



G A O

Accountability • Integrity • Reliability

Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

*Pete
Mary
Michelle
file
ADAMS*

May 11, 2007

The Honorable Henry M. Paulson, Jr.
The Secretary of the Treasury

The Honorable Robert J. Portman
Director, Office of Management and Budget

This letter is to inform you that the U.S. Government Accountability Office (GAO) is performing the audit of the fiscal year 2007 Consolidated Financial Statements (CFS) of the U.S. government as required by the Government Management Reform Act of 1994.¹ We will perform audit procedures sufficient for the purpose of reporting on the CFS for the fiscal years ended September 30, 2007 and 2006. The CFS consists of the Statements of Operations and Changes in Net Position, Statements of Net Cost, Balance Sheets, Reconciliations of Net Operating Revenue (Cost) and Unified Budget Surplus (Deficit), Statements of Changes in Cash Balance from Unified Budget and Other Activities, and Statements of Social Insurance.

We anticipate the material deficiencies that have prevented us from expressing an opinion on prior years' financial statements and other material weaknesses affecting internal control, that we have previously reported, will continue to exist in fiscal year 2007. As such, our audit approach will primarily focus on determining the current status of such material deficiencies and material weaknesses. In addition, for fiscal year 2007 we plan to coordinate with applicable agency auditors and use their work in order to hopefully express an opinion on the Statement of Social Insurance at the governmentwide level. The objectives of our audit include (1) expressing an opinion on internal control over financial reporting and compliance with laws and regulations relevant to the CFS (compliance) as of September 30, 2007, and (2) reporting on the federal government's compliance with selected provisions of significant laws and regulations related to the CFS for fiscal year 2007.

¹31 U.S.C. 331(e). The act states that not later than March 31, 1998, and each year thereafter, the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, shall annually prepare and submit to the President and the Congress an audited financial statement for the preceding fiscal year, covering all accounts and associated activities of the executive branch of the United States Government. The federal government has elected to include certain financial information on the legislative and judicial branches in the consolidated financial statements as well.

Management of the federal government (Management) is responsible for preparing the consolidated financial statements, including appropriate disclosures in conformity with U.S. generally accepted accounting principles. This includes maintaining adequate accounting records and internal controls and selecting and applying appropriate accounting policies. Management is also responsible for designing and implementing programs and controls to prevent and detect fraud, establishing and maintaining effective internal control over financial reporting and compliance, and identifying applicable laws and regulations and ensuring compliance with them. Also, the 24 Chief Financial Officers Act agencies are responsible for developing accounting systems that comply with the Federal Financial Management Improvement Act. Management is responsible for making all financial records and related information available to us to conduct the audit. We request Management to make written representations of its responsibilities with respect to internal control and to assert whether internal control over financial reporting and compliance is effective as of September 30, 2007. In addition, Management is responsible for providing GAO with copies of management and legal representation letters for all verifying² entities as defined by Management at the same time these letters are provided to the respective agency's auditors as part of the agencies' fiscal year 2007 audits.

Management is also responsible for adjusting the consolidated financial statements to correct material misstatements. As part of the audit process, Management is responsible for providing GAO with a management representation letter that confirms certain representations made during the audit concerning schedules, analyses, and other documents provided to GAO, as well as the financial statements and related disclosures. The management representation letter should affirm to GAO that the effects of any uncorrected misstatements identified during the audit by GAO and by the other auditors at the agencies that are included in the CFS are immaterial, both individually and in the aggregate, to the CFS taken as a whole. We will provide a summary of the CFS misstatements that we have identified. A summary of unadjusted misstatements as it relates to the CFS for the applicable agencies must also be included with the management representation letter. In addition, Management is responsible for providing GAO a legal representation letter concerning litigation, claims, and assessments against the U.S. government as it is represented in the CFS.

Management is also responsible for monitoring internal control and correcting internal control weaknesses. Also, Management is responsible for providing GAO with quarterly updates as to the status of your actions and milestones for short-

²Treasury defines the verifying agencies as the 24 Chief Financial Officer Act agencies, Export-Import Bank of the United States, Farm Credit System Insurance Corporation, Federal Communications Commission, Federal Deposit Insurance Corporation, National Credit Union Administration, U.S. Postal Service, Pension Benefit Guaranty Corporation, Railroad Retirement Board, Securities and Exchange Commission, Smithsonian Institution, and Tennessee Valley Authority.

term and long-range solutions for internal control weaknesses we have previously reported.

We are responsible for conducting our audit in accordance with U.S. generally accepted government auditing standards. Those standards require that we obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Our audit is not designed to detect error or fraud that is immaterial to the financial statements. If for any reason, we are unable to complete the audit of the fiscal year 2007 Statement of Social Insurance at the governmentwide level or are unable to form an opinion on such, we may decline to express an opinion on such statement.

In fulfilling our responsibilities and as part of our overall audit strategy, we will update our understanding of the federal government and its environment relevant to the consolidated financial statements, including its internal control; assess the risks of material misstatement; design the nature, timing, and extent of further audit procedures; test relevant internal controls over financial reporting (including safeguarding of assets); test compliance with selected provisions of significant laws and regulations; and examine, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. To assist us in the audit, we will use specialists as necessary.

We are also responsible for communicating in writing to those charged with governance any significant deficiencies and material weaknesses that come to our attention as a result of our audit. We will work with you to identify those charged with governance at the governmentwide level. In addition, we will communicate any recommendations for improving the federal government's operations and internal controls relevant to the consolidated financial statements that we have developed during our audit in a separate report.

We will provide you with our fiscal year 2007 transmittal letter and our report, which will include (1) our report on the CFS, (2) our opinion on the federal government's internal control over financial reporting and compliance, and (3) the results of our testing of the federal government's compliance with selected provisions of applicable laws and regulations that have a direct and material effect on the CFS. We expect that these will be included in their entirety in the fiscal year 2007 *Financial Report of the U.S. Government* (FR). We will also perform limited procedures with respect to certain other information appearing in the fiscal year 2007 FR, such as the Management Discussion and Analysis (MD&A), required stewardship information, and supplemental information. We will communicate to you the results of our audit, including any material weaknesses and significant deficiencies that we identify. We plan to provide our fiscal year 2007 report to you by December 15, so that Management can submit the CFS to the President and the Congress on the accelerated reporting date of December 17, 2007.

For fiscal year 2007, the ability to complete our planned audit work will again be based, in large part, on the efforts of the responsible executive branch officials, timely completion of the agencies' financial statement audits, and the degree and timing of cooperation that we receive in connection with our audit from Management, as well as agency management and the auditors of the agency financial statements. The following are key documents and the related critical dates that they will need to be provided to GAO no later than in order for us to complete our planned audit work and related report.

- 11/08/2007 – Draft performance and accountability reports including draft financial statements and related auditors' reports from all verifying agencies defined by Management
- 11/15/2007 – Final performance and accountability reports including final financial statements and related auditors' reports for all verifying agencies defined by Management
- 11/16/2007 – Final Format Draft of FR and MD&A, including all financial statements and related notes
- 11/17/2007 – Complete audited closing packages from all verifying agencies defined by Management, which should include the
 - special purpose audit opinion,
 - management representation letter for the closing package, including the summary of unadjusted misstatements, and
 - Audit Trail Report 120 (Reclassification Journal Voucher Report), Closing Package Financial Statements Report, Trading Partner Summary Report, FR Notes Reports, and the Other FR Data Reports
- 11/19/2007 – Consolidated closing package (all agencies' closing packages compiled)
- 11/26/2007 – Preview Draft of FR and MD&A, including all financial statements and related notes
- 11/28/2007 – Complete draft of FR
- 11/29/2007 – Complete draft of MD&A
- 11/30/2007 – Final FR with all Treasury and OMB changes incorporated and amounts finalized, subject to any proposed GAO audit adjustments or corrections
- 12/01/2007 – Final MD&A with all Treasury and OMB changes incorporated and numbers finalized, subject to any proposed GAO audit adjustments or corrections

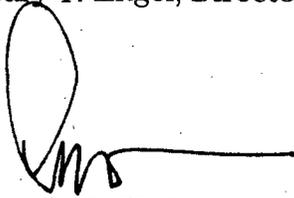
To make the most efficient use of audit resources and expedite audit completion, we will also request certain assistance from members of your staff. Such assistance may include preparing schedules or analyses; locating, copying, and providing selected documents; and participating in meetings. This information will be documented in GAO's Prepared by Client Request (PBC) list. We will discuss our requirements with Treasury and OMB personnel and determine dates by which we will need to receive this information. If the above noted dates and those in the PBC list cannot be met, we will communicate with you the effect on our

audit. For fiscal year 2007, GAO will also request audit documentation related to the Statement of Social Insurance. The due dates for these items will be detailed in a separate PBC list and sent to the applicable federal agencies' auditors. Adherence to these due dates and full cooperation from and coordination with the respective agency auditors are critical to GAO's ability to express an opinion on the Statement of Social Insurance at the governmentwide level.

In connection with the further development of the financial reporting process for the CFS, Management will keep GAO up-to-date on the status of changes to the financial reporting process. We will test internal control over the financial reporting process, including determining whether the process demonstrates that the agencies' audited financial statements directly link to all the consolidated financial statements of the U.S. government, as applicable. To plan our tests of the financial reporting process, Management will communicate to GAO the extent of the expected fiscal year 2007 changes by July 31, 2007, and will provide GAO with unrestricted access to related documentation and personnel. So that you will have the necessary time to identify and resolve any issues that may arise, we again strongly encourage you to request that agencies provide draft closing packages by early November, which in turn could provide the ability for Treasury to more timely prepare meaningful draft consolidated financial statements for our review, and thereby reduce the possibility of additional scope limitations for fiscal year 2007.

As you know, inspectors general and their contract auditors currently have separate audit efforts underway to meet the statutory requirements to audit the financial statements for the verifying entities defined by Management and report on the results by November 15, 2007. It is important that this work be timely, meet professional standards, and adhere to U.S. generally accepted government auditing standards because we expect to use the work of these auditors as part of our audit of the CFS. It is also important that we receive the full cooperation of the agency auditors, which includes timely and unrestricted access to the agency auditors and their audit documentation as needed by GAO at any time throughout the audit. If we encounter any problems in this area, we will alert OMB and Treasury staff so that they can timely resolve the matter. We are also sending copies of this engagement letter to the agency chief financial officers for the verifying entities defined by Management and the related inspectors general to officially notify them that we have begun our fiscal year 2007 audit.

We look forward to continuing to work with you and your staff and appreciate your cooperation in working with us to complete the audit in a timely manner. Should this letter not represent your understanding of the nature of this engagement or should you have any questions, please contact Jeffrey C. Steinhoff, Managing Director, Financial Management and Assurance, on (202) 512-2600 or Gary T. Engel, Director, Financial Management and Assurance, on (202) 512-3406.

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by 'M' and 'W', with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

cc: Kenneth E. Carfine, Fiscal Assistant Secretary, Department of the Treasury
Kenneth Papaj, Commissioner, Financial Management Service, Department
of the Treasury
Robert N. Reid, Deputy Assistant Secretary for Accounting Policy,
Department of the Treasury
James R. Lingebach, Director, Office of Accounting and Internal Control,
Department of the Treasury
Clay Johnson III, Deputy Director for Management, Office of Management
and Budget
Linda Combs, Controller, Office of Management and Budget

Verifying Entities - Chief Financial Officers (CFO) or Deputy CFOs

Lisa Fiely, Chief Financial Officer, Agency for International Development
Charles R. Christopherson, Jr., Chief Financial Officer, U.S. Department of
Agriculture
Otto J. Wolff, Chief Financial Officer, Department of Commerce
Tina Jonas, Under Secretary of Defense (Comptroller), Department of
Defense
Lawrence Warder, Chief Financial Officer, Department of Education
James Campbell, Acting Chief Financial Officer & Deputy Chief Financial
Officer, Department of Energy
Lyons Gray, Chief Financial Officer, Environmental Protection Agency
Joseph A. Sorbera, Acting Deputy Chief Financial Officer, Export-Import
Bank of the U.S.
C. Richard Pfitzinger, Chief Financial Officer, Farm Credit System Insurance
Corporation
Mark Stephens, Chief Financial Officer, Federal Communications
Commission
Steven O. App, Deputy to the Chairman and Chief Financial Officer, Federal
Deposit Insurance Corporation
Kathleen Turco, Chief Financial Officer, General Services Administration
Charles Johnson, Chief Financial Officer, Department of Health and Human
Services
David Norquist, Chief Financial Officer, Department of Homeland Security
John W. Cox, Chief Financial Officer, Department of Housing and Urban
Development
James E. Cason, Acting Chief Financial Officer, Department of the Interior
Lee Lofthus, Chief Financial Officer, Department of Justice
Samuel T. Mok, Chief Financial Officer, Department of Labor
Gwendolyn Sykes, Chief Financial Officer, National Aeronautics and Space
Administration
Dennis Winans, Chief Financial Officer, National Credit Union
Administration
Thomas N. Cooley, Chief Financial Officer, National Science Foundation
Peter J. Rabideau, Acting Chief Financial Officer, Nuclear Regulatory
Commission

Mark Reger, Chief Financial Officer, Office of Personnel Management
Theodore Winter, Acting Chief Financial Officer, Pension Benefit Guaranty Corporation
Kenneth P. Boehne, Chief Financial Officer, Railroad Retirement Board
Kristine Chadwick, Chief Financial Officer, Securities and Exchange Commission
Jennifer E. Main, Chief Financial Officer, Small Business Administration
Alice Maroni, Chief Financial Officer, Smithsonian Institution
Dale Sopper, Chief Financial Officer, Social Security Administration
Bradford R. Higgins, Chief Financial Officer and Assistant Secretary, Bureau of Resource Management, Department of State
John Hoskins, Acting Chief Financial Officer, Tennessee Valley Authority
Phyllis Scheinberg, Assistant Secretary for Budget and Programs and Chief Financial Officer, Department of Transportation
Richard M. Holcomb, Acting Chief Financial Officer, Department of the Treasury
Robert J. Henke, Chief Financial Officer, Department of Veterans Affairs
H. Glen Walker, Chief Financial Officer, United States Postal Service

Verifying Entities - Inspectors General (IG) or Deputy IGs

Donald Gambatesa, Inspector General, Agency for International Development
Phyllis K. Fong, Inspector General, U.S. Department of Agriculture
Johnnie E. Frazier, Inspector General, Department of Commerce
Thomas Gimble, Acting Inspector General, Department of Defense
John P. Higgins, Jr., Inspector General, Department of Education
Gregory Friedman, Inspector General, Department of Energy
Bill Roderick, Acting Inspector General, Environmental Protection Agency
Kent R. Nilsson, Acting Inspector General, Federal Communications Commission
Jon T. Rymer, Inspector General, Federal Deposit Insurance Corporation
Brian D. Miller, Inspector General, General Services Administration
Daniel Levinson, Inspector General, Department of Health and Human Services
Richard L. Skinner, Inspector General, Department of Homeland Security
Kenneth M. Donohue, Sr., Inspector General, Department of Housing and Urban Development
Earl E. Devaney, Inspector General, Department of the Interior
Glenn A. Fine, Inspector General, Department of Justice
Gordon S. Heddell, Inspector General, Department of Labor
Robert W. Cobb, Inspector General, National Aeronautics and Space Administration
William A. Desarno, Inspector General, National Credit Union Administration
Christine C. Boesz, Inspector General, National Science Foundation
Hubert T. Bell, Inspector General, Nuclear Regulatory Commission

Patrick E. McFarland, Inspector General, Office of Personnel Management
Robert Emmons, Inspector General, Pension Benefit Guaranty Corporation
Martin J. Dickman, Inspector General, Railroad Retirement Board
Walter J. Stachnik, Inspector General, Securities and Exchange Commission
Eric M. Thorson, Inspector General, Small Business Administration
A. Sprightley Ryan, Inspector General, Smithsonian Institution
Patrick P. O'Carroll, Inspector General, Social Security Administration
Howard J. Krongard, Inspector General, Department of State
Richard W. Moore, Inspector General, Tennessee Valley Authority
Calvin L. Scovel, III, Inspector General, Department of Transportation
Harold Damelin, Inspector General, Department of the Treasury
George Opfer, Inspector General, Department of Veterans Affairs
David C. Williams, Inspector General, United States Postal Service