales amounts and investigate differences in the recorded balance if differences exceed _____ (insert an amount such that the total uninvestigated difference for all trading partners, including those not selected, does not exceed the limit).		

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

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

Audit Procedures[1]	Done by/date	W/P ref.
5. Read the various current period Agreed-Upon Procedures (AUP) reports to consider whether the findings will affect the auditor's conclusion and/or if additional procedures need to be performed. For example, a. The AUP report on employee withholdings and employer contributions that are reported on the Report of Withholdings and Contributions for Heath Benefits, Life Insurance and Retirements. This AUP report is to assist OPM in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount report submitted to OPM (see OMB audit guidance).		
b. The AUP report on FACTS I verification. This AUP report is to evaluate the department's management assertion that it compared the department's summarized FACTS I data to its consolidated financial statements and to determine whether such data is in agreement.		
6. Summarize the results and determine if adjustments are necessary.		
7. Conclude whether intragovernmental and other related party activity and balances have been adequately accounted for and properly disclosed in the financial statements.		

Exhibit I

Reconciliation of Seller Entity Intragovernmental Earned Revenue with Buyer Entity Cost

Seller Entity - Trading Partner 1

Intragovernmental cash received for earned revenue, FY 200X, from Trading Partner 2 (General ledger before adjustment)	200,000
Less adjustment for timing difference -	
Cash received but revenue unearned at end of the current year	20,000
Add adjustment for timing difference -	
Earned revenue recognized on unbilled work at the end of the current year	50,000
Intragovernmental earned revenue - accrual basis, FY 200X, from Trading Partner 2 (General ledger after adjustment)	**230,000**

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

The contra accounts for timing items should also reconcile.

The Seller's unearned revenue account (liability) should reconcile with the Buyer's prepaid (asset) account.

Seller's earned but unbilled receivable (asset) should reconcile with the Buyer's accounts payable for unbilled work (liability) account.

Buyer Entity - Trading Partner 2

Intragovernmental purchases - cash basis, FY 200X, from Trading Partner 1 (General ledger before adjustment)	190,000
Add:	
Adjustment for cutoff error identified during reconciliation process [*Cash sent to Trading Partner 1, but not recorded]*	10,000
Adjustment for completed but unbilled work at the end of the current year	50,000
Less:	
Cash paid in the current year, but amount prepaid at end of current year	20,000
General ledger after adjustment for Trading Partner 1	**230,000**
Less:	
Reconciling item for purchases inventoried at end of the current year	50,000
Intragovernmental purchases included in cost - accrual basis, FY 200X, from Trading Partner 1	**180,000**

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

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903 - AUDITING COST INFORMATION

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

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

.02 SFFAS No. 4 establishes the concepts and standards for providing reliable and timely information on the full cost of federal programs, their activities, and outputs. The objectives of managerial cost information specified in SFFAS No. 4 are:

- To provide program managers with relevant and reliable information relating costs to outputs and activities. With this information, program managers should understand the costs of the activities they manage. The cost information should assist them in improving operational efficiency.

- To provide relevant and reliable cost information to assist Congress and executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance.

- To provide consistency between costs reported in general purpose financial reports and costs reported to program managers. This includes standardizing terminology to improve communication among federal organizations and users of cost information.

.03 The first two objectives primarily address the managerial use of cost information in improving operating efficiency and cost effectiveness, making planning and

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

.04 The cost accounting concepts section of SFFAS No. 4 (paragraphs 41-66) establishes the overall goals of cost accounting for federal agencies. Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, be integrated with the other parts of the system. Managerial costing should use a basis of accounting, recognition, and measurement that is appropriate for the intended purpose. Cost information developed for various purposes should be drawn from a common data source, and output reports should be reconcilable to each other.

.05 The five fundamental standards for managerial cost accounting set forth in SFFAS No. 4 (paragraphs 67-162) are important for the auditor. These standards will lead to the development of accurate and consistent cost information for internal and external reporting by federal agencies. The five standards are:

- Requirement for cost accounting: Each reporting entity should accumulate and regularly report the cost of its activities for management information.

- Responsibility segments: Management of each reporting entity should define and establish responsibility segments and report the costs of each segment's outputs.

- Full costs: Reporting entities should report the full costs of outputs, which is the total amount of resources used to produce the output, including direct and indirect costs.

- Interentity costs: Each entity's costs should incorporate the full cost of goods and services received from other entities. As directed by SFFAS No. 4, paragraph 110, OMB has designated, in its bulletin, *Form and Content of Agency Financial Statements,* the costs of goods and services received from other entities that should be recognized.

- Costing methodology: The costs of resources that directly or indirectly contribute to the production of outputs should be accumulated and assigned to outputs using appropriate methodologies. (See paragraph 903.07.)

AUDIT PROCEDURES FOR FINANCIAL STATEMENT OPINION

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

- Existence or occurrence:

  - Validity—(1) Recorded costs, underlying goods and services used, and related processing procedures are authorized by federal laws, regulations, and management policy. (2) Recorded costs are approved by appropriate individuals in accordance with management's general or specific criteria. (3) Recorded costs represent goods and services that were actually used and are properly classified.
  - Cutoff—Costs recorded in the current period represent goods and services used during the current period.
  - Summarization—(1) The summarization of recorded costs is not overstated. (2) Costs are assigned to appropriate classifications in the financial statements.

- Completeness:

  - Transaction completeness—All valid costs are recorded and properly classified.
  - Cutoff—All goods and services used in the current period should be recorded in the current period.
  - Summarization—The summarization of recorded costs is not understated.

- Valuation or allocation:

  - Accuracy—(1) Costs are recorded at correct amounts. (2) Costs are recorded using appropriate assignment methodologies.
  - Measurement—Costs included in the financial statements are properly measured.

- Presentation and disclosure:

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

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

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

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

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

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

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

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

.12 For audits of the CFO Act agencies and components identified by OMB audit guidance, the auditor should determine whether the agency's financial management systems comply substantially with the three requirements of FFMIA (see paragraph 100.02 and FAM section 701). To determine compliance with SFFAS No. 4 for the purposes of FFMIA, the auditor should ask these questions, which relate to the standards discussed in paragraph 903.05:

- Does the agency regularly accumulate and report the costs of its activities to management?

- Has the agency defined its major programs and responsibility segments for the purpose of delineating costs?

- Does the agency properly accumulate costs by those programs and segments?

- Has the agency accounted for the full costs (including inter-entity costs) of products, services, or outputs to be externally reported at the entity-wide level?

- Has the agency accounted for the costs of resources that contribute to the production of outputs by individual responsibility segment using appropriate costing methodologies?

- Has the agency reported those costs in the year-end financial statements on the accrual basis of accounting?

- Are the costs reported for external financial reporting and those reported for internal management reporting consistent and reconcilable?

- Is the reported management cost information consistent, timely, and comprehensive?

- Is the cost information reported in such a manner that management can determine answers to appropriate questions about costs of outputs?

- How does management determine whether costs are appropriate?

- How does management determine the entity's compliance with FFMIA?

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

.13 The auditor does not provide an opinion on the MD&A. Thus, the main concern is consistency of information, rather than testing the reliability of the cost data in the MD&A. The auditor should read the MD&A for consistency with the financial statements and with the auditor's knowledge of the entity. Testing generally should be limited to data in the financial statements, as discussed in paragraph 903.06, not the MD&A. Analytical procedures may be used to consider the reasonableness of cost data in the MD&A. Based on this comparison, the auditor should consider whether additional testing is needed.

.14 Although costs reported in internal and external reports should be consistent, they may differ in the degree of detail and reporting frequency. Cost information for management may require more frequent and timely reporting. It also may require more specific and detailed information regarding the costs of specific activities or outputs. By comparison, external reports could be less frequent, and the cost information more aggregated, such as on a suborganization or program basis.

921 - AUDITING FUND BALANCE WITH TREASURY (FBWT)

.01 This section provides guidance in auditing the Fund Balance with Treasury (FBWT) account. It explains key agency and Treasury processes and procedures related to FBWT accounts and discusses audit issues. Practice aids, including example Account Risk Analysis (ARA) and Specific Control Evaluation (SCE) forms and suggested audit procedures for the FBWT line item, are included in appendices.

.02 The FBWT account (SGL account 1010) is an asset account representing the unexpended spending authority in agencies' appropriations. Federal agencies record their budget spending authority in FBWT accounts and increase or decrease these accounts as they collect or disburse funds. Most agencies maintain several fund balance accounts funded by different types of appropriations, such as annual 1-year appropriations and/or multiyear appropriations that are included in the financial statement FBWT line item. The FBWT account also serves as one of several mechanisms to prevent agencies' disbursements from exceeding appropriated amounts.

.03 In the federal government, Treasury serves as the central banker. Most agencies use the banking services provided by Treasury's Financial Management Service (FMS) and do not keep cash in separate bank accounts. Some agencies have authority to disburse funds on their own behalf. These agencies still maintain FBWT accounts and follow Treasury's reporting and reconciliation requirements.

.04 Unlike commercial banking institutions, Treasury does not keep independent accounting records of each agency's FBWT accounts. Instead, Treasury uses monthly data reported by the agencies to calculate agencies' FBWT balances and requires agencies to perform detailed reconciliations of FBWT accounts to maintain the accuracy and reliability of agencies' fund balance records. Effective reconciliations also serve as a detection control for identifying unauthorized and unrecorded transactions at the agencies and Treasury.

.05 Treasury requires agencies to maintain FBWT accounts and to perform a two-part reconciliation process each month.

- First, agencies should reconcile differences identified by Treasury between cash receipts and disbursements transactions reported by agencies to those reported by other sources of financial data, such as the Federal Reserve,

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

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

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

AUDIT ISSUES

.06 Many agencies have problems in reconciling the transaction activity in their FBWT accounts. Ineffective FBWT reconciliations contribute to agencies' inability to prepare auditable financial statements. Without effective agency reconciliations of receipt and disbursement activity, the agency FBWT balance – the amount of funds available to it for expenditure in each appropriation – may contain material misstatements, and auditors generally would be unable to determine whether FBWT is fairly stated.

.07 Prior audits of agencies' financial statements identified instances in which agencies were not timely reconciling their FBWT accounts. Instead, some agencies adjusted their accounts to show the amounts reported by Treasury and/or recorded differences in suspense accounts without adequately researching the causes of the differences. Unreconciled differences recorded in suspense accounts could represent transactions that have not been recorded by the agency to the appropriate accounts. Only after researching its accounting records and reports can an agency determine the cause of the problem and make the proper adjustments to its FBWT accounts (and related asset, liability, expense, or revenue accounts) or advise Treasury to correct its records.

.08 There were instances in which agencies did not receive Statements of Differences from Treasury, even though unreconciled differences existed. Some

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

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

.09 Because Treasury's record of an agency's FBWT is the result of the activity reported to Treasury by the agency itself, and is not obtained from another source, the reconciliation process is a key control over FBWT accounts.

.10 An effective reconciliation process can facilitate a successful audit of <u>only that year's</u> FBWT transaction activity. One year's successful audit of the reconciliation of FBWT activity will generally not result in an auditable balance because the auditor faces the issue of auditing the beginning balance. Except for the first year of an appropriation, the balances in most FBWT accounts are included in the FBWT line item rollforward from year to year until the account is closed, which can be 5 years or more, depending on the type of appropriation.

.11 The auditor should consider whether the reconciliation process has been effective over the life of appropriations included in the FBWT balance. In an initial audit, this may require testing of the reconciliations performed in prior years. After a number of years, if current activity is routinely reconciled and audited, the balances from the prior years will ultimately be immaterial or closed.

AUDIT APPROACH

.12 Because Treasury relies on the monthly data reported by the agencies to calculate agencies' FBWT balances, confirmation of FBWT account balances with Treasury does not provide competent evidence. Therefore, the auditor needs to obtain competent evidence through tests of the agency's FBWT reconciliation process.

.13 Since most assets, liabilities, revenues, and expenses stem from or result in cash transactions, misstatements in the receipt or disbursement activity recorded in the FBWT accounts affect the balances of various financial statement accounts.

Even though net FBWT account balances may be immaterial as of the date of the financial statements, the gross receipt and disbursement transactions flowing through the FBWT account during the fiscal year are usually material. Therefore, the auditor should test the reconciliation of the transaction activity flowing through the account. In addition, the auditor should assess the impact of gross unreconciled differences on the FBWT and other financial statement line items.

.14 The auditor should design an audit program that includes steps to determine whether the agency

- prepares monthly reports to Treasury using the same detailed accounting records of collection and disbursement transactions that are used to prepare the agency's financial statements;

- researches and resolves the underlying causes of differences between amounts reported by Treasury and agency records each month and makes the proper adjustments; and

- monitors suspense account activity – including maintaining detailed records of unreconciled differences charged to the account and maintaining records that age the differences – and performs procedures to timely and properly clear the account.

.15 The auditor also should design procedures to determine the magnitude of the agency's gross unreconciled differences at year-end by analyzing the Treasury Statements of Differences reports and agency suspense account items in terms of their aggregate absolute values and resulting impact on the financial statements. (Since each difference represents a potential misstatement, the roll-up and netting of charges and credits can significantly understate the total outstanding differences.)

PRACTICE AIDS

.16 The following practice aids are appended to this section:

- Section 921 A – Treasury Processes and Reports Related to FBWT Reconciliation.

- Section 921 B – Example Account Risk Analysis (ARA).

- Section 921 C - Example Specific Control Evaluation (SCE). (Note that a single SCE of the line item/account-related accounting application for FBWT

is presented. There are transaction-related accounting applications listed on the ARA that affect FBWT, such as cash receipts and cash disbursements, that would require transaction related SCEs.)

- Section 921 D - Example Audit Procedures.

.17 These aids are not all inclusive. They do not include tests of other accounts, such as Other Cash on Deposit bank accounts and Imprest Funds. Also, for agencies that write their own checks, the aids do not discuss or include tests of controls over check stock. If material, the auditor should apply appropriate additional tests. The aids provide the auditor with a framework for designing tests of FBWT accounts. Auditors should use professional judgment in designing audit programs for their particular agency after considering materiality, audit risks, and internal control.

.18 The auditor should use judgment in determining the most effective and efficient method to achieve the audit objectives. When possible, the FBWT audit procedures should be coordinated with other tests. For example, many procedures may be performed in conjunction with tests of agency cash receipts and cash disbursements. Others may be included as part of compliance testing.

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921 A - TREASURY PROCESSES AND REPORTS RELATED TO FBWT RECONCILIATION

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

B. Verification of Disbursement Data			
Reports submitted by agencies	**Reports/data submitted by other sources**	**Treasury FMS action**	**Resulting Treasury reports to agencies**
1. Verification of Treasury Disbursement Office agency disbursements			
Agencies for which FMS regional financial centers disburse money submit monthly Statements of Transactions (SF 224) by ALC. Agencies for which FMS regional finance centers disburse money report net interagency transactions on SF 224.	FMS regional finance center Agency Confirmation Reports (include checks issued and electronic disbursements accomplished on behalf of the agency). The Interagency Payment and Collection system (IPAC) data are used by agencies and FMS to accomplish interagency transactions).	FMS compares monthly disbursement totals reported on agency SF 224s to disbursement data on regional finance center reports or IPAC.	Monthly Statements of Differences (FMS 6652) for each month until the difference is cleared. Monthly detailed support listings of transactions reported by regional finance centers, and IPAC.
Reporting of FBWT accounts activity and balances			
		FMS reports agency FBWT accounts activity and balances based on monthly data reported by agencies.	Monthly appropriation and receipt account ledgers (FMS 6653 and 6655) showing account activity and net balances for each appropriation, fund, and receipt account. Monthly appropriation and receipt account trial balances (FMS 6654/ 6655) by department.

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

B. Verification of Disbursement Data			
Reports submitted by agencies	**Reports/data submitted by other sources**	**Treasury FMS action**	**Resulting Treasury reports to agencies**
2. Verification of Non-Treasury Disbursing Office (NTDO) agency disbursements			
Reporting of FBWT accounts activity and balances			
		FMS reports agency FBWT accounts activity and balances based on monthly data reported by agencies.	Monthly appropriation and receipt account ledgers (FMS 6653 and 6655) showing account activity and net balances for each appropriation, fund, and receipt account. Monthly appropriation and receipt account trial balances (FMS 6654/ 6655) by department.

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

Entity: Agency

Preparer:

Date of Financial Statements: September 30, 20xx

ACCOUNT RISK ANALYSIS FORM

Region:

Line Item: Fund Balance with Treasury

File: _____

Date: _____

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

[1] Omitted from this example.

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Fund Balance with Treasury

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____

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

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Fund Balance with Treasury

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____

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

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Fund Balance with Treasury

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____

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

Entity: Agency

Date of Financial Statements: September 30, 20xx

Line Item: Fund Balance with Treasury

ACCOUNT RISK ANALYSIS FORM

File: _____

Preparer:

Region:

Date: _____

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

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

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application: Fund Balance with Treasury

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 1 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
Existence or Occurrence	Existence	Existence	**Substantiation** 1. Recorded FBWT does not exist as of a given date.	1a. Recorded FBWT amounts should exist as of a given date.	(See note 1.) 1. Agency staff performs monthly reconciliation between agency general ledger (G/L) and Treasury records (appropriation and receipt account ledgers, FMS 6653 and FMS 6655).	Y		FB- 5 & FB-6
					2. Agency staff resolves receipt and disbursement differences reported by Treasury via the FMS 6652, Statements of Differences for collections and disbursements.	N		FB-4 & FB-6

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application: Fund Balance with Treasury

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 2 of 7

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

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application: Fund Balance with Treasury

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 3 of 7

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

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application: Fund Balance with Treasury

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 4 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
Valuation or allocation	Valuation	Valuation	**Valuation** 3. FBWT included in the financial statements is valued on an inappropriate basis.	3a. FBWT included in the FS should be valued on an appropriate valuation basis.	1. Same as 1.1a.1. 2. Same as 1.1a.2. 3. Same as 1.1a.3.	N N		FB- 4 FB-5 & FB-6
Rights and obligations:	Rights	Rights	**Ownership** 4. Recorded FBWT is owned by others.	4a. Agency should own recorded FBWT.	1. Agency staff reconciles Treasury appropriation warrants, appropriation recissions, and nonexpenditure transfers to FBWT accounts. 2. Agency staff reconciles expenditure (cash receipts and disbursements) activity to the FBWT accounts.	N		FB-8 FB-4, FB-5, FB-6

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application: Fund Balance with Treasury

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 5 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
			Rights 5. Agency does not have certain rights to recorded FBWT because of appropriation restrictions.	5a. Recorded FBWT should be agencies' rights at a given date.	1. Same as 4.4a.1.	N		FB-8
Presentation and disclosure	Disclosure	Disclosure	**Account classification** 6. FBWT is not properly classified and described in the financial statements.	6a. FBWT should be properly classified and described in the financial statements.	1. Agency staff reconciles Treasury Undisbursed Appropriation Account and Receipt Account trial balances to the G/L accounts. 2. The FBWT account analysis (G/L sub accounts crosswalk) prepared at year-end is reviewed by the Chief Accountant.	N		FB-6 FB-9

Entity: Agency
Date of Financial Statements:
September 30, 20xx
Accounting application: Fund Balance with Treasury

SPECIFIC CONTROL EVALUATION

(Line Item/Account-Related)

File: _____

Preparer:

Region:

Date: _____ Page 6 of 7

Accounting application assertions	Relevant assertions in line items		Potential misstatements in accounting application assertions	Control objectives	Internal control activities	IS (Y/N)	Effectiveness of control activities	W/P ref. & control testing step
	FBWT	Various						
	Presentation	Presentation	**Consistency** 7. The financial statements components of FBWT are based on accounting principles different from those used in prior periods.	7a. FBWT should be based on accounting principles that are applied consistently from period to period.	1. The CFO, Reports and Analysis Branch Chief, and the Chief Accountant review the financial statements for consistently applied accounting principles.	N		FB-10
	Disclosure	Disclosure	**Disclosure** 8. Required information is not disclosed in the financial statements or in the footnotes thereto.	8a. The financial statements or footnotes thereto should contain all information required to be disclosed.	1. The CFO, Reports and Analysis Branch Chief, and the Chief Accountant review the financial statements for consistently applied accounting principles and required disclosure.	N		FB-10

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

921 D - EXAMPLE AUDIT PROCEDURES FOR FUND BALANCE WITH TREASURY

Entity _____

Period of financial statements _____

Job code _____

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
I. Planning Phase **FB-1** A. To obtain an understanding of the agency's accounting and reporting requirements for Fund Balance with Treasury (FBWT) accounts, read the following documents: • *Treasury Financial Manual*, Volume I, part 2, chapter 5100 - Reconciling Fund Balance with Treasury accounts, http://fms.treas.gov/fundbalance. • Current OMB bulletin, *Form and Content of Agency Financial Statements.* • Statements of Federal Financial Accounting Standards (SFFAS No. 1). • Agency accounting policies and procedures for the Fund Balance with Treasury Accounts.		
B. Read prior year documentation, financial statements, and related auditor's reports to determine if there were any audit issues/reportable conditions related to FBWT.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
II. Internal Control Phase **FB-2** A. To obtain an understanding of the agency's internal controls over FBWT accounts, perform the following: 1. Interview key agency staff about the FBWT procedures and controls in place at the agency. a. Obtain an understanding of the significant accounting systems and controls used in reporting and accounting for FBWT transactions. b. Identify FBWT line item general ledger accounts. c. Obtain an understanding of the agency's FBWT reconciliation procedures. Ask • if and how the agency tracks differences between the agency's and Treasury FBWT records; • what suspense accounts, if any, are used by the agency to track unreconciled differences; • if the agency has a process/system for aging unreconciled differences; and • how the agency reports and handles differences.		
B. Walk through the FBWT reconciliation process and determine whether reconciliation controls have been placed in operation.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
III. Testing Phase **FB-3** A. To determine whether the agency's reconciliation of the monthly SF224, 1219/1220 or 1218/1221 Statement of Transactions/Accountability report submitted to Treasury, to the applicable general ledger (G/L) accounts is effective (existence): 1. Obtain a list of the agency's Agency Location Codes (ALCs). 2. Obtain the monthly Statements of Transactions (SF 224) or Statements of Accountability/Transactions (SF 1219/1220 or 1218/1221) for each ALC for the fiscal year, or for the period being audited if testing at an interim date. 3. Select the individual Statements of Transactions (SF 224) or Statements of Accountability/Transactions (SF1219/1220 or 1218/1221) to be tested (use separate forms to document the sampling plan). Indicate selection method. • Dollar unit sampling (DUS), • Classical Variables Estimation Sampling, or • Other (describe)._____ For each statement selected: a. Compare the ALC on the SF 224 or SF 1219/1220 or 1218/1221 to the agency's list of ALCs. b. Trace monthly collection and disbursement amounts reported on the SF 224, SF 1219/1220 or SF1218/1221 to amounts recorded in the agency's official accounting records (G/L). c. Trace any prior period adjustment amounts reported on the SF 224, SF1219/1220 or SF1218/1221 to supporting documentation and the agency's G/L. d. Examine supporting documentation for any differences.		
B. Summarize the results of testing.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
C. Determine whether the results of testing indicate that combined risk should be assessed differently and whether the audit procedures should be revised.		
FB-4 A. To determine whether the agency is properly reconciling collection and disbursement differences identified by Treasury (existence and completeness): 1. Obtain the following Treasury reports for each ALC for each month of the fiscal year, or for the period being audited if testing at an interim date. • Final month-end Statements of Differences (FMS 6652). Note: To obtain the population of Statement of Differences, obtain the <u>initial</u> month-end Statements of Differences issued by Treasury. Treasury issues month-end Statements of Differences for each accounting month (when differences are identified) and continues to send statements for that month until the difference is cleared. To obtain the initial differences reports for the period being audited, obtain the reports that show the same accounting date and audit date on the statement, indicating that this is the initial statement of differences issued for that month. • Advice of Check Issued Discrepancy reports (FMS 5206). (Note: This step applies only for agencies that disburse their own funds – Non-Treasury Disbursing Offices (NTDO) agencies.) • Treasury letters notifying the agency of outstanding differences between amounts reported on the SF1219/1220 or SF1218/1221 and its check issued summary reports. (Note: This step applies only for NTDO agencies.)		
Select the individual statements/letters to be tested (use separate forms to document the sampling plan). Indicate selection method: • Dollar unit sampling (DUS), • Classical variables estimation sampling, or • Other (describe). _____		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
For each statement/letter selected: a. Compare the ALC number on the statement/report to the agency's list of ALCs.		
b. Examine the agency's reconciliation files/documentation supporting the reconciliation of the difference, and determine if differences were adequately researched and resolved.		
c. Trace resulting adjustments, if any, to subsequent month Treasury reporting (SF 224, 1219/1220, or 1218/1221) and/or the agency general ledger accounts to determine if adjustments were properly recorded. (Note: reconciling items do not always result in adjustments to the G/L and/or Treasury records. The resulting adjustment, if any, depends on the cause of the difference. For example, an adjustment to the agency's G/L is not necessary when a bank error caused the difference. The bank is responsible for reporting the adjustment to Treasury.)		
B. Summarize the results of testing and conclude on the effectiveness of the agency's reconciliation controls.		
C. Determine if the results of testing indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
FB-5 A. To determine if the agency's monthly reconciliation of its G/L to Treasury records is effective (existence and completeness): 1. For the months that correspond to the Statements of Differences selected above, obtain the Undisbursed Appropriation Account ledgers (FMS 6653) and Receipt Account ledgers (FMS 6655) sent by Treasury and the agency's reconciliation. • Trace the FMS 6653/6655 balance per the agency reconciliation to the FMS 6653/6655 reports sent by Treasury. • Trace the G/L account balances per the reconciliation to the appropriate G/L accounts. • Trace account activity per the FMS 6653/6655 to the agency G/L. (Note: Typical activity, other than agency disbursements and receipts, may include supplemental appropriations, non-expenditure transfers, and entries reported by other agencies.) • Examine supporting documentation for reconciling items. • Determine if the appropriate adjustments were made to the general ledger or that Treasury had been notified of needed corrections.		
B. Summarize the results of testing and conclude on the effectiveness of the agency's reconciliation controls.		
C. Determine if the results of testing indicate that combined risk should be assessed differently and if the audit procedures should be revised.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
FB-6 A. To determine whether the agency's year-end (September) reconciliation of FBWT accounts is effective (existence and completeness): 1. Obtain the Agency's year-end (September) FBWT reconciliation and Treasury's September Undistributed Appropriation Account Ledger (FMS 6653) and Receipt Account Ledger (FMS 6655). • Trace appropriation, fund, and receipt account balances reported on the Treasury account ledgers to the agency's reconciliation. • Trace the appropriation, fund, and receipt account balances reported on the Treasury account ledgers to the agency general ledger. • Examine supporting documentation for reconciling items. • Determine if appropriate adjustments were made to the G/L and/or reported to Treasury.		
2. Obtain the year-end (September) Statements of Differences reports issued by Treasury (FMS 6652, and/or FMS 5206 and Treasury notification letters). • Trace reported differences to the agency's reconciliation to determine if all differences were included in the FBWT reconciliation. • Examine supporting documentation and determine if differences were adequately resolved. • Trace resulting adjustments to supplemental Statements of Transactions/Accountability or subsequent month Treasury reporting (SF 224, 1219/1220, or 1218/1221) and/or the agency general ledger.		
3. Summarize the results of testing.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
FB-7 A. To determine the extent of unreconciled differences at year-end and the potential impact on the agency FBWT account balance: 1. Determine if unresolved differences reported by Treasury on Statements of Differences as of September 30 for the fiscal year being audited were subsequently resolved and properly accounted for. • Obtain the Statements of Differences for the months subsequent to year-end (October through end of fieldwork). • Identify unreconciled differences outstanding at 9/30 that were subsequently resolved. • Determine if the differences were adequately researched and resolved. • Determine if the appropriate adjustments were made to the agency FBWT accounts or that Treasury had been notified of needed corrections.		
2. Determine the extent of unreconciled differences included in suspense accounts that are not included on Statements of Differences. • Obtain suspense account transaction detail report as of 9/30 for the year being audited. • Obtain suspense account transaction detail report for months subsequent to year-end (October through end of fieldwork). • Identify unreconciled differences outstanding at 9/30 that were subsequently resolved. • Determine if the differences were adequately researched and resolved. • Determine if the appropriate adjustments were made to the agency FBWT accounts or that Treasury had been notified of needed corrections.		
3. Assess the materiality of all unreconciled differences outstanding (at absolute value).		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
4. Summarize test results.		
5. Document the potential effect of material unreconciled differences on the FBWT line item and other financial statement accounts.		
FB-8 A. To determine if the agency recorded warrants, appropriation transfers, and rescissions properly, perform the following (rights and obligations): 1. For first year appropriations, obtain copies of the appropriation legislation and U.S. Treasury Appropriation Warrants (FMS 6200) for the fiscal year. • Compare the warrants to the appropriation legislation. • Trace amounts reported on the appropriation warrants to beginning appropriation balances recorded in the general ledger FBWT accounts. • Examine supporting documentation for any differences/reconciling items.		
2. For other than first year appropriations, trace the beginning balances recorded in the general ledger to <u>audited</u> ending balances of the prior fiscal year financial statements. (Note: If this is a first year audit, additional work may be necessary to substantiate the beginning FBWT account balance. For example, the auditor may need to consider if the reconciliation process has been effective over the life of the appropriations. This may require review of prior year reconciliations.)		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
3. For appropriation activity occurring during the fiscal year being audited (supplemental appropriations, rescissions, and nonexpenditure transfers), obtain copies of related legislation supplemental appropriation and rescission warrants and U.S. Treasury Non-Expenditure Transfer Authorizations form (FMS 1151) for the fiscal year. • Compare supplemental appropriations and rescissions recorded in the agencies' FBWT account to appropriation legislation and to U.S. Treasury warrants. • Compare non-expenditure transfer amounts recorded in the agencies' FBWT account to approved Non-Expenditure Transfer Authorizations form (FMS 1151).		
4. Examine supporting documentation for any differences/reconciling items.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
FB-9 A. To determine the completeness and existence of the appropriation, fund, and receipt accounts included in the FBWT financial statement balance (existence, completeness, presentation and disclosure): 1. Obtain the agency "crosswalk" of G/L accounts included in the FBWT line item and the September Treasury Undisbursed Appropriation Account Trial Balance and Receipt Account Trial Balance. • Trace account balances listed on the Treasury trial balances to the agency crosswalk of G/L accounts included in the FBWT line item. • Obtain an explanation and determine the appropriateness of accounts omitted from or included in the crosswalk that were not included in the Treasury trial balance.		
IV. Reporting Phase **FB-10** A. To determine if the FBWT balance appears reasonable (analytical procedure): 1. Compare the G/L accounts that constitute the FBWT with expectations and obtain explanation for any unexpected changes (e.g., credit balances, new accounts, closed accounts) or the absence of expected changes. 2. Determine if additional testing is necessary.		
B. To assess whether the presentation of the financial statements and footnote disclosures for the FBWT line item are in accordance with U.S. generally accepted accounting principles (SFFAS No. 1) (presentation and disclosure): 1. Determine if the agency has presented and disclosed FBWT in the notes to the financial statements in accordance with generally accepted accounting principles.		
2. Determine if material unreconciled differences are disclosed and explained in the notes to the financial statements.		

FBWT Example Audit Procedures: Description of Procedure	Done by/date	W/P ref
3. Determine if material unreconciled differences that were written off by the agency during the fiscal year being audited are disclosed in the notes to the financial statements.		
4. Determine if material restrictions, if any, have been properly disclosed.		
FB-11 A. Prepare proposed audit adjustments, if any.		
B. Conclude if the FBWT line item is fairly stated and if the controls over FBWT are effective.		

1002 – INQUIRIES OF LEGAL COUNSEL

.01 This section provides guidance on procedures for the auditor to perform to obtain evidence that the financial accounting and reporting of contingencies[1] regarding litigation, claims, and assessments conform with U.S. generally accepted accounting principles (GAAP), as described in FAM sections 280 and 550. This section discusses the accounting and reporting guidance and audit procedures for inquiries of legal counsel concerning litigation, claims, and assessments, and includes examples of a legal representation letter request, a legal representation letter response, including the Department of Justice's standard forms for legal contingencies, and management's schedule for summarizing the information contained in the legal response.

ACCOUNTING AND REPORTING GUIDANCE

.02 Entity management is responsible for implementing policies and procedures to identify, evaluate, account for, and disclose litigation, claims, and assessments as a basis for the preparation of financial statements in conformity with GAAP.

.03 Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS No. 5, Accounting for Liabilities of the Federal Government,* contains accounting and reporting standards for loss contingencies, including those arising from litigation, claims, and assessments.[2] The Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions,* clarifies GAAP related to claims to be

[1] Environmental and disposal liabilities are a type of contingency that is often a significant issue.

[2] SFFAS No. 7 has guidance for reporting claims for tax refunds. Rather than recognizing probable claims and disclosing other claims in the notes to the financial statements, SFFAS No. 7 indicates that other claims for refunds that are probable should be included as supplementary information.

paid through the Treasury Judgment Fund.[3] Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies,* also provides guidance for financial accounting and reporting for loss and gain contingencies for those entities following GAAP for nongovernmental entities. The definition of probable for legal contingencies is now essentially the same in Statement of Financial Accounting Standard No. 5 and SFFAS No. 5, since SFFAS No. 12 has amended the latter.

.04 A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. SFFAS Nos. 5 and 12 use the terms probable, reasonably possible, and remote to identify three areas within the range of potential loss, as follows:

- Probable—For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur. (For other contingencies, the future event or events are more likely than not to occur.)

- Reasonably possible—The chance of the future event or events occurring is more than remote but less than probable.

- Remote—The chance of the future event or events occurring is slight.

[3] A permanent, indefinite appropriation, commonly known as the Judgment Fund, is available to pay final judgments, settlement agreements, and certain types of administrative awards against the United States when payment is not otherwise provided for. The Secretary of the Treasury certifies all payments from the fund. (See 31 U.S.C. 1304, Judgments, awards, and compromise settlements.) FASAB Interpretation No. 2 clarifies how federal entities should report the costs and liabilities arising from claims to be paid by the Judgment Fund and how the Judgment Fund should account for the amounts that it is required to pay on behalf of federal entities.

.05 A liability and the related cost for an estimated loss from a loss contingency should be recognized (accrued by a charge to income) when[4]

a. a past event or exchange transaction has occurred,

b. a future outflow or other sacrifice of resources is probable, and

c. the future outflow or sacrifice of resources is measurable.

.06 Disclosure of the nature of an accrued liability for loss contingencies, including the amount accrued, may be necessary for the financial statements not to be misleading. For example, if the amount recognized is large or unusual, disclosure should be considered. However, if no accrual is made for a loss contingency because one or more of the conditions in paragraph 1002.05 are not met, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss has been incurred. The disclosure should include the nature of the contingency, an estimate of the possible liability or range of possible liability, if estimable, or a statement that such an estimate cannot be made. In addition, if the Judgment Fund might be involved in the payment of the possible loss, the federal entity involved in the litigation should discuss the Judgment Fund's role in a note to the financial statements.

.07 Although management often relies on advice of legal counsel about the (a) likelihood of an unfavorable outcome and (b) estimates of the amount or range of potential loss for litigation, claims, and assessments, management is ultimately responsible for determining whether these contingencies are probable, reasonably possible, or remote. Management does this to decide whether they should be recognized as liabilities and/or disclosed in the notes to the financial statements. Thus, the Office of Management and Budget's (OMB) audit guidance requires CFO Act agency management to prepare a schedule summarizing legal contingencies including whether they are probable, reasonably possible, or remote, and whether (and in what amounts) they have been accrued or disclosed in the financial statements (see example summary schedule in FAM section 1002 D).

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[4] If the Judgment Fund will pay the claim, the entity should still recognize the liability and cost at this time. Then when the Judgment Fund makes payment, the entity should reduce the liability by recognizing an (imputed) financing source. Note that for Judgment Fund payments made under the Contract Disputes Act and in employment discrimination cases, the entity should instead establish a payable to reimburse the Judgment Fund.

AUDIT PROCEDURES

.08 The auditor should design procedures to test the entity's accounting for and disclosure of litigation, claims, and assessments. AU 337 (SAS 12) provides guidance on the procedures to identify litigation, claims, and assessments so that the auditor may obtain evidence that they are appropriately accounted for and disclosed. AU 9337 provides auditing interpretations of AU 337. OMB guidance for audits of federal financial statements also contains procedures for inquiries of legal counsel.

.09 The auditor should obtain evidence relevant to the following factors with respect to litigation, claims, and assessments:

a. The existence of a condition, situation, or set of circumstances indicating uncertainty as to the possible loss to an entity arising from litigation, claims, and assessments.

b. The period in which the underlying causes for legal action occurred.

c. The likelihood of an unfavorable outcome (probable, reasonably possible, or remote).

d. The amount or range of potential loss, if estimable.

.10 The auditor should discuss with management the events or conditions that should be considered in the accounting for and reporting of litigation, claims, and assessments. The auditor should perform audit procedures to corroborate the information provided by management, including requesting that management send a legal letter request to the entity's legal counsel. An example audit program is in FAM section 1002 A. The audit procedures should be modified, as appropriate, for the particular entity.

.11 A letter from legal counsel to the auditor, in response to a legal letter request from management to legal counsel, is the auditor's primary means of corroborating the information furnished by management concerning the accuracy and completeness of litigation, claims, and assessments. The legal letter request may include a list of pending or threatened litigation, claims, and assessments or a request by management that legal counsel prepare the list. The legal letter request also may include a list of unasserted claims and assessments considered probable of assertion, and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome, to which legal counsel has devoted substantive attention on the entity's behalf in the form of legal consultation or representation (or a statement that management is not aware of

any matters meeting the criteria). Legal counsel then would supplement management's information about those unasserted claims and assessments, including an explanation of matters where his or her views differ from those expressed by management in the legal letter request. In the federal government, where the general counsel may be part of management, legal counsel may instead provide the list of unasserted claims or assessments meeting the above criteria. The legal letter request should also include a request for legal counsel to make a statement that he or she will advise management about unasserted claims and assessments that should be considered for disclosure. (See the example request and response in FAM sections 1002 B and 1002 C.)

Timing of Legal Letter Request and Responses

.12 The audit procedures for inquiries of legal counsel concerning litigation, claims, and assessments should be performed on a timely basis to give priority to the resolution of potential problem areas and to complete other procedures. To meet deadlines, the auditor, entity management, and legal counsel should coordinate the timing of legal letter requests, responses (including interim responses), and related management schedules. The auditor and the entity management should consider the due dates for providing legal letter responses for the entity financial statements as well as for the U. S. Government's Consolidated Financial Statements. The due dates should enable the auditors to timely complete their work, including the potential need for management to inquire of Department of Justice legal counsels on a case-specific basis.

.13 In addition, when an entitywide audit team uses the work of entity component audit teams, the entitywide and component audit teams should coordinate the timing of legal letter requests, responses, and management schedules and consider the due dates for the component financial statements as well as the entitywide financial statements. The entitywide team generally should receive copies of the component letters.

.14 The legal counsel's response should include matters that existed at the balance sheet date and through the end of fieldwork. The effective date (the latest date covered by the legal counsel's review) should be as close as feasible to the completion of fieldwork. If the effective date is substantially in advance of the end of fieldwork (for example, 2 weeks), the auditor should contact the legal counsel for an updated response. To avoid this situation, the legal letter request should clearly specify the period the legal counsel's response should cover and the date the auditor should receive the response.

.15 To assist the auditor in completing the review of legal matters in a timely manner (and to assist management in preparing the financial statements), the auditor

may ask management to request legal counsel to submit a preliminary or interim response covering matters that existed at the balance sheet date and through a point in time reasonably before the end of fieldwork so that a preliminary evaluation of the significance of material legal matters can be made. Then, the legal counsel should submit a final or updated response covering matters through the end of fieldwork. The updated response generally should contain only changes or a statement indicating there are no changes from the interim response. (See FAM section 1002 B for an example legal letter request that includes requests for interim and updated responses from legal counsel.)

Determining a Materiality Level

.16 The auditor may limit the inquiry to matters that are considered individually or collectively material to the financial statements, provided the entity and the auditor have reached an understanding and agreement on the materiality level. The materiality level, if used, should be documented in the legal letter request and in the response.

.17 In determining a materiality level for the legal letter, the auditor should set the level sufficiently low that the cases not included in the legal letter would not be material to the financial statements taken as a whole when aggregated with (1) other cases not included in the letter, (2) all other types of contingencies, (3) all other items that would not be adjusted because they are judged immaterial (unadjusted misstatements), (4) all other amounts in the financial statements that would not be tested directly because they were judged to be immaterial, and (5) all other items resolved on the basis of materiality considerations. For example, OMB, in its audit guidance, suggests that a level of 0.5 percent of planning materiality may be sufficiently low.

.18 In aggregating cases, the auditor and the entity may use two levels of aggregation. First, similar cases (such as employment discrimination cases, harbor maintenance fee cases, spent nuclear fuel cases, or military promotion board challenges) should be aggregated and treated as a group and compared with the individual materiality level. The aggregation generally should include a list of the individual cases that are aggregated and a discussion of the items of information requested to be included in the legal letter (see FAM sections 1002 B and 1002 C) for the aggregated cases. Second, all cases not included in the legal letter individually or as part of a group of similar cases should be aggregated. A higher materiality level may be used for such an aggregation; however, this higher materiality level should be set sufficiently low that the cases not included in the legal letter would not be material to the financial statements taken as a whole when aggregated with the other items listed in the previous paragraph.

.19 Where the entity engages more than one legal counsel, the auditor should exercise caution so that matters considered not material individually would not, when aggregated, exceed the materiality limit. In addition, when separate legal representation letters are issued on individual components/bureaus of a consolidated entity because of individual component audits, the auditor may determine materiality levels for each component/bureau.

Legal Counsels from Whom Information Should Be Requested

.20 Most federal agencies have a general counsel who has primary responsibility for and knowledge about the entity's litigation, claims, and assessments. The auditor should request entity management to send a legal letter request to the general counsel. In addition, the auditor should ask the management and/or general counsel whether the entity used outside legal counsel whose engagement may be limited to particular matters (e.g., specific litigation).

.21 In the federal government, the main legal counsel outside of the entity is the Department of Justice.[5] The entity's management, its legal counsel, or the auditor may consult with Justice as well as other outside legal counsel to assure completeness and accuracy of the presentation of matters related to litigation, claims, and assessments. Such consultation may include requesting a list of pending litigation, claims, and assessments from Justice or other outside legal counsel, or discussion of specific cases.

.22 The legal response should cover all litigation, claims, and assessments pertaining to the federal reporting entity, including matters handled by Justice and other outside legal counsel on behalf of the entity. If the general counsel has overall responsibility for handling and evaluating litigation, claims, and assessments, his or her evaluation and responses ordinarily would be considered adequate. However, evidential matter obtained from inside legal counsel is not a substitute for information that outside legal counsel refuses to furnish to the auditor.

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[5] The Accounting and Auditing Policy Committee (AAPC) guidance (Technical Release No. 1) clarifies FASAB Interpretation No. 2, with respect to the Department of Justice's role related to legal letters in cases in which Justice's legal counsels are handling legal matters on behalf of other federal reporting entities. The letter from the entity's general counsel may provide sufficient evidence for the auditor. If the auditor determines that additional evidence is needed about a specific case, the auditor may request entity management and legal counsel to send a legal letter request to Justice, directed to the lead Justice legal counsel handling the case, asking that person to provide a description and evaluation directly to the auditor.

.23 Where there is no general counsel and management has not consulted legal counsel, the auditor should obtain a written representation from management that legal counsel has not been consulted. Such representation may be incorporated as an item in the management representation letter. (See FAM sections 550 and 1001.) (An example item 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.")

Evaluation of Responses

.24 Written responses from legal counsel will vary considerably in the scope of information provided and in the opinion expressed. In preparing the responses, legal counsels should consider the guidance contained in the American Bar Association's *Statement of Policy Regarding Lawyers' Responses to Auditors' Request for Information* (ABA Policy Statement). If legal counsel does not follow the ABA Policy Statement in responding to the auditor, the legal counsel's response nevertheless should meet the requirements of AU 337.

.25 The response should cover all components included in the financial statements being audited. Legal counsel generally should indicate the disposition of cases included in the prior year's letter that are no longer contingencies.

.26 The auditor should evaluate each response in terms of sufficiency as evidence and consider (a) the possible limitations on the scope of legal counsel's responses and (b) the lack of sufficient opinion on the resolution of a case. AU 9337 provides guidance in evaluating legal counsel's responses. The auditor also should consider the legal counsel's response in light of any other information that comes to the auditor's attention.

<u>Possible Limitations on the Scope of Legal Counsel's Responses</u>

.27 When legal counsel limits his/her responses, the auditor should determine, whether the limitation affects the auditor's report. A legal counsel may appropriately limit responses to certain matters; for example, to matters that (a) the legal counsel has given substantive attention to in the form of legal consultation or representation and (b) are considered individually or collectively material to the financial statements, provided the entity and the auditor have reached an understanding on materiality levels. These limitations are acceptable and not limitations on the scope of the audit.

.28 The following are examples of limitations on legal counsel's responses that are not acceptable to the auditor and that would ordinarily result in a scope limitation:

a. Legal counsel refuses to furnish the requested information. When legal counsel refuses to furnish the information requested in the legal letter request, the auditor should consider this matter as a scope limitation sufficient to preclude an unqualified opinion.

b. Legal counsel excludes matters requested. The legal counsel's responses may not address all information requested. The auditor should compare legal counsel's response with the legal letter request and determine whether legal counsel has addressed all the information requested. If legal counsel excluded any of the requested matters, the auditor should obtain responses for those matters from legal counsel. If the auditor is unable to obtain all the information needed, the auditor should consider this a scope limitation that could be sufficient to preclude an unqualified opinion.

c. Legal counsel indicates that certain information is being withheld due to attorney-client privilege. Under the American Bar Association (ABA) Code of Professional Responsibility, legal counsel is required to preserve the confidences and secrets of the client. Legal counsel may disclose confidences to the auditor only with the consent of the client. If the legal letter request is prepared in accordance with AU 337, the auditor should expect that legal counsel would be responsive; otherwise the scope of the audit would be restricted. (On the other hand, explanatory language in the legal letter request or in legal counsel's response emphasizing that management or legal counsel does not intend to waive attorney-client privilege or attorney work-product privilege does not result in a scope limitation.)

Lack of Sufficient Opinion on the Resolution of a Case

.29 The following are examples of the legal counsel's responses that lack sufficient opinion on the resolution of a case.

a. Uncertainties. A legal counsel may be unable to respond concerning the likelihood of an unfavorable outcome of litigation, claims, and assessments or the amount or range of potential loss, because of inherent uncertainties. In these circumstances, the auditor ordinarily will conclude that the financial statements are affected by an uncertainty concerning the outcome of a future event, which is not susceptible to reasonable estimation. The auditor should follow the guidance in FAM section 580 for reporting on uncertainties.

b. Unclear responses. Legal counsels sometimes use general terms to indicate their evaluation of the outcome of a case. The ABA Policy Statement states that legal counsel may, in the appropriate circumstances, communicate to the auditor his/her view that an unfavorable outcome is "probable" or "remote." The legal letter responses may include phrases that mean remote or probable. The phrases below are examples of opinions that provide sufficient clarity that the likelihood of an unfavorable outcome is remote:

- "We are of the opinion that this action will not result in any liability to the entity."
- "We believe that the plaintiff's case against the entity is without merit."

The following are examples of opinions that indicate significant uncertainty as to whether the entity will prevail:

- "In our opinion, the entity has a substantial chance of prevailing in this action." (A "substantial chance," a "reasonable opportunity," and similar terms indicate more uncertainty than an opinion that the entity will prevail.)
- "It is our opinion that the entity will be able to assert meritorious defenses to this action." (The term "meritorious defenses" indicates that the court will not summarily dismiss the entity's defenses; it does not indicate legal counsel's opinion that the entity will prevail.)

.30 To avoid unclear and incomplete responses, the auditor generally should ask management to request legal counsel to use Justice's standard forms to describe legal contingencies (see pages 1002 C-4 to 6 for examples of these forms). When legal counsel does not indicate whether the unfavorable outcome is probable or remote, management and the auditor should conclude that the outcome is reasonably possible and the case should be considered for disclosure. (Management, with legal counsel's advice, determines whether cases are probable, reasonably possible, or remote, to decide whether they should be recognized as liabilities and/or disclosed in the notes to the financial statements.)

.31 If the auditor is not certain about the legal counsel's evaluation, the auditor should discuss the matters with the legal counsel and entity management (and document the oral discussion) and/or obtain written clarification in a follow-up letter. Sometimes legal counsel may give a clearer indication of likelihood orally. If legal counsel is unable to give a clear evaluation of the likelihood of an unfavorable outcome, management should disclose the uncertainty and the auditor should consider the uncertainty's effect on the audit report.

Example Legal Letter Request

.32 The legal letter request should be on the audited entity's letterhead, signed by the Chief Financial Officer (CFO), or equivalent, and request a reply directly to the auditor and a copy to management by specified due dates. FAM section 1002 B shows an example legal letter request that includes requests for interim and updated responses from legal counsel and matters that should be covered in the letter.

Example Legal Counsel's Responses and Management's Schedule

.33 The General Counsel should respond on General Counsel letterhead to the auditor with a copy to management by the agreed-upon due dates. The response should indicate that it is provided for the auditor's use in connection with the audit.

.34 FAM section 1002 C shows an example of a legal counsel response, including the legal representation letter and Justice's legal contingency standard forms for each case or group of cases, respectively. Justice's forms (pages 1002 C-4 to 6) are on Justice's website: http://www.usdoj.gov/civil/forms/forms.htm.

.35 FAM section 1002 D shows an example of management's schedule that documents how the information contained in the legal counsel's responses was considered in preparing the financial statements. Management should include each case discussed in the legal letter and indicate (1) the amount accrued for probable cases and (2) note disclosure for reasonably possible cases, probable cases where the amount cannot be estimated, and probable cases where a range of amounts above the accrued amount is estimated. The electronic templates for FAM sections 1002 C (pages 1002 C-1 to 3) and 1002 D are on OMB's website: http://www.whitehouse.gov/omb/bulletins/index.html.

PRACTICE AIDS

.36 The following practice aids are appended:
Section 1002 A – Example Audit Procedures;
Section 1002 B – Example Legal Letter Request;
Section 1002 C – Example Legal Representation Letter, including Justice's Example Legal Contingencies Forms; and
Section 1002 D – Example Management Summary Schedule.

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1002 A – EXAMPLE AUDIT PROCEDURES FOR INQUIRIES OF LEGAL COUNSEL

Entity _____

Period of financial statements _____

Job code _____

Example Audit Procedures	Done by/date	W/P ref
I. Testing Procedures 1. Ask management about the entity's policies and procedures for identifying, evaluating, and accounting for litigation, claims, and assessment.		
2. Obtain from management a description and evaluation of all litigation, claims, and assessments existing as of the balance sheet date and through the date of management's response (which should be near the end of fieldwork). (This may instead be obtained from the entity's legal counsel.)		
3. To determine whether an outside legal counsel is performing services for the entity, inquire of management whether outside legal counsel has been used by the entity and matters handled. Ask management for a list of pending litigation, claims, and assessments from the Department of Justice and/or examine correspondence and invoices from other outside legal counsel (e.g., for legal fees), if any.		
4. Ask whether the entity has changed its general counsel or outside legal counsel or the general counsel or outside legal counsel has resigned or has indicated an intention to resign. If so, determine if there are matters that may affect the financial statements. For example, in appropriate circumstances, a legal counsel may be required by the ABA Code of Professional Responsibility to resign the engagement if the legal counsel's advice concerning disclosures is disregarded by the entity.		

Example Audit Procedures	Done by/date	W/P ref
5. To identify litigation, claims, and assessments read minutes of management meetings, contracts, loan agreements, leases, and correspondence from other government entities and discuss pertinent items with management.		
6. If information comes to the auditor' s attention that may indicate a potential contingency with respect to litigation, claims, or assessments that may require adjustment to or disclosure in the financial statements, discuss with the entity its possible need to consult legal counsel. Depending on the severity of the matter, refusal by the entity to consult legal counsel in those circumstances may result in a scope limitation. Consider the effect of such a limitation on the auditor's report.		
7. Request entity management to send a legal letter request to the general counsel asking counsel to respond directly to the auditor. (Obtain a copy of the legal letter request.) Consider whether to also request legal letters from any outside legal counsel. The legal letter should cover all litigation, claims, and assessments pertaining to the reporting entity, including matters handled by the Department of Justice or other outside legal counsel. (See Sections 1002 B for an example legal letter request.) Coordinate with management and legal counsel to • determine the timing of legal letter requests and responses and related management's summary/schedules of information contained in legal responses and • determine a materiality level to be included in the legal representation letter.		
8. Read the legal letter responses and management's schedules to identify litigation, claims, and assessments.		

Example Audit Procedures	Done by/date	W/P ref
9. Compare the description and evaluation of the current year's legal letter responses to the prior year's audit documentation. If this comparison indicates that certain legal matters in the prior year are no longer included, discuss these matters with management or legal counsel to obtain an understanding of the reasons for the changes.		
10. Determine whether the information in the legal representation letter is consistent with management's schedule summarizing the information in the letter and related supporting documentation.		
11. Discuss with legal counsel if the information obtained is not complete, clear, or consistent.		
12. Evaluate legal counsel's responses and determine the effects of the responses on liabilities and related note disclosures in the financial statements and on the auditor's report.		
13. If a response date is substantially in advance of the audit report date, for example, earlier than 2 weeks prior to date of auditors' report, obtain a written or oral update response. (The longer the period between the legal letter and the audit report date, the more important a written update becomes.)		
II. Reporting Procedures Obtain a representation from management in the management representation letter (see FAM sections 550 and 1001) that the entity has disclosed all unasserted claims that legal counsel has advised are probable of assertion that, if asserted, would have at least a reasonable possibility of an unfavorable outcome and must be disclosed. 1. Discuss the description and evaluation of litigation, claims, and assessments obtained with management to determine if, subsequent to the date of legal counsel's response, there have been any changes in status of the matters, changes in management's evaluation of the outcome, or additional matters to be considered.		

Example Audit Procedures	Done by/date	W/P ref
2. If there are significant changes in the status of the matters or new matters, obtain a written confirmation or updated response from legal counsel.		
3. Have management include in the management representation letter representations related to contingencies and determine if they are appropriately accrued and disclosed as required by SFFAS No. 5, as amended. If management has not consulted legal counsel, obtain a written representation from management that legal counsel has not been consulted. This representation may be incorporated in the management representation letter (see FAM sections 550 and 1001).		
4. Read the entity's financial statements and notes and a. consider the adequacy of financial statement disclosure for contingencies with respect to litigation, claims, and assessments;		
b. determine if the financial statement disclosures for contingencies with respect to litigation, claims, and assessments are prepared in accordance with the OMB guidance on form and content of agency financial statements; and		
c. for federal entities involved in litigation for which the Judgment Fund is a likely source of judgment or settlement, determine if a note to the financial statements discusses the Judgment Fund's role in the payment of a possible loss, as required by FASAB Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*.		
5. Document conclusions reached concerning the accounting for and disclosure of litigation, claims, and assessments, determine if adjustments are necessary, and consider whether modification of the auditor's report is appropriate (see FAM section 580).		

1002 B – EXAMPLE LEGAL LETTER REQUEST

[Audited Entity Letterhead]

Date: [date]

To: General Counsel

From: Chief Financial Officer [signed]

Subject: [Auditor 's] Audits of the Fiscal Year 20X1 and 20X0 Financial Statements

Pursuant to 31 U.S.C. 3515, [Auditor name] is performing audits of the financial statements of [entity] as of and for the fiscal years ended September 30, 20X1, and 20X0. In performing audits of government entities, auditors comply with *Government Auditing Standards*, issued by the Comptroller General of the United States (the "yellow book"). For financial statement audits, *Government Auditing Standards* incorporate the fieldwork and reporting standards of the American Institute of Certified Public Accountants (AICPA) and the Statements on Auditing Standards that interpret them. Consistent with the procedures contained in AU 337 of the AICPA's *Codification of Statements on Auditing Standards*, [Auditor] has inquired about litigation, claims, and assessments to obtain evidence as to the financial accounting and reporting of such matters with respect to the financial statements. The purpose of this letter is to request your assistance in responding to that inquiry. The American Bar Association *Statement of Policy Regarding Lawyers' Responses to Auditors' Request for Information* (December 1975) provides relevant guidance for the lawyer 's response to the auditor 's request.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5, [entity] reports certain information in its financial statements and notes concerning contingent liabilities for litigation, claims, and assessments. We request that you provide [Auditor] (with a copy to me) with information on matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation. You should furnish an interim response by [agreed-upon date], including matters that existed as of September 30, 20X1, and from that date through at least [interim date]. You should furnish an updated response by [agreed-upon date], that is effective no earlier than [agreed-upon date], that includes any changes from the interim response or furnish a statement that there are no changes.

Include any cases with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation, even those cases for which you believe the Judgment Fund or some financing source other than [entity]'s budgetary resources will pay any potential loss. Under generally accepted accounting principles, these amounts should be included as liabilities or disclosure items in the [entity]'s financial statements. Cases similar in nature should be aggregated where appropriate. It would be helpful if you could list the matters in order of the amount of potential loss, starting with the largest.

Pending or Threatened Litigation (excluding unasserted claims)

We and [Auditor] have determined that any matters for which the amount of potential loss exceeds $XX, individually or in the aggregate, could be material to the financial statements. Please provide to [Auditor] the information described below about pending or threatened litigation where the amount of potential loss exceeds $XX:

1. The nature of the matter. Include a description of the case or cases and amount claimed, if specified.
2. The progress of the case to date.
3. The government's response or planned response (for example, to contest the case vigorously or to seek an out-of-court settlement).
4. An evaluation of the likelihood of unfavorable outcome. Please categorize likelihood as probable (an unfavorable outcome is likely to occur), reasonably possible (the chance of an unfavorable outcome is less than probable but more than remote), or remote (the chance of an unfavorable outcome is slight).
5. An estimate of the amount or range of potential loss, if one can be made, for losses considered to be probable or reasonably possible.
6. The name of the [entity]'s legal counsel handling the case and names of any outside legal counsel/other lawyers representing or advising the government in the matter (Department of Justice or outside law firms).

Unasserted Claims and Assessments

[If legal counsel is a part of management use this paragraph.] Please provide the following information for all unasserted claims and assessments that you consider to be probable of assertion and which, if asserted, would have at least a reasonable possibility (more that remote) of an unfavorable outcome in an amount over $XX, individually or in the aggregate, involving matters to which you have devoted substantive attention.

[If the legal letter request will be sent to a legal counsel that is not part of management, such as an outside legal counsel, use this paragraph.] We have

provided an attachment to this request that lists the unasserted claims and assessments that we believe are probable of assertion and which, if asserted, would have at least a reasonable possibility (more than remote) of an unfavorable outcome in an amount over $XX, individually or in the aggregate, involving matters to which you have devoted substantive attention. Please provide the following information for each matter and for any additional matters that you believe meet these criteria.

1. A description of the nature of the matter.
2. The government's planned response if the claim is asserted.
3. An evaluation of the likelihood of an unfavorable outcome. (Categorize likelihood as probable (likely to occur) or reasonably possible (less than probable but more than remote).)
4. An estimate of the amount or range of potential loss, if one can be made.

Please specifically confirm to [Auditor] that our understanding of the following is correct: Whenever, in the course of performing legal services for us, with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will (1) advise us of your conclusion and (2) consult with us concerning the question of such disclosure and the applicable requirements of SFFAS No. 5, as amended.

Please separately identify any cases with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation for which you believe another government entity will be responsible for any potential liability.

Please specifically identify the nature of and reasons for any limitations on your response to this request.

Please address your reply to [Auditor], and contact him/her at (phone number), when your reply is available for pick up, and send a copy of your reply to me. Do not hesitate to contact me or [Auditor] if you have any questions about this request.

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1002 C – EXAMPLE LEGAL REPRESENTATION LETTER

[General Counsel Letterhead]

[Date]

[Auditor]
[Title]
[Agency or Firm Name]
[City]

Subject: Legal Response in Connection with the 20X1 and 20X0 Financial Statement Audits of [entity name]

Dear [Auditor]:

As General Counsel of [entity], I am writing in response to the legal letter request from the [entity]'s Chief Financial Officer (CFO) dated [date], in connection with the audit of [entity]'s financial statements as of and for the fiscal years ended September 30, 20X1 and 20X0. [In an interim response, add "I will, as further requested by the CFO, provide an updated response by [date]."]

I call your attention to the fact that as General Counsel for [entity], I have general supervision of [entity]'s legal affairs. [If the general legal supervisory responsibilities of the person signing the letter are limited, set forth a clear description of those legal matters over which such person exercises general supervision, indicating exceptions to such supervision and situations where primary reliance should be placed on other sources.] In such capacity, I have reviewed litigation and claims threatened or asserted involving [entity] and have consulted with outside legal counsel about them when I have deemed appropriate.

Subject to the foregoing and to the last paragraph of this letter, I advise you that since [insert date of beginning of fiscal year period under audit] neither I, nor any of the lawyers over whom I exercise general legal supervision, have given substantive attention to, or represented [entity] in connection with loss contingencies [over the amount of (state materiality level agreed to with auditor and stated in request letter)] coming within the scope of clause (a) of Paragraph 5 of the Statement of Policy referred to in the last paragraph of this letter, except as follows:

[Describe litigation and claims that fit the foregoing criteria as follows (it is recommended that general counsels use the attached Department of Justice forms

(one for pending or threatened litigation, another for unasserted claims) to describe the cases):][1]

Pending or Threatened Litigation (excluding unasserted claims)

1. Nature of the matter (include a description of the case or cases and amount claimed, if specified).
2. Progress of the case to date.
3. Current or intended response.
4. Evaluation of the likelihood of an unfavorable outcome (categorize likelihood as probable, reasonably possible, or remote).
5. Estimated amount or range of potential loss, if determinable, for losses considered to be probable or reasonably possible.
6. Name of [entity]'s legal counsel handling the case and names of any outside legal counsel representing or advising the government in the matter.

With respect to matters that have been specifically identified as contemplated by clauses (b) or (c) of paragraph 5 of the ABA Statement of Policy, I advise you, subject to the last paragraph of this letter, as follows:

Unasserted Claims and Assessments (considered to be probable of assertion and which, if asserted, would have at least a reasonable possibility of an unfavorable outcome)

1. Nature of the matter.
2. Intended response if claim would be asserted.
3. Evaluation of the likelihood of an unfavorable outcome. (Categorize likelihood as probable or reasonably possible.)
4. Estimated amount or range of potential loss, if determinable.

The information set forth herein is [(as of the date of this letter) or (as of (insert date), the date on which we commenced our internal review procedures for purposes of preparing this response)], except as otherwise noted. [If an interim response, add "Upon submission of the updated response, which is due on [date],"] I disclaim any undertaking to advise you of changes that, thereafter, may be brought to my attention or the attention of our lawyers over whom I exercise general legal supervision.

This response is limited by, and in accordance with, the ABA *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (December 1975); without limiting the generality of the foregoing, the limitations set forth in such statement on the scope and use of this response (Paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any

[1] It is expected that cases or matters will be aggregated where appropriate.

"loss contingencies" is qualified in its entirety by Paragraph 5 of the statement and the accompanying commentary (which is an integral part of the statement). Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy, this will confirm as correct [entity]'s understanding that whenever, in the course of performing legal services for [entity] with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, I have formed a professional conclusion that the entity must disclose or consider disclosure concerning such possible claim or assessment, I, as a matter of professional responsibility to [entity], will so advise [entity] and will consult with [entity] concerning the question of such disclosure and the applicable requirements of Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5. [Describe any other or additional limitation as indicated by Paragraph 4 of the statement.]

Sincerely yours,

_____

[Name of General Counsel]
[Title]

cc: Chief Financial Officer

SUGGESTED DEPARTMENT OF JUSTICE FORM

PENDING OR THREATENED LITIGATION

AGENCY/COMPONENT: _____

Amount of potential loss exceeds the agency/component materiality threshold of: _____

1. **Case name.** *(Include case citation, case number, and other names by which the case or group of cases is commonly known.)*

2. **Nature of matter.** *(Include a description of the case or cases and* ***amount claimed****, if specified.)*

3. **Progress of the case to date.**

4. **The government's response or planned response.** *(For example, to contest the case vigorously or to seek an out-of-court settlement.)*

5. **An evaluation of the likelihood of unfavorable outcome.** *(Choose*

_____ PROBABLE – An unfavorable outcome is likely to occur.

_____ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

_____ REMOTE – the chance of an unfavorable outcome is slight.

6. **An estimate of the amount or range of potential loss** *(if one can be made, for losses considered to be probable or reasonably possible).*

7. **The name and phone number of the government attorney handling the case** *(and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)*

8. **The sequence number** *(based on the total number of pending or threatened cases in litigation, claims, and assessments the agency/component is submitting.*
   e.g., Number ___ of ___)
   (#) (total)

SUGGESTED DEPARTMENT OF JUSTICE FORM

UNASSERTED CLAIMS AND ASSESSMENTS

AGENCY/COMPONENT: _____

Amount of Potential Loss Exceeds the agency/component materiality threshold of: _____

1. **Name of Matter.** *(Include name by which the matter is commonly known.)*

2. **Nature of the Matter.** *(Include a description of the matter.)*

3. **The Government's Planned Response** *(if the claim is asserted).*

4. **An Evaluation of the likelihood of Unfavorable Outcome.** *(Choose one.)*

   _____ PROBABLE – (An unfavorable outcome is likely to occur.)

   _____ REASONABLY POSSIBLE – (the chance of an unfavorable outcome is less than probable but more than remote.)

5. **An Estimate of the Amount or Range of Potential Loss** *(if one can be made, for losses considered to be probable or reasonably possible).*

6. **The Name and phone number of the Government Attorney Handling the Matter** *(and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter).*

7. **The Sequence Number** *(based on the total number of Unasserted Claims and Assessments the agency/component is submitting. e.g., Number___ of____).*
   (#) (total)

Management should prepare this schedule (or equivalent) summarizing the information contained in the legal letters. In particular, management should conclude as to the likelihood of loss about each case to determine whether an amount should be recorded in the financial statements and/or if note disclosure is necessary for the financial statements to conform with GAAP. Although most information comes directly from the legal letter, the financial staff should add the information in the last two columns to indicate the disposition of each case in the financial statements.

Management's Schedule of Information Contained in Legal Letter Responses for Financial Reporting Purposes

Amounts in thousands

1	2	3	4	5			6	7
Reference key	Amount claimed	Name of case/ related cases	Likelihood of loss	Amount or range of potential loss			Disposition in financial statements	
				(a) P	(b) R/P	(c) Upper	Amt. recorded	Note disclosure
*****insert rows here as necessary*****			****insert rows here as necessary****			****insert rows here as necessary****		
TOTALS	$ -			$ -	$ -	$ -	$ -	$ -

Guidance for Preparation:

1. Matters should be listed on this schedule in order of the amount or range of potential loss, starting with the largest.
2. The level of aggregation should generally be at the same level as in the general counsel's letter. However, there may be instances where the level of aggregation is too high to be able to prepare this schedule in a way that is meaningful. In such cases, the CFO should work with legal counsel to provide further disaggregation of dissimilar cases. There may also be other instances in which a higher level of aggregation is desirable. CFOs should use professional judgment, considering the purpose of this schedule when determining the level of aggregation.

Column:

1 **Reference key:** Page number of legal representation letter obtained from General Counsel discussing the case, or other reference information.

2 **Amount claimed:** Amount claimed in the litigation, claim, or assessment (if specified)

3 **Name of case or related cases:** Where appropriate, provide name of case or aggregated cases which meet materiality threshold.

4 **Likelihood of loss:** Indicate management's evaluation of the likelihood of loss on individual or aggregated cases.

Options:
- **P:** probable (loss likely to occur);
- **R/P:** reasonably possible (the chance of loss is less than probable, but more than remote); or
- **R:** remote (the chance of loss is slight).

5 **Amount or range of potential loss:**

Options:
- **5a:** Probable (P) -- Provide single estimate or lower end of range, if known. Enter "U" if unknown. (Also provide column totals.)
- **5b:** Reasonably possible (R/P) -- Provide single estimate or lower end of range, if provided. Enter "U" if unknown. Also provide column totals.
- **5c:** If amounts in P or R/P are ranges, provide upper end of range; otherwise, enter "n/a."

6 **Disposition in financial statements - amount recorded:** If applicable, provide corresponding dollar amount recorded as a liability in the financial statements. (Also provide column totals.)

7 **Disposition in financial statements - note disclosure:** If applicable, indicate by note reference number whether case information is separately disclosed or included in amounts disclosed in notes to the financial statements. (Also provide column totals.)

GLOSSARY ADDITIONS

Activity	In cost accounting, an activity is the actual work task or step performed in producing and delivering products and services. An aggregation of actions performed within an organization that is useful for purposes of activity-based costing.
Budget functional classification	A way of grouping budgetary resources so that all budget authority and outlays of on-budget and off-budget federal entities and tax expenditures can be presented according to national needs being addressed. To the extent feasible, functional classifications are made without regard to entity or organizational distinctions.
Cause and effect basis	In cost accounting, a way to group costs into cost pools in which an intermediate activity may be a link between the cause and the effect.
Common data source	In cost accounting, this includes all financial and non-financial data, such as environmental data, that are necessary for budgeting and financial reporting, as well as evaluation and decision information developed as a result of prior reporting and feedback.
Contingency	An existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss.
Core financial management system (CFMS)	As developed by JFMIP, a system that consists of six functional areas: general ledger management, funds management, payment management, receivable management, cost management, and reporting, and affects all financial event transaction processing because it maintains reference tables used for editing and classifying data, controls transactions, and maintains security.
Cost	The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service.

Costing methodology	Methodology for accumulating the costs of resources that directly or indirectly contribute to the production of outputs and assigning those costs to outputs.
Department (per FASAB staff draft interentity cost interpretation)	Any department, agency, administration, or other entity designated by OMB as a financial reporting entity that is not part of a larger financial reporting entity other than the government as a whole. Used in distinguishing inter- and intradepartmental activity and balances.
Full cost	In cost accounting, the sum of all costs required by a cost object including the costs of activities performed by other entities regardless of funding sources.
Fund Balance with Treasury account (FBWT)	An asset account representing the unexpended spending authority in agencies' appropriations. Also serves as a mechanism to prevent agencies' disbursements from exceeding appropriated amounts.
Interdepartmental amounts	Activity and balances between two different departments. (See department.) The intradepartmental and interdepartmental amounts are subsets of intragovernmental activity and balances.
Interentity	Activities or balances between two or more agencies, departments, or bureaus. (See inter- and intradepartmental.)
Intradepartmental amounts	Activity and balances within the same department. (See department.) The intradepartmental and interdepartmental amounts are subsets of intragovernmental activity and balances.
Intragovernmental amounts	Activity and balances occurring within or between federal departments.
Intragovernmental Payment and Collection System (IPAC)	The primary method used by most federal agencies to electronically bill and/or pay for services and supplies within the government. Used to communicate to the Treasury and the trading partner agency that the online billing and/or payment for services and supplies has occurred.

Joint Financial Management Improvement Program (JFMIP)	The joint undertaking of the U.S. Department of the Treasury, the U.S. General Accounting Office, the Office of Management and Budget, and the Office of Personnel Management to improve financial management in the federal government. The source of governmentwide requirements for financial management systems software functionality that describes the basic elements of an integrated financial management system (including the core financial system).
Judgment fund	A permanent and indefinite appropriation that is available to pay final judgments, settlement agreements, and certain types of administrative awards against the United States when payment is not otherwise provided for. The Secretary of the Treasury certifies all payments from the fund.
Output	Any product or service generated from the consumption of resources. This can include information generated by the completion of a task or activity.
Probable	The chance of the future confirming event(s) occurring is likely, for pending or threatened litigation and unasserted claims. (For other contingencies, the future event or events are more likely than not to occur.)
Providing agency	The agency providing services, products, goods, transfer funds, investments, debt, and/or incurring the reimbursable costs. This includes bureaus, departments and/or programs within agencies. The providing agency is the seller. The providing agency is the agency transferring out funds to another agency (transfers-out) when appropriations are transferred without the exchange of goods or services.
Reasonably possible	The chance of the future event or events occurring is more than remote but less than probable.

Receiving agency The agency receiving services, products, goods, transfer funds, purchasing investments, and/or borrowing from Treasury (or other agency). This includes bureaus, departments and/or programs within agencies. The receiving agency is the purchaser. The receiving agency is the agency receiving transfers of funds (transfers in) when appropriations are transferred without the exchange of goods or services.

Reciprocal accounts Corresponding SGL accounts that should be used by a providing and receiving agency to record like intra-governmental transactions. For example, the providing entity's accounts receivable would normally be reconciled to the reciprocal account, accounts payable, on the receiving entity's records.

Reimbursable activity In intragovernmental activity, similar to goods or services, except the amounts billed to the receiving entity by the providing entity are based on actual costs incurred instead of on fees.

Related parties Affiliates, management of the entity, their immediate families, and other parties the entity deals with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the parties might be prevented from fully pursuing its own separate interests.

Remote The chance of the future event or events occurring is slight.

Responsibility segment In cost accounting, a significant organizational, operational, functional, or process component that has the following characteristics: (a) its manager reports to the entity's top management, (b) it is responsible for carrying out a mission, performing a line of activities or services, or producing one or a group of products, and (c) for financial reporting and cost management purposes, its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments of the entity.

Standard General Ledger (SGL)	A uniform chart of accounts and guidance for standardizing federal agency accounting. Composed of five major sections: (1) chart of accounts, (2) account descriptions, (3) accounting transactions, (4) SGL attributes, and (5) report crosswalks. Prescribed by the Department of the Treasury in its *Treasury Financial Manual.*
Suitable criteria	In agreed upon procedures engagements, suitable standards that have the attributes of objectivity, measurability, completeness, and relevance.
Trading partner code	As assigned by the U.S. Department of the Treasury, trading partner code is the attribute defined within the accounting for a transaction used to identify the trading partner entity. The trading partner code is illustrated next to the SGL account.
Trading partners	As defined by the U.S. department of the Treasury, trading partners are agencies, bureaus, programs, or other entities (within or between agencies/ departments) participating in transactions with each other.
Transfers	Funding moved from one entity to another based on an agreement between the providing entity and the receiving entity
***Treasury Financial Manual* (TFM)**	The *Treasury Financial Manual* (TFM) is Treasury's official publication for financial accounting and reporting of all receipts and disbursements of the federal government. Provides procedures for federal agencies to account for and reconcile transactions occurring within and between each other. Includes procedures for CFO Act agencies to reconcile and confirm with their trading partners intragovernmental activity and balances.

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ABBREVIATIONS ADDITIONS

AAPC	Accounting and Auditing Policy Committee
ABA	American Bar Association
ALC	agency locator code
AUP	agreed-upon procedures
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
FACTS	Federal Agencies' Centralized Trial Balance System
FAM	GAO/PCIE *Financial Audit Manual*
FCRA	Federal Credit Reform Act
FERS	Federal Employees' Retirement System
FMS	Financial Management Service
G/L	general ledger
IPAC	Intragovernmental Payments and Collection System
NTDO	Non-Treasury Disbursing Office
RSI	required supplementary information
SF	standard form
TFM	*Treasury Financial Manual*

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