



United States Government Accountability Office
Washington, D.C. 20548

July 22, 2005

Ms. Lisa Fiely
Chief Financial Officer
U.S. Agency for International Development

Mr. Bruce Crandlemire
Acting Inspector General
U.S. Agency for International Development

Subject: *Financial Audit: The United States Agency for International Development's Fiscal Year 2004 Management Representation Letter on Its Financial Statements*

As you know, the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), is required to annually prepare and submit audited financial statements of the U.S. government to the President and the Congress. We are required to audit these consolidated financial statements (CFS) and report on the results of our work.¹ In connection with fulfilling our requirement to audit the fiscal year 2004 CFS, we evaluated the Department of the Treasury's (Treasury) financial reporting procedures and related internal control over the process for compiling the CFS, including the management representation letter provided us by Treasury and OMB. Written representation letters from management, required by U.S. generally accepted government auditing standards, ordinarily confirm oral representations given to the auditor, indicate and document the continuing appropriateness of those representations, and reduce the possibility of a misunderstanding between management and the auditor.

In our report, which is included in the fiscal year 2004 *Financial Report of the United States Government*,² we reported a limitation on the scope of our work due to identified concerns with the adequacy of certain federal

¹The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. 31 U.S.C. § 331 (e). The federal government has elected to include certain financial information on the legislative and judicial branches in the CFS as well.

²The fiscal year 2004 *Financial Report of the United States Government* was completed by the Department of the Treasury on December 15, 2004, and is available through both GAO's Web site at www.gao.gov and Treasury's Web site at www.fms.treas.gov/fr/index.html.

agencies' management representations on which Treasury and OMB depend to provide their representations to us regarding the CFS. Specifically, Treasury and OMB stated that their representation letter to us on the CFS was based primarily on the individual federal agency representation letters. Consequently, our audit considered the content of the individual federal agency letters, and the incompleteness of certain of these letters impaired our ability to obtain sufficient evidence in support of our audit of the CFS. This limitation contributed to our disclaimer of opinion on the CFS. We performed sufficient audit work to provide the disclaimer of opinion and issued our audit report, dated December 6, 2004, in accordance with U.S. generally accepted government auditing standards.

As part of our audit of the fiscal year 2004 CFS, we received and reviewed selected federal agencies' management representation letters to assess their adequacy in support of our audit of the CFS. As the federal government gets closer to an opinion on its financial statements, it becomes more important that the federal agencies' management representation letters be complete and reliably prepared.

The purpose of this report is to communicate our observations on the United States Agency for International Development's (USAID) fiscal year 2004 management representation letter. Our objective is to help ensure that future management representation letters submitted by USAID are sufficient to help support Treasury and OMB's preparation of the CFS management representation letter and our ability to rely on the representations in that letter in combination with individual federal agency representation letters. We reviewed five key areas in each management representation letter: (1) signatures, (2) materiality thresholds, (3) representations, (4) summary of unadjusted misstatements, and (5) reliability of representations. In reviewing the management representation letters, we applied the American Institute of Certified Public Accountants' (AICPA) *Codification of Auditing Standards*, AU Section 333, *Management Representations*; OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the GAO/President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual* (FAM) section 1001, entitled "Management Representations."³

³GAO, *GAO/PCIE: Financial Audit Manual: Update*, [GAO-04-1015G](#) (Washington, D.C.: July 30, 2004), an update to *Financial Audit Manual: Volumes 1 and 2*, [GAO-01-765G](#) (Washington, D.C.: Aug. 1, 2001).

Results in Brief

USAID's fiscal year 2004 management representation letter, as well as several other federal agencies' management representation letters, did not provide all the information necessary to support Treasury and OMB's preparation of the CFS management representation letter. This in turn impacted our ability to rely on the representations in the CFS management representation letter in combination with individual federal agency representation letters.

We identified some needed improvements in one of the five key areas we reviewed. Specifically, USAID did not provide a summary of unadjusted misstatements that (1) identifies the standard general ledger account number, standard general ledger account name, or financial statement line item for the misstatements and (2) includes a description of the misstatements. We believe that this matter can be easily addressed and are making a recommendation to USAID's Chief Financial Officer targeted to including a complete summary of unadjusted misstatements, if there are any uncorrected misstatements, that also provides a description of the misstatements. Also, we are recommending that the USAID Acting Inspector General work with the agency to help ensure that future management representation letters meet the key condition noted as needing improvements in this report.

In commenting on a draft of this report, USAID's Chief Financial Officer and Acting Inspector General, in separate letters, disagreed with our conclusion that USAID's summary of unadjusted misstatements was incomplete. Specifically, the Chief Financial Officer said that USAID's summary of unadjusted misstatements identified the financial statement line item and included a description for the misstatements. In addition, the Acting Inspector General stated that the financial statement line items were included in the summary. We disagree with their conclusions. During our review, it was not clear that the information called for by the FAM and TFM was provided and, therefore, USAID's summary of unadjusted misstatements was incomplete. Specifically, we could not identify the line items referred to in the summary on USAID's fiscal year 2004 Statement of Net Cost and the description provided for the misstatements only indicated whether intragovernmental or public costs increased or decreased, not the circumstances that gave rise to the unadjusted misstatement. In addition, USAID's Acting Inspector General requested that the recommendation to him be deleted because USAID management is ultimately responsible for the summary of unadjusted misstatements and his office does not have line authority over them. We disagree with this statement. The summary of

unadjusted misstatements is prepared by the auditor and given to management to attach to the management representation letter and management is then responsible for representing whether the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. As the auditor of USAID's financial statements, USAID's Office of the Inspector General is responsible for preparing the summary of unadjusted misstatements and ensuring that it is complete. We continue to believe that the recommendation to the Acting Inspector General is appropriate.

Background

In conducting agency financial statement audits, U.S. generally accepted government auditing standards incorporate financial auditing fieldwork and reporting standards issued by the AICPA. Such auditing standards (AU Section 333) require auditors to obtain certain representations from agency management. These representations are part of the evidential matter to be considered by the auditor in its audit of the agency's financial statements. The representations obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. AU Section 333 discusses specific representations that should be obtained from management, including a requirement to attach a schedule of unadjusted financial statement misstatements for entities with uncorrected misstatements.

In addition, OMB Bulletin 01-02 and FAM section 1001 contain guidance on preparing federal agencies' management representation letters. According to the FAM, in addition to the representations included in AU Section 333, the auditor generally should consider the need to obtain representations on other matters based on the circumstances of the audited entity. FAM section 1001A lists 35 specific representations ordinarily included in the management representation letter and also includes a requirement to attach a schedule of unadjusted financial statement misstatements for entities with uncorrected misstatements. (See enc. I for these representations.) Representations listed in FAM section 1001A should be customized to the situation of the entity being audited or excluded if inapplicable. We perform our audit of the CFS in accordance with the FAM and related auditing standards.

Treasury and OMB are to receive management representation letters from certain federal agencies. This is important because U.S. generally accepted government auditing standards require that Treasury and OMB provide us,

as principal auditor of the CFS, a management representation letter, and their letter depends on the information in such agencies' management representation letters. In their representation letter to us for the audit of the fiscal year 2004 CFS, Treasury and OMB stated that their representations are based primarily on the representations of those agencies covered by the Chief Financial Officers (CFO) Act and other selected agencies that were made in connection with the preparation of these entities' respective financial statements and provided to OMB and Treasury. For this reason, it is important that all federal agency representation letters be complete and reliable.

Objectives, Scope, and Methodology

In connection with our audit of the fiscal year 2004 CFS, we evaluated Treasury's financial reporting procedures and related internal control, including the CFS management representation letter. For the fiscal year 2004 CFS, 33 of the 35 "verifying agencies" submitted audited financial statements along with their management representation letters to Treasury.⁴ In our review of these 33 management representation letters, our overall objective was to assess their adequacy as it relates to our audit of the CFS. Specifically, we reviewed each agency management representation letter to determine whether the following five key conditions were met:

- the management representation letter was signed by appropriate agency officials;
- the management representation letter included designation as to the amounts above which matters were considered material (materiality thresholds);
- the management representation letter included applicable representations from the FAM;

⁴See *Treasury Financial Manual*, vol. I, part 2, ch. 4700, for a list of the 35 agencies. These agencies, for fiscal year 2004, consisted of 23 CFO Act agencies and 12 material other agencies. The 33 agencies we reviewed did not include the U.S. Securities and Exchange Commission and the Smithsonian Institution because these audits were not complete before the fiscal year 2004 *Financial Report of the United States Government* was issued. The Department of Homeland Security (DHS) Financial Accountability Act, Pub. L. No. 108-330, 118 Stat. 1275 (Oct. 16, 2004), added DHS to the list of CFO Act agencies, increasing the number of CFO Act agencies again to 24 for fiscal year 2005.

-
- the management representation letter included a properly prepared summary of unadjusted misstatements for agencies with uncorrected misstatements; and
 - the representations in the management representation letter were reliable based on a review of findings in the auditor's report.

This report is based on the audit work we performed for the audit of the fiscal year 2004 CFS, which was performed in accordance with U.S. generally accepted government auditing standards.

We requested comments on a draft of this report from USAID's Chief Financial Officer and Acting Inspector General or their designees. Written comments from USAID's Chief Financial Officer and Acting Inspector General are reprinted in enclosures II and III, respectively, and are also discussed in the Agency Comments and Our Evaluation section.

USAID Did Not Provide a Complete Fiscal Year 2004 Summary of Unadjusted Misstatements

We identified that USAID's fiscal year 2004 summary of unadjusted misstatements was incomplete. U.S. generally accepted government auditing standards require that for each federal agency with uncorrected misstatements, a summary of unadjusted misstatements be attached to the agency's management representation letter. Treasury and OMB use the summaries of unadjusted misstatements to assess the impact of federal agencies' unadjusted misstatements on the CFS and make appropriate management representations to us at the governmentwide level. The summaries are also used by us, as principal auditor of the CFS, to develop an overall governmentwide summary of unadjusted misstatements, which is then attached to the CFS management representation letter prepared by Treasury and OMB.

Also, in a matter related to the compilation process for the CFS, in fiscal year 2004, Treasury required agencies to submit a summary of unadjusted misstatements as part of the closing package using the standardized format provided for in the *Treasury Financial Manual* (TFM). The TFM, however, required additional details to be added to this summary of unadjusted misstatements than those called for by the FAM. Specifically, agencies were to also (1) include a description of the misstatements and (2) distinguish between misstatements affecting intragovernmental accounts and misstatements affecting accounts with the public. We need this additional information to develop the overall governmentwide summary of unadjusted misstatements. In order to avoid duplication of

effort by the agencies in preparing two summaries of unadjusted misstatements, the additional information should also be included in the summary of unadjusted misstatements attached to the management representation letter. As such, we plan to work with PCIE to modify the FAM to call for these two additional disclosures to be included in the summary of unadjusted misstatements attached to the management representation letter.

In its management representation letter, USAID said that “We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.” However, USAID did not include a summary of unadjusted misstatements with its fiscal year 2004 management representation letter.

USAID did submit a summary of unadjusted misstatements as part of its closing package to Treasury as required by the TFM, but the summary was incomplete. Specifically, USAID did not (1) identify the standard general ledger account number, standard general ledger account name, or financial statement line item for the misstatements and (2) include a description of the misstatements.

Without a complete summary of unadjusted misstatements from each of the verifying agencies with uncorrected misstatements, it is not possible for us, as principal auditor of the CFS, to reasonably determine the audit risk exposure for each of the line items in the CFS or to prepare an adequate summary of unadjusted misstatements at the governmentwide level.

Conclusions

In one of the five key areas we reviewed, USAID’s fiscal year 2004 management representation letter did not provide all the information necessary to support Treasury and OMB’s preparation of the CFS management representation letter and our ability to rely on the representations in that letter in combination with individual federal agency representation letters, including that of USAID. The additional information needed from USAID is straightforward and should be easy to address.

Recommendations for Executive Action

We recommend to USAID's Chief Financial Officer that in the future the management representation letter include a complete summary of unadjusted misstatements, if there are any uncorrected misstatements, that also provides a description of the misstatements.

We recommend that the USAID Acting Inspector General work with the agency to help ensure that future management representation letters meet the key condition noted as needing improvements in this report.

Agency Comments and Our Evaluation

In written comments on a draft of this report, USAID's Chief Financial Officer and Acting Inspector General, in separate letters that are reprinted in enclosures II and III, disagreed with our conclusion that USAID's summary of unadjusted misstatements was incomplete. Specifically, the Chief Financial Officer said that USAID's summary of unadjusted misstatements identified the financial statement line item and included a description for the misstatements. In addition, the Acting Inspector General stated that the financial statement line items were included in the summary. We disagree with their conclusions. During our review, it was not clear that the information called for by the FAM and TFM was provided. Specifically, after reviewing USAID's fiscal year 2004 Statement of Net Cost, we could not identify any line items referred to as "Partnerships, Initiatives", "Institutions, Laws", or "Improved Capacity" as indicated in USAID's summary of unadjusted misstatements. In addition, the description provided for the misstatements only indicated whether intragovernmental or public costs increased or decreased, not the circumstances that gave rise to the unadjusted misstatement. As a result, the line item and description was not provided and, therefore, USAID's summary of unadjusted misstatements was incomplete.

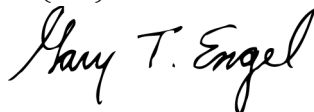
USAID's Chief Financial Officer stated that her office will ensure that if a summary of unadjusted misstatements is listed as attached, it is in fact attached. However, USAID's Acting Inspector General requested that the recommendation to him be deleted because he believes that USAID management is ultimately responsible for the summary of unadjusted misstatements and his office does not have line authority over them. We disagree with this statement. The summary of unadjusted misstatements is to be prepared by the auditor and given to management to attach to the management representation letter. Management is then responsible for representing whether the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both

individually and in the aggregate, to the financial statements taken as a whole. As the auditor of USAID's financial statements, USAID's Office of the Inspector General is responsible for preparing the summary of unadjusted misstatements and ensuring that it is complete. We continue to believe that the recommendation to the Acting Inspector General is appropriate and that the report should continue to be co-addressed to the Chief Financial Officer and the Acting Inspector General.

Within 60 days of the date of this report, we would appreciate receiving a written statement on actions taken to address these recommendations.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Homeland Security and Governmental Affairs; the Subcommittee on Federal Financial Management, Government Information, and International Security, Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Government Reform; and the Subcommittee on Government Management, Finance, and Accountability, House Committee on Government Reform. In addition, we are sending copies to the Fiscal Assistant Secretary of the Treasury and the Controller of OMB. Copies will be made available to others upon request. This report is also available at no charge on GAO's Web site at www.gao.gov.

We appreciate the courtesy and cooperation extended to us by your staff throughout our work. We look forward to continuing to work with your offices to help improve financial management in the federal government. If you have any questions about the contents of this report, please contact me at (202) 512-3406.



Gary T. Engel
Director
Financial Management and Assurance

Enclosures – 3

Enclosure I: Representations in FAM 1001A

Guidance contained in FAM 1001 and FAM 1001A deals with the management representations that the auditor should obtain from current management as part of the audit. This guidance also acknowledges that judgment needs to be exercised to obtain representations that depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. Representations given in FAM section 1001A should be customized to the situation of the entity being audited, and additional representations may need to be obtained.

FAM 1001A lists 27 representations that are ordinarily included, if applicable, in the management representation letter that an agency provides to the auditor. For representations 3, 11, 16, and 18, the agency should address three separate components. As such, each agency is ordinarily expected to make a total of 35 representations. Representations 18, 19, 20, and 21 are not applicable unless the agency received an opinion on its internal control. In addition, representations 22, 23, and 24 address the three requirements of the Federal Financial Management Improvement Act of 1996 and are only applicable to the 24 CFO Act agencies. The 35 representations in FAM 1001A are as follows.

1. We are responsible for the fair presentation of the financial statements and stewardship information in conformity with U.S. generally accepted accounting principles.
2. The financial statements are fairly presented in conformity with U.S. generally accepted accounting principles.
3. We have made available to you all
 - a. financial records and related data;
 - b. where applicable, minutes of meetings of the Board of Directors [or other similar bodies, such as congressional oversight committees] or summaries of actions of recent meetings for which minutes have not been prepared; and
 - c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. [If management believes that certain of the identified items are not misstatements, management's belief may be acknowledged by adding to the representation, for example, "We believe that items XX and XX do not constitute misstatements because [description of reason]."]
6. The [entity] has satisfactory title to all owned assets, including stewardship property, plant, and equipment; such assets have no liens or encumbrances; and no assets have been pledged.
7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. Guarantees under which the [entity] is contingently liable have been properly reported or disclosed.
9. Related party transactions and related accounts receivable or payable, including assessments, loans, and guarantees, have been properly recorded and disclosed.
10. All intraentity transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intragovernmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intragovernmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intragovernmental asset, liability, and revenue amounts as required by the applicable OMB Bulletin.

11. There are no
 - a. possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,
 - b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed, or
 - c. unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.
12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
13. No material events or transactions have occurred subsequent to September 30, 20X2 [or date of latest audited financial statements], that have not been properly recorded in the financial statements and stewardship information or disclosed in the notes.
14. We are responsible for establishing and maintaining internal control.
15. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements).
16. We have no knowledge of any fraud or suspected fraud affecting the [entity] involving:
 - a. management,
 - b. employees who have significant roles in internal control, or
 - c. others where the fraud could have a material effect on the financial statements.

[If there is knowledge of any such instances, they should be described.]

17. We have no knowledge of any allegations of fraud or suspected fraud affecting the [entity] received in communications from employees, former employees, or others. [If there is knowledge of any such allegations, they should be described.]
18. Pursuant to 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act), we have assessed the effectiveness of the [entity's] internal control in achieving the following objectives:
 - a. reliability of financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;
 - b. compliance with applicable laws and regulations—transactions are executed in accordance with (i) 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 (ii) any other laws, regulations, and governmentwide policies identified by OMB in its audit guidance; and
 - c. reliability of performance reporting—transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

[If the entity bases its internal control assessment on suitable criteria other than 31 U.S.C. 3512(c), (d), this item should cite the criteria used (for example, *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission).]

19. Those controls in place on September 30, 20X2 [or date of latest audited financial statements], and during the years ended 20X2 and 20X1, provided reasonable assurance that the foregoing objectives are met. [If there are material weaknesses, the foregoing representation should be modified to read:

Those controls in place on September 30, 20X2, and during the years ended 20X2 and 20X1, provided reasonable assurance that the

foregoing objectives are met except for the effects of the material weaknesses discussed below or in the attachment.

or: Internal controls are not effective.

or: Internal controls do not meet the foregoing objectives.]

20. We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and identified those we believe to be material weaknesses.
21. There have been no changes to internal control subsequent to September 30, 20X2 [or date of latest audited financial statements], or other factors that might significantly affect it. [If there were changes, describe them, including any corrective actions taken with regard to any significant deficiencies or material weaknesses.]
22. We are responsible for implementing and maintaining financial management systems that substantially comply with federal financial management systems requirements, federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government Standard General Ledger at the transaction level.
23. We have assessed the financial management systems to determine whether they substantially comply with these federal financial management systems requirements. Our assessment was based on guidance issued by OMB.
24. The financial management systems substantially complied with federal financial management systems requirements, federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of [date of the latest financial statements].

[If the financial management systems substantially comply with only one or two of the above elements, this representation should be modified as follows:

As of [date of financial statements], the [entity's] financial management systems substantially comply with [specify which of the three elements for which there is substantial compliance (e.g., federal accounting standards and the SGL at the transaction level)],

but did not substantially comply with [specify which of the elements for which there was a lack of substantial compliance (e.g., federal financial management systems requirements)], as described below (or in an attachment).]

[If the financial management systems do not substantially comply with any of the three elements, the following paragraph should be used instead:

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

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

25. We are responsible for the [entity's] compliance with applicable laws and regulations.
26. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
27. We have disclosed to you all known instances of noncompliance with laws and regulations.

Enclosure II: Comments From the Office of the Chief Financial Officer at the U.S. Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this enclosure.



USAID
FROM THE AMERICAN PEOPLE

JUN 10 2005

Gary T. Engel, Director
Financial Management and Assurance
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Engel:

This letter is in response to GAO Draft Report entitled Financial Audit: The Agency for International Development's Fiscal Year 2004 Management Representation Letter on Its Financial Statements. We appreciate the opportunity to comment and request that our comments be included in the final report.

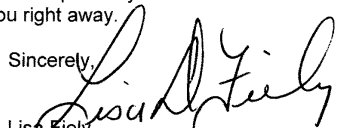
We acknowledge that the Schedule summarizing the Agency's unadjusted misstatements was not completed and included as an attachment to the Management Representation Letter. This was an apparent oversight on our part as we did reference in item 5 of the Management letter that such a summary was attached. This information was compiled and subsequently submitted, as required, with our closing package. In response to your request for the Schedule, please see the Attachment to this letter.

In the future we will ensure that schedules listed as attached are in fact attached; however, I would like to point out that the policies and procedures around this requirement are vague at best. The FAM which is the policy manual used by the audit community is not only not specific as to what is required it leaves much to the discretion of the auditor and auditee. I look forward to your making improvements to this guidance so that it is quite clear what is and is not required in the future. Ensuring that information required is consistent with the TFM requirements makes perfect sense.

Also, for the record, I would like to point out that USAID did submit a summary of unadjusted misstatements as part of its closing package to Treasury and while we did not identify the General Ledger (GL) Account number or name; contrary to your report, we did identify the financial statement line item for the misstatements and included a description of same.

I trust that this omission was not a final causal factor in the consolidated financial statements not receiving an unqualified audit opinion. If USAID was ever in a position of being responsible for getting information to you in that regard I would hope that you would contact us immediately so that we could provide such information to you right away.

Sincerely,


Lisa Fiely

Chief Financial Officer

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

See comment 2.

See comment 1.

See comment 3.

**Enclosure II: Comments From the Office of
the Chief Financial Officer at the U.S. Agency
for International Development**

- 2 -

ATTACHMENT

SUMMARY OF UNADJUSTED MISSTATEMENTS FY 2004			
SGL Account Number	SGL Account Name	Financial Statement Line for the Misstatements	Description of the Misstatements
6100	Operating and Administrative Expenses	Statement of Net Costs; Institutions, Laws, and policies foster private sector led growth – intra governmental	Should be 9,423,000 less
6100	Operating and Administrative Expenses	Statement of Net Costs; Institutions, Laws, and policies foster private sector led growth – with the public	Should be 9,423,000 more
6100	Operating and Administrative Expenses	Statement of Net Costs; Partnerships, initiatives, and implemented international treaties – intra governmental	Should be 74,544,000 less
6100	Operating and Administrative Expenses	Statement of Net Costs; Partnerships, initiatives, and implemented international treaties - public	Should be 74,544,000 more
6100	Operating and Administrative Expenses	Statement of Net Costs; Partnerships, initiatives, and implemented international treaties – intra governmental	Should be 19,512,000 more
6100	Operating and Administrative Expenses	Statement of Net Costs; Partnerships, initiatives, and implemented international treaties – with the public	Should be 19,512,000 less

The following are our comments on the United States Agency for International Development's (USAID) Office of the Chief Financial Officer's letter dated June 10, 2005.

GAO Comments

1. See the "Agency Comments and Our Evaluation" section of this report.
2. USAID's Chief Financial Officer noted that the policies and procedures for attaching a summary of unadjusted misstatements to the management representation letter are vague. As discussed in our report, U.S. generally accepted auditing standards (AU Section 333) discusses specific representations that should be obtained from management, including a requirement to attach a schedule of unadjusted financial statement misstatements for entities with uncorrected misstatements. In addition, the GAO/President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual* (FAM) section 1001A lists 35 specific representations ordinarily included in the management representation letter and also includes a requirement to attach a schedule of unadjusted financial statement misstatements for entities with uncorrected misstatements. As noted in our report, we plan to work with PCIE to modify the FAM to call for the additional disclosures on the summary of unadjusted misstatements that were required by the TFM in fiscal year 2004.
3. USAID's Chief Financial Officer noted that she believed that the incompleteness of USAID's summary of unadjusted misstatements was not a final causal factor in the U.S. government's consolidated financial statements (CFS) not receiving an unqualified audit opinion. As stated in our report, we reported a limitation on the scope of our work on the fiscal year 2004 CFS due to identified concerns with the adequacy of certain federal agencies' management representations on which Treasury and OMB depend to provide their representations to us regarding the CFS. Specifically, the incompleteness of certain of these federal agencies' letters, including USAID's letter, impaired our ability to obtain sufficient evidence in support of our audit of the CFS and contributed to our disclaimer of opinion on the CFS.

Enclosure III: Comments From the Office of the Inspector General at the U.S. Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this enclosure.



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

June 13, 2005

Mr. Gary T. Engel
Director
Financial Management and Assurance
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Engel:

Thank you for the May 31, 2005, draft report entitled *Financial Audit: The Agency for International Development's Fiscal Year 2004 Management Representation Letter on Its Financial Statements*. We have the following comments.

We suggest that your references to *AID* throughout the report be replaced with either the *U.S. Agency for International Development* or *USAID*.

Page 4 of your draft report states that AID did not provide "...a summary of unadjusted misstatements that (1) identifies the standard general ledger account number, standard general ledger account name, or financial statement line item for the misstatements and (2) includes a description of the misstatements." The criterion for this statement cited in the draft report refers to Part 2 Appendix 4, Note 20 of the Treasury Financial Manual (TFM) 4700, which contains an illustrative Summary of Unadjusted Misstatements template. To collect this information from all federal agencies, the Department of Treasury developed a Summary of Unadjusted Misstatements template as part of the Government Financial Report System (GFRS). USAID submitted its information to Treasury in this format, which included an identification of the financial statement line item for the misstatements. Neither template developed by the Department of Treasury specifically requested either standard general ledger account numbers or standard general ledger account names. Therefore, since USAID provided the information required by Treasury through the GFRS and identified the financial statement line items, we believe the recommendation should be deleted or modified to reflect the specific criteria that USAID did not comply with.

With respect to the conclusion on Page 9 of your draft report, we agree that complete information on USAID summary of unadjusted misstatements is important for the Treasury and OMB to be able to prepare the Consolidated Financial Statements. However, because the financial statement line items affected were provided in the submission, we do not agree USAID's failure to provide SGL account information or a description of misstatements in its summary of unadjusted misstatements contributed to the GAO's overall inability to rely on the CFS management representation letter.

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

See comment 2.

See comment 1.

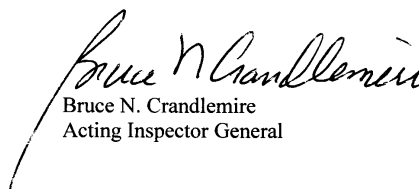
See comment 3.

2

Regarding the recommendation to the Acting Inspector General on page 10 of the draft report, we have and will continue to work closely with USAID's CFO Office and General Counsel in developing future management representation letters and summaries of unadjusted misstatements. However, USAID management is ultimately responsible for these products and we do not have line authority over USAID management to ensure GFRS or TFM compliance. Therefore, we suggest that the recommendation to the Acting Inspector General be deleted. Finally, we request the Acting Inspector General be copied on the final report rather than listed as an addressee.

We appreciate the opportunity to comment on your draft report and appreciate your efforts on the USG Consolidated Financial Statements.

Sincerely,



Bruce N. Crandlemire
Acting Inspector General

The following are our comments on the United States Agency for
International Development's (USAID) Office of the Inspector General's
letter dated June 13, 2005.

GAO Comments

1. See the "Agency Comments and Our Evaluation" section of this report.
2. As requested in the letter, we have modified the report to refer to the United States Agency for International Development as USAID.
3. USAID's Acting Inspector General stated that the summary of unadjusted misstatements template in the *Treasury Financial Manual* (TFM) for fiscal year 2004 did not specifically request standard general ledger account numbers or general ledger account names. The TFM template requests the financial statement line items for the unadjusted misstatements. Since the standard general ledger account number or name could be listed instead of the financial statement line item and still provide the necessary information, we reviewed the agencies' summaries of unadjusted misstatements to determine whether one of the three items was listed. However, as discussed in the report, USAID's summary of unadjusted misstatements did not include any of the three items, and was, therefore, incomplete.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.