



Treasury Financial Manual

Bulletin No. 2004-04

Volume I

Retention: March 31, 2005

To: Heads of Government Departments, Agencies, and Others Concerned

Subject: Implementing the Intragovernmental Management Control Plan

1. Purpose

This Treasury Financial Manual (TFM) bulletin notifies Federal program agencies (FPAs) that the Financial Management Service (FMS) will implement an Intragovernmental Management Control Plan, beginning the quarter ending March 31, 2004, to address a material weakness cited by the General Accounting Office (GAO) in the *Financial Report of the United States Government* (FR). In coordination with the Office of Management and Budget (OMB), GAO, and the President's Council on Integrity and Efficiency (PCIE) audit subcommittee, FMS has developed this plan to sufficiently identify and track intragovernmental material differences reported to FMS by FPAs.

This plan covers the following major elements:

- The reporting roles and responsibilities of FMS, FPAs/Chief Financial Officers (CFOs), and FPAs/Inspectors General (IGs);
- The CFO representation process;
- The quarterly *Status of Disposition* reporting process related to the materiality threshold established by FMS;
- The financial statement audit process related to intragovernmental activity/balances;

AND

- The intragovernmental IG Agreed-Upon Procedures (AUPs) for the fiscal 2004 Closing Package.

2. Background

The Government Management Reform Act of 1994 mandates that the Federal Government, as an economic entity within the framework of interrelated program activities, publish a consolidated audited FR. Federal entities (or subsidiary components of the FR) engage in intragovernmental transactions to conduct mission-oriented business. They generate over \$17 trillion of reportable transactions on an absolute basis in their official accounting records. Ultimately, they report activity/balances on individual audited financial statements. Since these transactions occur outside of the reporting entity, the activity is not eliminated on Federal entities' statements. However, FMS does eliminate these transactions in the FR. Fundamentally, publishing the FR free from material misstatement requires that Federal entities incorporate sufficient internal controls over financial reporting with respect to intragovernmental transactions.

3. Compliance

Federal entities required to prepare Closing Package reporting, as described in I TFM 2-4700, Section 4730, also must perform quarterly intragovernmental reconciliation beginning in fiscal 2003. To facilitate this quarterly reporting, FMS has developed a reconciliation process based on a reciprocal category concept. See I TFM 2-4000, Appendix 5. The *Federal Intragovernmental Transactions Accounting Policies Guide*, issued October 31, 2003, defines in detail this reciprocal category concept whereby a one-to-one relationship is established between:

- USSGL accounts and the reciprocal category;
- AND
- The reciprocal category and Federal line items in the FR Closing Package.

Further, Federal entities must follow the business practices issued by OMB. See OMB Memorandum No. M-03-01, *Business Rules for Intragovernmental Transactions*, dated October 4, 2002.

4. Reporting Roles and Responsibilities

FMS – FMS groups quarterly intragovernmental data submissions and yearend Closing Package data by reporting agency/trading partner and reciprocal category/Federal line item. The Intragovernmental Reporting and Analysis System (IRAS), the analytical database solution, will serve as the central reporting repository. In addition, FMS will generate the following primary reports and will make them available to FPAs' CFO/IG offices via electronic submission and/or the Intragovernmental Reconciliation Resources and Initiatives (IRRI) Web site at <http://www.fms.treas.gov/irri/index.html>.

Report Name	Frequency	Description
<i>Intragovernmental Activity Report (by Agency)</i>	Quarterly	Identifies trading partner differences from quarterly submissions.
<i>Reciprocal Category Summary</i>	Quarterly	Groups USSGL accounts into reciprocal categories, as reported by trading partners.
<i>Intragovernmental Material Differences</i>	Quarterly	Identifies material differences, based on the FMS-established threshold, by trading partner and reciprocal category.
<i>Comparative Status of Disposition</i>	Quarterly	Contains aggregated trading partners <i>Status of Disposition Certifications</i> .
<i>Closing Package Intragovernmental Differences</i>	Annually	Identifies trading partner detail intragovernmental data by Federal line item.
<i>Comparative Closing Package Explanation of Differences</i>	Annually	Explains differences between trading partners provided on CFOs' representations.

Also, FMS will provide ad-hoc reports, such as agency versus receiving agency point of view, by USSGL account or by fund group level, upon FPAs' requests. In addition, FMS will oversee tracking and analyzing quarterly trading partner differences with respect to accounting errors, timing differences, accounting methodology differences, and mutually confirmed reporting that results in an out-of-balance condition. Further, FMS will establish the material differences threshold to determine items Federal entities must report on the *Intragovernmental Material Differences Report*. Finally, in future years, Treasury/FMS may develop additional CFO Representation and/or IG AUPs steps to target specific intragovernmental problem areas.

FPAs/CFOs – FPAs/CFOs must provide FMS with quarterly intragovernmental data (by USSGL account with an “F” attribute, 2-digit trading partner, fund group, and amount) recorded in their official core financial systems and used to prepare quarterly unaudited statements. FPAs/CFOs also must submit annual detail intragovernmental data by Federal line item and trading partner as part of their reclassified Closing Package data. Refer to I TFM 2-4000, Appendix 5. CFO Act agencies and those agencies subject to the Accountability for Tax Dollars Act of 2002 must reconcile intragovernmental activity/balances quarterly, as described in OMB Bulletin No. 01-09. In addition, CFOs must complete and submit to FMS quarterly *Status of Disposition Certifications* (identified material differences with trading partners) for the second through fourth quarters beginning in fiscal 2004. The CFO, or authoritative designee, must sign these quarterly certifications. Finally, beginning in fiscal 2004, CFOs must complete and submit to FMS, GAO, and their FPAs/IGs, an annual representation on intragovernmental activity/balances related to Closing Package reporting.

FPAs/IGs – FPAs/IGs, or independent public accountants (IPAs), perform auditing procedures on intragovernmental transactions during an agency’s financial statement audit. FPAs/IGs/IPAs may review quarterly IRAS-generated reports as defined in this bulletin. Their review of trading partner reporting differences should apply to the quarterly *Status of Disposition Certifications* (of identified material differences). In addition, the IG/IPA must perform and complete the AUP, and any applicable supporting documentation, as described in this bulletin and prescribed in updated issuances of I TFM 2-4000, Section 4060.

OMB – OMB has developed policies and procedures relative to the business rules provided in OMB Memorandum No. M-03-01, *Business Rules for Intragovernmental Transactions*.

5. Quarterly Status of Disposition Certifications

Quarterly, FMS will provide each FPA/CFO with a *Material Differences Report*. FMS will limit the differences on this report to only those balances material to the FR. In addition, FMS will establish the materiality threshold based on a combination of the following factors:

- Out-of-balance condition material to the FR;
 - Absolute total of intragovernmental activity;
- AND
- Number of trading partner/reciprocal category out-of-balance condition instances.

The FPAs/CFOs must respond to every item on the *Material Differences Report*. They should explain the differences **strictly from their perspective**. FMS will provide a standard report and will make the report available on the IRRI Web site at <http://www.fms.treas.gov/irri/index.html>. FPAs/CFOs should use the following explanations only as they apply to out-of-balance conditions with trading partners at the reciprocal category level:

Explanation	Definition	Additional Requirement
1 - Confirmed Reporting	The FPA sustained reporting after further review; the FPA does not need to make any adjustment.	None.
2 - Accounting Error	The FPA identified an error in quarterly reporting and will correct the error in subsequent quarterly reporting.	The FPA must provide the amount associated with trading partner and reciprocal category.
3 - Timing Difference	The FPA identified a timing difference in quarterly reporting that it submitted in a prior-period or that it will report in a future period.	The FPA must provide the amount, associated with the trading partner and reciprocal category, and indicate if the timing difference was in prior reporting or will be in future reporting.
4 - Accounting Methodology Difference	The FPA identified an instance of accounting methodology difference that permanently would reflect an out-of-balance condition with a trading partner.	The FPA must provide its reporting basis of accounting only.
5 - Unknown	The FPA documentation does not support quarterly reporting or cannot obtain detail.	The FPA must provide the amount associated with the trading partner and reciprocal category.

6. CFO Representation Process

Per the Closing Package reporting process effective the fiscal yearend 2004 reporting period, the CFO Representation process has been revised to link management assertions to Closing Package reporting instead of FACTS I reporting. FMS will provide a standard form on the IRRI Web site at <http://www.fms.treas.gov/irri/index.html> and the due date for submission of the completed CFO Representation in the fiscal 2004, I TFM 2-4000, Section 4060. FPAs/CFOs must complete the following information in the CFO Representation:

Section I: General Intragovernmental Reporting Results

- A. Indicate if consistency is maintained between the following data sources:
 - (1) Required Supplemental Information (RSI) versus Closing Package reporting (intragovernmental RSI schedules).
 - (2) Audited Financial Statement line items versus Closing Package line items.
- B. Explain Unidentified (Trading Partner 00) activity/balances (for example, U.S. Congress or Senate, highly classified security agency, or unknown/unreconciled).
- C. List trading partners that did not report Closing Package intragovernmental activity/balances.
- D. List trading partners substantially reconciled and not contacted.
- E. Disclose agency's intragovernmental trading partner materiality difference threshold.
- F. Disclose fourth-quarter data submission versus Closing Package reporting difference greater than 10 percent of total activity.
- G. List proposed auditor's adjustments waived by management.

Section II: Summarized Explanation of Closing Package Differences

- Based on the *Closing Package Intragovernmental Differences Report*, by trading partner, reciprocal category/Closing Package line item, explain the differences that most appropriately apply from the agency's perspective as follows: (1) Confirmed Reporting, (2) Accounting Error, (3) Timing Difference, (4) Accounting Methodology Difference, or (5) Unknown.

- In addition to the agency's supporting documentation, the FPAs/CFOs may use fourth-quarter *Status of Disposition Certifications* (of material differences) as a data source to determine some of the explanations in Section II of the CFO Representation.

Note: FMS will use Section II data to construct the *Comparative Closing Package Intragovernmental Explanation of Differences Report*.

7. Agency's Financial Statement Audit Process Related to Intragovernmental Balances

As part of the annual agency financial statement audit, IGs/IPAs consider material intragovernmental balances when opining on the statements. To aid in this process, FMS will provide the IG with the second-, third-, and fourth-quarter *Comparative Status of Disposition Reports*. These reports are based on FPAs/CFOs *Status of Disposition Certifications* prepared by the agency and its trading partners and derived from quarterly data submissions to FMS. The IG/IPA may use this information to plan testing of intragovernmental activity/balances.

Comparative Status of Disposition Reports will allow the IG/IPA to focus on inconsistencies in reported balances, which are material to the FR. IGs/IPAs should consider the audit risk and materiality in determining the nature, timing, and extent of procedures for testing intragovernmental activity/balances and evaluating the results of those procedures. They also should consider the classification issues related to those balances (for example, Federal and non-Federal). They should perform detailed test work as appropriate.

The procedures to be performed generally would include:

- Obtaining an understanding of the agency's intragovernmental activity/balances and reconciliation process;
- Determining whether the agency has properly reported intragovernmental amounts in its financial statements;

AND

- Determining whether the agency reconciled intragovernmental amounts per OMB Bulletin No. 01-09.

The GAO/PCIE *Financial Audit Manual*, Section 902C, contains a sample audit program.

As part of the normal audit process, when material inconsistencies that occurred as a result of internal control weaknesses are identified, the IG/IPA will issue findings and recommendations to agency management.

8. Intragovernmental IG Agreed-Upon Procedures for the Fiscal 2004 Closing Package

The IG, or its IPA, should perform the following AUPs related to the agency's reported intragovernmental activity/balances, as discussed in the fiscal 2004 Closing Package (I TFM 2-4700, subsections 4735.30 and 4735.40) and as illustrated in I TFM 2-4000, Appendix 5. All Closing Package-reporting agencies are subject to the AUP. The IG/IPA should perform these procedures regardless of the audit opinion on the consolidated agency financial statements. FMS will provide a standard AUP form on the IRRI Web site at <http://www.fms.treas.gov/irri/index.html>.

1. Obtain all RSI schedules for intragovernmental activity/balances supporting the Closing Package Reclassified Balance Sheet's:
 - Federal Assets and Liabilities;
 - Reclassified Statement of Net Cost's Federal Gross Cost and Federal Earned Revenue;
 AND
 - Reclassified Statement of Change in Net Position's Federal Nonexchange Revenue and Budgetary and Other Financing Sources.
2. Trace the Closing Package intragovernmental RSI schedules' identified intragovernmental transactions trading partners by Federal line item totals and/or trading partner activity/balances to the agency general ledger and the audited financial statements. Identify differences.
3. Trace trading partner activities/balances from the Closing Package intragovernmental RSI schedules to the agency's supporting schedules: Agency Fourth-Quarter Intragovernmental Reconciliation and CFO Representations using Closing Package data. For items where agency reporting differences exist, trace the explanations to supporting documentation and identify any discrepancies.
4. Obtain FMS' *Comparative Closing Package Explanation of Differences Report* for intragovernmental activities/balances. Trace the differences between the agency and its trading partners by reciprocal category/line-item from FMS' comparative reports to explanations from agency supporting documentation. Identify any inconsistencies in amounts or explanations between FMS' comparative reports and agency supporting documentation. In the event of nonreporting by trading partners, as indicated in the footer section of FMS' comparative reports, identify that the difference is due to a nonreporting partner and do not proceed further with the review of the differences.
5. Identify and include copies of internal control findings related to intragovernmental activities from the financial statements audit. Also, identify and report auditor-proposed intragovernmental adjustments that were waived by the agency, including items cited in the management letter.

The IG/IPA must deliver a separate AUP report for the five steps above, as well as copies of any internal control findings related to intragovernmental balances that were issued as part of the annual financial statement audit. The IG/IPA will deliver this report to the agency's CFO, FMS, and GAO no later than the date published in the fiscal 2004 I TFM 2-4000, Section 4060.

9. Interim Periods Reporting Timeline

Quarter/ *Due Date	Control Plan Action Items	Responsible Organization
2Q2004/ Apr. 9th	Intragovernmental Fiduciary Confirmation System (IFCS) window is open for update.	FPA/CFO
2Q2004/ Apr. 26th	Submit intragovernmental data file (USSGL accounts with an "F" attribute) to FMS (IFCS window closes).	FPA/CFO
2Q2004/ Apr. 30th	Produce IRAS reports (including material differences) and provide them to FPAs via e-mail/IRRI Web site at http://www.fms.treas.gov/irri/index.html .	FMS

Quarter/ *Due Date	Control Plan Action Items	Responsible Organization
2Q2004/ May 11th	Complete/submit <i>Status of Disposition Certification</i> to FMS.	FPA/CFO
2Q2004/ May 14th	Produce <i>Comparative Status of Disposition Reports</i> and provide them to FPAs via e-mail/IRRI Web site at http://www.fms.treas.gov/irri/index.html .	FMS
3Q2004/ July 9th	IFCS window is open for update.	FPA/CFO
3Q2004/ July 26th	Submit intragovernmental data file (USSGL accounts with an "F" attribute) to FMS (IFCS window closes).	FPA/CFO
3Q2004/ July 30th	Produce IRAS reports (including material differences) and provide them to FPAs via e-mail/IRRI Web site at http://www.fms.treas.gov/irri/index.html .	FMS
3Q2004/ Aug. 10th	Complete/submit <i>Status of Disposition Certification</i> to FMS.	FPA/CFO
3Q2004/ Aug. 13th	Produce <i>Comparative Status of Disposition Reports</i> and provide them to FPAs via e-mail/IRRI Web site at http://www.fms.treas.gov/irri/index.html .	FMS
4Q2004/ Oct. 8th	IFCS window is open for update.	FPA/CFO
4Q2004/ Oct. 18th	Submit intragovernmental data file (USSGL accounts with an "F" attribute) to FMS (IFCS window closes).	FPA/CFO
4Q2004/ Oct. 22nd	Produce IRAS reports (including material differences) and provide them to FPAs via e-mail/IRRI Web site at http://www.fms.treas.gov/irri/index.html .	FMS
4Q2004/ Oct. 26th	Complete/submit <i>Status of Disposition Certification</i> to FMS.	FPA/CFO
4Q2004/ Oct. 29th	Produce <i>Comparative Status of Disposition Reports</i> and provide them to FPAs via e-mail/IRRI Web site at http://www.fms.treas.gov/irri/index.html .	FMS

* Due dates are no-later-than dates.

10. Coverage

This bulletin applies to all Closing Package reporting agencies defined in I TFM 2-4700.

11. Effective Date

This bulletin is effective beginning the quarter ending March 31, 2004. FMS will publish the yearend due dates in the 2004 I TFM 2-4000.

12. Inquiries

Direct all questions regarding this bulletin to the IRRI Web site at <http://www.fms.treas.gov/irri/index.html>, *Quick Links, Comments/Questions on the Intragovernmental Management Control Plan*; or contact FMS, Office of the Assistant Commissioner, Governmentwide Accounting, Senior Advisor, on 202-874-9921.



Richard L. Gregg
Commissioner

Date: March 25, 2004