

OMB Bulletin No. 98-04



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

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BULLETIN NO. 98-04

TO THE HEADS AND INSPECTORS GENERAL OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Addendum to OMB Bulletin No. 93-06

1. **Purpose.** This Addendum revises Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements," to amend the reporting requirements generally and to implement the reporting requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208).

2. Addendum:

1. Paragraph 7.c.(3) is amended by adding a subparagraph "(c)" that reads as follows:

"For compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996, the auditor is required to perform sufficient tests to report whether the reporting entity's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, the auditor's report shall state the auditor's reporting requirement and that the auditor performed tests of compliance using the implementation guidance for FFMIA issued by OMB on September 9, 1997. Further, the auditor shall report instances where the reporting entity's systems did not substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level or that the tests disclosed no instances where such systems did not substantially comply with these systems requirements. Where tests disclosed that the reporting entity's systems did not substantially comply with the foregoing requirements, the auditor's report on compliance shall:

(i) Identify the entity or organization responsible for the financial management systems that were found not to comply with the requirements.

(ii) Include all facts pertaining to the noncompliance, including:

(A) the nature and extent of the noncompliance;

(B) the primary reason or cause of the noncompliance; and

(C) any relevant comments from reporting entity management or employees responsible for the noncompliance.

(iii) Provide recommended remedial actions and the time frames to implement such actions."

Appendix B is amended to include FFMIA and OMB Memorandum M-97-13, "Computer Difficulties Due to the Year 2000 -- Progress Reports," dated May 7, 1997.

Paragraph 7.c.(3) is amended by adding a subparagraph "(d)" that reads as

"The auditor's report on compliance shall state whether or not providing an opinion on compliance was an objective of the audit."

Appendix C is added to provide illustrative auditor reporting guidance. Use of this reporting language is not required. It is provided to assist the auditor in reporting in accordance with the 1994 revision of *Government Auditing Standards* and this Addendum.

3 . **Effective Date.** This Addendum is effective for audits of Federal financial statements as of and for the year ended September 30, 1997.

4. **Inquiries.** Further information regarding this Addendum may be obtained by contacting the Office of Federal Financial Management, OMB, Washington, DC 20503, telephone (202) 395-3993.

Franklin D. Raines

Director

Attachment

APPENDIX C

Illustrative Auditor Reporting on Compliance with Laws and Regulations based on an Audit of Federal Financial Statements Performed in Accordance with OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," as Amended

[Addressee]

We have audited the financial statements of [Name of Federal Agency] as of and for the year ended September 30, 19xx, and have issued our report thereon dated March 1, xxxx. We conducted our audit in accordance with: generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," as amended.

The management of [Name of Federal Agency] is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 93-06, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 93-06, which are described below [or in an accompanying schedule].

List laws and regulations for which noncompliance was disclosed exclusive of FFMIA¹/

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA issued by OMB on September 9, 1997.

The results of our tests disclosed no instances where the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

[If the results of tests disclosed that the agency's systems did not substantially comply with the foregoing requirements, the preceding sentence should be replaced with the following:

"The results of our tests disclosed instances, described below (or described in an accompanying schedule), where the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph."

In addition, when tests disclosed that the agency's systems did not substantially comply with the foregoing requirements, the auditor's report on compliance or an accompanying schedule should provide the following information as required by FFMIA and paragraph 7.c. (3)(c) of this Bulletin.

- 1. The entity or organization responsible for the financial management systems that were found not to comply with the requirements.*
- 2. All facts pertaining to the noncompliance, including: (a) the nature and extent of the noncompliance, (b) the primary reason or cause of the noncompliance, and (c) any relevant comments from reporting entity management or employees responsible for the noncompliance.*
- 3. Recommended remedial actions and the time frames to implement such actions.]*

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.^{2/} This report is intended for the information of the management of [Name of Federal Agency]. However, this report is a matter of public record, and its distribution is not limited.

1/ FFMIA does not impose any compliance requirements; rather, it requires reporting of substantial noncompliance with requirements contained in government-wide policies, e.g., OMB Circular A- 127, "Financial Management Systems;" Statements of Federal Financial Accounting Standards; and the United States Standard General Ledger published by the Department of the Treasury.

2/ If the objective is to express an opinion on the agency's compliance with laws and regulations, the auditor should follow Statement on Standards for Attestation Engagements No. 3, "Compliance Attestation," issued by the American Institute of Certified Public Accountants.