POLICY STATEMENT

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Approved:

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AGENCY FINANCIAL REPORT

I. COVERAGE

This Policy Statement provides policy guidance to employees of the Court Services and Offender Supervision Agency for the District of Columbia (CSOSA) and the Pretrial Services Agency for the District of Columbia (PSA) (or collectively, the Agency) for the preparation of the Agency's Annual Financial Report (AFR), including annual and interim financial statements. For purposes of this Policy Statement, the Agency is comprised of CSOSA and PSA.

II. BACKGROUND

The Agency is required by the Accountability of Tax Dollars Act of 2002 (P.L. 107-289) and the Office of Management and Budget's (OMB) Circular A-136 (Financial Reporting Requirements) to prepare and submit annual audited financial statements. The Reports Consolidation Act of 2000 (P.L. 106-531) permits agencies to combine required financial, performance and management assurance reports into one submission to improve the efficiency of Executive Branch performance. The Agency consolidates this information into an AFR, which consists of annual audited financial statements, results of selected key performance measures required by the Government Performance and Results Act (GPRA) (P.L. 103-62), and other required management assurance reports. The AFR provides financial and performance information that enables the president, the Congress, and the public to assess the performance of a Federal entity relative to its mission and to demonstrate accountability. The Agency AFR must include the following sections:

- Agency Head Letter;
- Management's Discussion and Analysis (AFR Section I);
- Financial Section (AFR Section II); and
- Other Accompanying Information (AFR Section III).

The AFR Financial Section (Section II) includes the Agency's annual audited financial statements, disclosures (notes) and auditor reports. In addition to preparing annual financial statements, the Agency is required by the Accountability for Tax Dollars Act of 2002 and OMB A-136 to prepare and submit un-audited, interim financial statements to OMB.

III. POLICY

The Agency shall prepare and submit an annual AFR, including audited annual financial statements, to OMB, the Department of Treasury, the Government Accountability Office and Congress no later than 45 calendar days after the end of each fiscal year. The Agency AFR shall be comprised of consolidated information from the CSOSA and PSA entities. The format and content of the AFR must conform to requirements outlined in OMB Circular A-136 (Financial Reporting Requirements). In addition to the AFR, the Agency is required to prepare and submit to OMB un-audited, interim financial statements 21 calendar days after the end of each of the first three quarters of the fiscal year. CSOSA and PSA are each responsible for their own financial statement and other AFR data. However, CSOSA will compile and report CSOSA and PSA AFR and consolidated financial statement information for the Agency.

Preparation of the Agency AFR, audited financial statements, and interim financial statements is the joint responsibility of CSOSA and PSA management. Agency management must, to the extent possible, ensure that all AFR information is accurate and completed within required timeframes. The Agency must properly address and correct all significant financial statement audit findings identified in the AFR.

IV. AUTHORITIES, SUPERSEDURES, REFERENCES, AND ATTACHMENTS

A. Authorities

1. Federal Managers Financial Integrity Act of 1982 – revised December 2004 (Public Law 97-255)
2. Chief Financial Officers Act of 1990 (Public Law 101-576)
3. Government Performance and Results Act of 1993 (Public Law 103-62) as superseded by the Government Performance and Results Modernization Act of 2010 (Public Law 111-352
4. Federal Financial Management Improvement Act of 1996 (Public Law 104-208)
5. Accountability of Tax Dollars Act of 2002 (Public Law 107-289)
6. Office of Management and Budget Circular No A-136 (dated September 29, 2010)
7. OMB Bulletin 07-04, Audit Requirements for Federal Financial Statements (September 4, 2007)
8. Improper Payments Information Act of 2002 (Public Law 107-300)
9. OMB Bulletin 01-09, Form and Content of Agency Financial Statements (September 25, 2001)

B. Supersedes

None

C. References

1. Statement of Federal Financial Accounting Standards 1, Accounting for Selected Assets and Liabilities
2. Statement of Federal Financial Accounting Standards 4, Managerial Cost Accounting Concepts and Standards for the Federal Government
3. Statement of Federal Financial Accounting Standards 5, Accounting for Liabilities of the Federal Government
4. Statement of Federal Financial Accounting Standards 7, Accounting for Revenue and Other Financing Sources
5. Statement of Federal Financial Accounting Standards 15, Management's Discussion and Analysis
6. Statement of Federal Financial Accounting Standards 21, Reporting Corrections of Errors and Changes in Accounting Principles
7. Statement of Federal Financial Accounting Standards 30, Inter-Entity Cost Implementation
8. Federal Accounting Standards Board Interpretation 6, Accounting for Imputed Intra-departmental Costs
9. Statement of Federal Standards and Concepts 3, Management's Discussion and Analysis
10. Federal Accounting Standards Board Technical Release 8, Federal Financial Accounting and Auditing

D. Attachments

Appendix A. Definitions

Appendix B. General Procedures

Appendix C. Basic Format for Financial Statements

Appendix D. Corrective Action Plan Template

APPENDIX A

DEFINITIONS

Actuarial Federal Employees Compensation Act (Actuarial FECA) – The expected future liability for death, disability, medical, and other approved costs relating to current compensation act claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

Agency Location Code – A unique eight digit code assigned to U.S. Government agencies by the Department of Treasury, used to identify accounting reports and documents prepared by or for agency accounting stations and regional financial offices.

Contingent Liabilities – An existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur.

Cumulative Results of Operations (CRO) – This is the net results of the Agency's operations since inception. The Agency's CRO is increased each year by its use of appropriations and reduced by the net cost of its operations (or increased if net cost of operations is negative).

Depreciation/Amortization – The Agency depreciates equipment and amortizes Internal Use software and Leasehold Improvements using the straight-line method over its estimated useful life. Property, Plant & Equipment (PP&E) depreciation/amortization should be computed and reported by the financial management system and it is reported in accompanying Notes.

Federal Accounting Standards Advisory Board (FASAB) – A board established to develop accounting standards and principles for the United States Government, that takes into consideration the information needs of the public, Congress, managers, and other users of federal financial information.

Federal Agencies' Centralized Trial Balance System (FACTS) I – This system allows agencies to submit to Treasury, on an annual basis, proprietary accounting data from the agency's pre-closing adjusted trial balance. Data is reported at the fund group level using the Standard General Ledger (SGL) accounts in a numerical order with the required attributes. The attributes are modifiers that further describe a SGL account in order to meet a specific reporting requirement in preparation of the Financial Report of the United States Government

Federal Agencies' Centralized Trial Balance System (FACTS) II – This system allows agencies to submit to Treasury one set of accounting data (mostly budgetary, some proprietary) on a quarterly basis that fulfills the needs of the SF 133 Report on Budget Execution, the FMS 2108 Year End Closing Statement, and much of the initial set of data that will appear in the prior year column of the Program and Financing (P&F) Schedule of the President's Budget.

Federal Employees Compensation Act (FECA) – A self-insured program administered by the Department of Labor (DOL). It provides worker's compensation coverage to Federal and Postal employees including wage replacement and medical and vocational rehabilitation benefits for work-related injury and occupational disease. The unfunded liability portion of this item represents the actual DOL invoice provided to the Agency in the current fiscal year, which will be billed to DOL two years in the future. The amount of the invoice must be manually recorded in the Agency's financial management system by CSOSA and PSA on an annual basis.

Financial Management System – An integrated system that performs all financial functions including general ledger management, funds management, payment management, receivable management, and cost management. The financial management system is specifically used for collecting, processing, maintaining, transmitting, and reporting data regarding financial events. The Agency's financial management system is Oracle Federal Financials. Oracle Federal Financials is the primary data source for all Agency's financial reporting, including the financial statements.

Financial Services Provider – An external entity that provides access, support and maintenance of an integrated Financial Management System. The Agency's financial services provider is the Department of Interior's National Business Center.

Fund Balance with Treasury (FBWT) – The amount in the Agency's account balance with Treasury that is available for the purposes and time periods for which the funds were appropriated. It is the aggregate amount from which CSOSA and PSA are authorized to make expenditures and pay liabilities. FBWT includes deposits made for which the Agency has a confirmed deposit ticket. Non-confirmed disbursements (disbursements in transit) do not reduce FBWT until the payments are processed/confirmed by Treasury. The Agency must regularly reconcile the FBWT to financial management system balances to ensure the integrity and accuracy of internal and Government-wide financial data.

General Ledger – A uniform listing of proprietary and budgetary accounts used to record financial events, which supports the preparation of standard external reports. The General Ledger is reported from the Agency's financial management system.

Material Weakness – A reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

MAX OMB Circular A-11 Budget Preparation System – A computer system used by the Office of Management and Budget to collect and process most of the information required for preparing the President's Budget. MAX collects and reports budget data for the budget year, current year and prior year.

President's Budget – The President's Budget sets forth the president's financial proposals with recommended priorities for allocating resources. The President's Budget for the upcoming fiscal year is typically transmitted to Congress each February. The President's Budget typically reports resources for the budget year, current year and prior year. The Congress then considers the president's recommendations and uses the information included in the Budget as it drafts and passes laws that affect spending and receipts for the budget year.

Report on Budget Execution and Budgetary Resources (SF 133) – Reports Budgetary Resources, Status of Budgetary Resources, Change in Obligated Balances and Net Outlays. The SF-133 is based on data submitted quarterly by CSOSA to Treasury via FACTS II for all open (unexpired/expired) Agency Treasury Appropriation Fund Symbols (TAFS). The compilation of all Agency SF-133s should tie to the Statement of Budgetary Resources.

***Significant Deficiency* –** A weakness in an Agency's overall information systems security program or management control structure, or within one or more information systems, that significantly restricts the capability of the agency to carry out its mission or compromises the security of its information, information systems, personnel, or other resources, operations, or assets.

***Statement of Transaction (SF 224)* –** The central accounting document used by agencies to report their monthly cash accounting activity to Treasury. The Agency-approved SF 224 is transmitted to Treasury on a monthly basis by the Agency's financial services provider. The SF 224 provides Treasury with information on agency deposits and disbursements. The report captures data by appropriation, fund, and receipt accounts.

***Treasury Account Fund Symbol (TAFS)* –** A specific account identifier issued by Treasury that represents, by agency, individual appropriations, receipts, and other fund accounts. These symbols are used to report to Treasury and OMB appropriations received and expended.

***Unasserted Claims* –** A claim or assessment in which the potential claimant has not yet notified the entity of a possible claim or assessment.

***Undelivered Orders* –** Open obligations for goods and/or services that have been ordered, but have not been received/delivered.

***Unexpended Appropriations* –** The total amount of the Agency's appropriations represented by undelivered orders and un-obligated balances.

***Unpaid Delivered Orders* –** Open obligation for goods and/or services that have been ordered, received and accepted, but not yet paid for.

APPENDIX B

GENERAL PROCEDURES

A. AFR Reporting Timeframes

The Agency must submit the final OMB-approved AFR to OMB, the Department of Treasury, the Government Accountability Office and Congress no later than 45 calendar days after the end of each fiscal year. CSOSA must also report the final OMB-approved AFR on the Agency's website no later than 45 calendar days after the end of each fiscal year. The Agency must submit the draft, annual AFR to OMB for approval at least ten (10) working days before issuing the final AFR. The draft AFR submitted to OMB should include all AFR sections, except the audited financial statements and/or auditor reports, if they are not available at that time. To adhere to the 45 calendar day submission date for the final Agency AFR, CSOSA and PSA must complete their respective sections of the draft AFR within ten business days after the Agency formally closes the fiscal year in the financial management system. CSOSA will compile and report consolidated CSOSA and PSA AFR and annual financial statement information for the Agency.

B. AFR Agency Head Transmittal Letter

The AFR must include a transmittal letter, signed by the CSOSA Director. The transmittal letter must include:

- A brief message outlining the Agency's mission, goals and accomplishments;
- An assessment of whether financial and performance data in the report is reliable and complete; and
- Identification of material internal control weaknesses and actions the Agency is taking to resolve them.

C. Management's Discussion And Analysis (AFR Section I)

(1) General

The Agency AFR must contain a section titled Management's Discussion and Analysis (MD&A). The MD&A provides management with a vehicle for clearly communicating insights about the entity, increasing the readers' understanding of financial information, and providing information about the entity, its operations, service levels, successes, challenges, and future. The MD&A must be readable to a non-technical audience and provide an assessment of key program and financial performance items. The development and content of the MD&A is the joint responsibility of CSOSA and PSA management. CSOSA and PSA MD&A information may be presented separately, when practical. Although the Agency has considerable discretion with respect to its presentation and content, the MD&A must provide a description of the Agency's:

a. Mission and Organizational Structure

The Agency's MD&A will contain a brief description of the Agency's mission, consistent with the CSOSA and PSA strategic plans. This section must also describe the high-level organizational structure of the CSOSA and PSA program entities.

b. Major Performance Goals, Objectives and Results

This section of the MD&A must include a high-level discussion of the Agency's major performance goals and the results of selected key performance measures for the year consistent with GPRA requirements. The Agency's Annual Performance Report, providing complete Agency performance reporting, is issued with the President's Budget. The CSOSA and PSA key performance measures reported in the MD&A are determined by each organization's management. MD&A performance information must report historical trends, provide an explanation of annual performance results, and identify the extent to which the programs are achieving their intended goals and objectives. Changes in AFR performance measures from the prior year must be clearly documented.

c. Analysis of Financial Statements

The MD&A must include a high-level analysis of the Agency's principal audited financial statements reported in AFR Section II. The purpose of this analysis is to help users of the AFR understand the Agency's financial position. The MD&A should include an analysis of the Agency's overall financial position, results of operations and major changes in types and amounts of assets, liabilities, expenses, revenues, obligations, and outlays from the prior year.

d. Analysis of Financial Systems, Internal Controls, and Compliance with Laws and Regulations

The Agency must include in its MD&A the results of its annual assessments and assurances related to the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

1. The FMFIA assurance must provide the Agency's assessment of the effectiveness of internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with laws and regulations (FMFIA § 2); and whether the financial management systems conform to financial systems requirements (FMFIA § 4). The FMFIA assurance must also provide a separate assessment of the effectiveness of the internal controls over financial reporting as a subset of the overall FMFIA assurance statement. The Agency must summarize all material weaknesses (FMFIA § 2) and non-conformances (FMFIA § 4), and summarize required corrective actions to resolve the material weaknesses and non-conformances. The FMFIA assurance must be consistent with findings specified in the annual audit reports.

2. The FFMIA assurance must provide the Agency's assessment of its compliance with Federal financial management systems requirements, FASAB and the U.S. Standard General Ledger at the transaction level.

e. Other Management Information, Initiatives, and Issues

The MD&A may include a summary of the status of key Agency information, initiatives or issues that CSOSA and PSA wish to disclose.

f. Limitations of the Financial Statements

The Agency's MD&A will contain a section articulating the limitations of its principal financial statements. Therein, the Agency will include the following statement:

"The principal financial statements have been prepared to report the Agency's financial position and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the Agency's books and records in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity."

D. <u>Financial Section (AFR Section II)</u>

(1) General

The Agency is required to prepare annual principal financial statements and related disclosures (notes). For purposes of the annual, audited principal financial statements, CSOSA and PSA information will be consolidated and reported as the Agency entity. Notes to the financial statements will report CSOSA and PSA information separately, where allowable and practical.

The Agency must ensure that the information in the financial statements is presented in accordance with generally accepted accounting principles (GAAP) for Federal entities which are promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the requirements of OMB Circular A-136 (Financial Reporting Requirements). FASAB is designated by the American Institute of Certified Public Accountants (AICPA) as the source of GAAP for Federal entities. The GAAP hierarchy places highest priority to accounting principles outlined in FASAB Statements of Federal Financial Accounting Standards (SFFAS) and Interpretations.

Annual financial statements and notes must be comparative with current and audited prior year information presented regardless of the audit opinion rendered by the auditor. General ledger balances reported from the Agency's financial management system is the primary data source used by CSOSA and PSA to prepare and support the Agency's financial statements.

The Agency's annual financial statements must be audited by an independent public accountant determined by Agency management. The result of the audit will be outlined in the auditor's reports.

(a) Composition of Financial Section of the AFR

The Agency's AFR Financial Section will consist of:

- Annual principal financial statements;
- Disclosures (notes) to the financial statements;
- Required supplementary information (RSI); and
- Auditor's reports

(b) Principal Financial Statements

The Agency's principal financial statements must consist of:

- Consolidated Balance Sheet;
- Consolidated Statement of Net Cost (SNC);
- Consolidated Statement of Changes in Net Position (SCNP); and
- Combined Statement of Budgetary Resources (SBR).

The general format for the Agency's four principal financial statements is reported in Appendix C. The principal statements may present summary or detailed information to make the statements most useful to users. Thus, the Agency should not place so much detail in the body of the statements that they become convoluted. Where substantial detail is necessary to properly convey the information, the body of the statement should contain summary information and the detail should be reported in the Notes to the Financial Statements.

(c) Auditor's Reports

The independent public accountant auditing the Agency's financial statements must issue the following three reports:

- Audit Report;
- Report on Internal Control over Financial Reporting; and
- Report on Compliance and Other Matters.

(d) Comparative Information

The Agency's annual principal financial statements and the related notes must present balances for the current year *and* audited prior year balances. In addition, the MD&A (Analysis of Financial Statements section) should also include comparisons of the current year to the prior year, and provide an analysis of the Agency's overall financial position and results of operations, to assist users in assessing whether the financial position has improved or deteriorated as a result of the year's activities.

(e) Format of Financial Statements

The Agency should report financial statements using the formats outlined in OMB A-136 and Appendix C of this Policy Statement. However, OMB A-136 allows the Agency to modify the format of financial statements to best present information about its programs. In doing so, the Agency may add or remove lines and use words other than those provided in the displays.

(f) Rounding

The Agency must round dollar amounts to the nearest whole dollar, and must maintain the chosen rounding level and format throughout the principal statements and Notes. The Agency must also ensure that individual line items add up to the totals by adjusting the line items for differences created by the rounding process, rather than adjusting column totals.

(2) Balance Sheet

(a) Balance Sheet Summary

The Agency Balance Sheet presents, as of a specific time, the amount of future economic benefits owned or managed (*assets*), the amount it owes *(liabilities*), and an amount that comprises the difference between them (*net position)*. For an example of the Balance Sheet, please refer to the illustrative statement in Appendix C.

1. Assets

Assets are tangible or intangible items owned by the Agency that have probable future economic benefits. Intra-governmental assets are transactions among Federal agencies. Intra-governmental assets are reported separately on the Balance Sheet from assets related to non-Federal entities. Significant asset categories include:

- **Fund Balance with Treasury**: Represents the amount in the Agency's account balance with Treasury that is available for the purposes for which the funds were appropriated.

- **Accounts Receivable**: Represents amounts due to the Agency from others and is accounted for as an asset from the time the events giving rise to such claims are completed or until funds are collected.
- **Property, Plant and Equipment (PP&E)**: Represents capitalized tangible assets, including equipment, Internal Use Software and Leasehold Improvements used by the Agency in its operations. To the extent possible, PP&E should be computed and reported by the Agency's financial management system. The Agency recognizes PP&E as capitalized assets when the following criteria are met:
    - Have an estimated useful life of two (2) or more years;
    - Are not intended for sale in the ordinary course of operations;
    - Are intended to be used by CSOSA or PSA to support the Agency's mission; and
    - Meet the capitalization threshold as follows:
        - Equipment: When acquisition cost or fair value is $25,000 or more and with a useful life of two (2) or more years
        - Internal Use Software: When costs of developing the software is $500,000 or more and with a useful life of two (2) or more years;
        - Leasehold Improvements: When improvement costs is $100,000 or more. The useful life is determined on the amount of time remaining on the lease term.
- **Other Assets**: The Other Assets category includes assets not reported in a separate category on the face of the balance sheet.

2. Liabilities

The Agency's Balance sheet will recognize probable and measurable future outflows or other sacrifices of resources arising from: (a) past exchange transactions, (b) government-related events, (c) government-acknowledged events, or (d) non-exchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date.

The Agency must recognize and distinguish a liability when it is incurred regardless of whether it is covered by available budgetary resources (Liabilities Covered by Budgetary Resources) or not currently funded (Liabilities Not Covered by Budgetary Resources). Several Liabilities Not Covered by Budgetary Resources outlined below require manual computations and entries in the financial management system by CSOSA and PSA.

The Agency will combine Liabilities Covered by Budgetary Resources with Liabilities Not Covered by Budgetary Resources on the Balance Sheet, but disclose Liabilities Not Covered by Budgetary Resources in the accompanying Notes to the financial statements.

Significant liability categories include:

- **Intra-Governmental (Federal) Liabilities**
  - Accounts Payable: Represents amounts owed by the Agency to Federal entities for goods and/or services received and accepted.
  - Advances from Others: Represents amounts received from Federal entities before services are rendered.
- **Non-Federal Liabilities**
  - Accounts Payable: Represents amounts owed to Non-Federal entities for goods and/or services received.
- **Non-Funded Non-Federal Liabilities**
  - Actuarial Federal Employees Compensation Act Liability (FECA): Represents the Agency's computed liability for future workers' compensation benefits. Actuarial liability is computed and recorded, on an annual basis, in the financial management system by CSOSA, for both CSOSA and PSA, using the (DOL) "Estimation of the FECA Actuarial Liability" model.
  - Accrued Payroll and Benefits: Represents payroll and benefits for work performed by Agency employees, but not yet paid at the end of the accounting period. Payroll accruals are calculated and recorded in the financial management system by the Agency's financial services provider each month.
  - Accrued Unfunded Liabilities: Represents liabilities that will be funded in a future period. For example:
    - Accrued Unfunded Annual Leave: Annual leave earned by the Agency's employees, but not used. This information is calculated and recorded in the financial management system on a monthly basis separately by CSOSA and PSA, for their respected employees, based on leave balance data provided by their respective human resources offices.
    - Accrued Unfunded FECA Liability: Future payments due to the DOL for employees paid by DOL for work-related injuries. This information is provided by DOL based on its annual Agency chargeback invoices. This information is calculated and recorded in the financial management

system by CSOSA on a quarterly basis for both CSOSA and PSA.

- Imputed Costs: Imputed costs are those costs incurred by one reporting entity but paid by another entity. Agency imputed costs consist of Federal employee retirement, life insurance and healthcare benefits. The imputed cost is the difference between actual cost of Agency/employee benefit contributions and the estimated, full cost of the employee benefit to the Government. The Agency is required to recognize the estimated full cost of employee benefits even though CSOSA and PSA will not incur the full cost.

  The Agency's Federal employee benefit imputed costs are calculated separately by CSOSA and PSA on a quarterly basis using actual payroll salary and benefits expenses obtained from the Agency's financial management system. OMB provides, on an annual basis, the cost factors to use to compute the full Government benefit cost calculation. Imputed costs are calculated and recorded on a quarterly basis in the financial management system separately by CSOSA and PSA for their respective employees.

3. **Net Position**

- **Unexpended Appropriations:** Represents the total amount of the Agency's appropriation represented by undelivered orders and un-obligated balances.
- **Cumulative Results of Operations:** Represents the net results of the Agency's operations since inception.

(3) Statement of Net Cost

Statement of Net Cost Summary

The Statement of Net Cost (SNC) presents the net cost of operations for the Agency. The cost of operations must be reported in total and in relation to each major strategic goal described in the Agency's strategic and performance plans, as required by the Government Performance and Results Act (GPRA). The Agency defines the GPRA program structure. For an example of the Statement of Net Cost, please refer to the illustrative statement in Appendix C.

Total net cost of operations is the full cost incurred by the Agency during the accounting period, less any exchange revenue earned from its activities. The SNC should present the following: (1) program costs, (2) related exchange revenues, and (3) the excess of costs over exchange revenues (net program costs). Costs and exchange revenues for intra-governmental (Federal) and non-Federal transactions should be reported separately and disclosed in the supporting schedules.

- **Program Costs**: The Agency should report the full cost of each major program's output, which consists of: (a) direct and indirect costs, and (b) the costs of identifiable supporting services provided by other segments within the Agency, and by other reporting entities. The Agency should accumulate and assign costs in accordance with the costing methodology in SFFAS 4 (Managerial Cost Accounting Concepts and Standards for the Federal Government) and SFFAS 30 (Inter-Entity Cost Implementation).

- **Earned Revenue/Exchange Revenue**: Revenues arise when a Federal entity provides goods and services to the public or to another government entity for a price. Earned/Exchange Revenue should be deducted from the full cost of outputs or outcomes to determine their actual net cost unless it is not practical or reasonably possible to do so. The full amount of the revenue is to be reported on the SNC or a supplementary schedule, regardless of whether the entity is permitted to retain the revenues in whole or in part. Any portion of revenue that cannot be retained by the entity is reported as a transfer-out on the Statement of Changes in Net Position; see SFFAS No. 7 (Accounting for Revenue and Other Financing Sources for information on Earned/Exchange Revenue).

(4) Statement of Changes in Net Position

Statement of Changes in Net Position Summary

The Statement of Changes in Net Position (SCNP) reports the change in net position for the Agency during the reporting period. The net position is affected by changes to its two (2) components: Cumulative Results of Operations and Unexpended Appropriations. The SCNP format displays both components of Net Position separately to enable the user to better understand the nature of changes as a whole. These components are also reflected as separate line items on the Balance Sheet (BS). Budgetary appropriations received in this statement tie directly to the Statement of Budgetary Resources (SBR). For an example of the Statement of Changes in Net Position, please refer to the illustrative statement in Appendix C.

(5) Statement of Budgetary Resources

Statement of Budgetary Resources Summary

The Statement of Budgetary Resources (SBR) and related disclosures provide information about budgetary resources that were made available to the Agency as well as the status of these resources at the end of the accounting period. For an example of the Statement of Budgetary Resources, please refer to the illustrative statement in Appendix C.

The information reported on the SBR must be consistent with the quarterly budget execution information reported by the Agency to Treasury on Reports on Budget Execution and Budgetary Resources (SF-133). Further, the Agency must present the SBR on a combined (rather than consolidated) basis, consistent with the aggregate of the Treasury Account Fund Symbol (TAFS) level information reported on the SF-133s.

The SBR is divided into four general sections:

1. **Budgetary Resources:** Presents the total budgetary resources made available to the Agency during the fiscal year;
2. **Status of Budgetary Resources:** Presents the status of the Agency's budgetary resources at the end of the fiscal year. It consists of the obligations incurred, un-obligated balances (available and unavailable) at the end of the fiscal year;
3. **Change in Obligated Balance:** Presents the change in obligated balances during the reporting period;
4. **Net Outlays:** Presents the total Agency's disbursements net of offsetting collections.

(6) Notes to the Financial Statements

Notes to the financial statements are required for full disclosure. They are used to help users of the financial statements to interpret some of the more complex reporting items and are considered an integral part of the financial statements. The notes are to be prepared in accordance with the guidance contained in OMB Circular A-136 (Financial Reporting Requirements). For a complete list of Notes, please refer to OMB Bulletin 01-09 (Form and Content of Agency Financial Statements). The following are some of the significant Notes used by the Agency in the preparation of the AFR:

- Note 1: Significant Accounting Policies
- Note 2: Fund Balance with Treasury
- Note 3: Accounts Receivable
- Note 4: General Property, Plant and Equipment (PP&E)
- Note 5: Liabilities Covered/Not Covered by Budgetary Resources
- Note 6: Exchange/Earned Revenue
- Note 7: Leases
- Note 8: Imputed Financing Sources
- Note 9: Contingencies and Commitments
- Note 10: Apportionment Categories of Obligations Incurred
- Note 11: Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the US Government
- Note 12: Reconciliation of Net Cost of Operations to Budget
- Note 13: Undelivered Orders at the End of the Period

(7) Management Actions Related to Correction of Financial Statement Errors

Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. When errors are discovered after the issuance of financial statements, corrections should be processed as follows based on materiality of the error:

(a) **Non-Material Errors:**

- With comparative financial statements, unless material, the error should be corrected in the financial management system in the accounting period in which the error is discovered, thereby correcting any individual amounts on subsequent financial statements.
- If the accounting period in which the error was discovered is not the period in which the error occurred then the cumulative effect of the error should be reported as a prior period adjustment and disclosed in the next issuance of annual financial statements. The adjustment should be made to the beginning balance of cumulative results of operations, in the Statement of Changes in Net Position for the period being presented.
- The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed in the next annual financial statements. Financial statements of future periods need not repeat the disclosure.

(b) **Material Errors:**

- The Agency is required to restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period.

(8) Changes in Accounting Principles

A change in accounting principle is a change from one generally accepted accounting principle to another one that can be justified as preferable. Changes in accounting principles also include those occasioned by the adoption of new Federal financial accounting standards, such as those issued by FASAB.

Unless otherwise specified in the transition instructions section of a new FASAB standard, for all changes in accounting principles that would have resulted in a change to prior period financial statements:

- The cumulative effect of the change on prior periods should be reported as a "change in accounting principle." The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.

- Prior period financial statements presented for comparative purposes should be presented as previously reported; and
- The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

E. Other Accompanying Information (AFR Section III)

(1) Summary of Financial Statement Audit and Management Assurances

Each material weakness identified in FMFIA and/or by the auditor should be listed in summary format using a unique, short, and easily understood name. These names should be kept constant, so that a weakness reported in FMFIA sections or by the auditor has the same name throughout the two tables below. To the extent possible, material weakness names should also be kept constant from year to year. Significant deficiencies are not required to be reported. All agencies are required by OMB A-136 to prepare and report Tables 1 and 2 below. Beginning balances should agree with prior-year Ending Balances. Beginning Balances should be included in the table when the draft AFR is submitted to OMB for review, even if auditor-reported weaknesses for the current year have not yet been identified.

For each material weakness, place a number in the appropriate category (i.e., Beginning Balance, New, etc.), with the numeric total number of material weaknesses listed on the individual material weakness category.

Table 1:

Summary of Financial Statement Audit

Audit Opinion	Unqualified, qualified, disclaimer, or adverse				
Restatement	Yes or No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
[Name of weakness]					
[Name of weakness]					
Total Material Weaknesses					

Table 2:

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified, qualified or statement of no assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
[Name of weakness]						
[Name of weakness]						
Total Material Weaknesses						

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified, qualified or statement of no assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
[Name of weakness]						
[Name of weakness]						
Total Material Weaknesses						

Conformance with financial management system requirements (FMFIA §4)						
Statement of Assurance	Systems conform, conform except for the below non-conformance(s), or do not conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
[Name of non-conformance]						
[Name of non-conformance]						
Total Material Weaknesses						

Compliance with Federal financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes or No	Yes or No
1. System Requirements	Yes or No	
2. Accounting Standards	Yes or No	
3. USSGL at Transaction Level	Yes or No	

Beginning Balance: The beginning balance will agree with the ending balance of the material weaknesses from the prior year.
New: The total number of material weaknesses that have been identified during the current year.
Resolved: The total number of material weaknesses that have dropped below the level of materiality in the current year.
Consolidated: The combining of two or more findings.
Reassessed: The removal of any finding not attributable to corrective actions (e.g., management has re-evaluated and determined a material weakness does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., section 2 to a section 4 and vice versa).
Ending Balance: The agency’s year-end balance.

(2) Improper Payment Information Act Report

The Improper Payments Information Act of 2002 (Public Law 107-300) requires that agencies examine the risk of erroneous payments in all programs and activities they administer. Agencies are required to review all programs and activities they administer and identify those that may be susceptible to significant erroneous payments.

An erroneous payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Incorrect amounts are both under-and over-payments. An improper payment includes any payment that was made to an ineligible recipient or an ineligible service, duplicate payments, payments for services not received, and payments that are for the incorrect amount.

Significant erroneous payments are defined as annual erroneous payments in the program exceeding both 2.5% of program payments and $10,000,000. Those programs with significant erroneous payments must report the error rate/amount in the AFR.

CSOSA and PSA must each perform and document separate annual reviews for erroneous payments and determine and report the results of the reviews in the AFR.

F. Interim Financial Statements

(1) Introduction

Interim un-audited financial statements and variance analyses must be submitted to OMB on a quarterly basis. The statements must be comparative with those submitted to OMB the same quarter in the previous fiscal year. CSOSA and PSA interim financial statement information will be consolidated and reported by CSOSA as the CSOSA entity.

(2) Submission Schedule

The Agency must prepare and CSOSA will submit the interim, un-audited financial statements and required variance analyses to OMB 21 calendar days after the end of each of the first three quarters of the fiscal year. To adhere to the 21 calendar day requirement, CSOSA and PSA must complete their financial statements within ten (10) business days after the Agency formally closes the last month of the quarters ended December 31, March 31, and June 30 in the financial management system. CSOSA will compile and report consolidated CSOSA and PSA interim financial statement and variance analysis information to OMB for the Agency.

(3) Required Interim Financial Statements

Comparative interim statements are limited to:

- Balance Sheet,

- Statement of Net Cost, and
- Statement of Budgetary Resources.

Financial disclosures (notes), the Agency Head Letter, Management Discussion and Analysis, Other Accompanying Information and the Statement of Changes in Net Position are not required for interim reporting.

(4) Financial Statement Variance Analyses

The Agency must prepare and submit to OMB two (2) separate analyses of certain significant variances in the interim comparative financial statements and variances with other Agency external reporting. The following is guidance for these variance analyses:

(a) **Financial Statement Variance Analysis:** A variance analysis must be prepared reporting significant variances for the three interim financial statements between the current quarter and the same quarter as reported to OMB in the prior year. Agency management has discretion on what constitutes a significant variance. The analysis must be submitted as a separate file within the financial statement submission to OMB.

- o OMB does not require a separate file for each statement, but one file containing the analyses for each of the three (3) required interim financial statements.
- o The analyses should include management's explanation of significant variances in types or amounts of assets, liabilities, costs, revenues, obligations and outlays along with the submitted statements.
- o If a financial statement does not have significant variances between the comparative periods, then note that in the analysis for the particular statement.

(b) **Statement of Budgetary Resources (SBR) and SF 133 (Report on Budget Execution and Budgetary Resources) Variance Analysis:** CSOSA must prepare an analysis of material differences between the current quarter's un-audited SBR and the current quarter's Agency-wide SF 133, *Report on Budget Execution and Budgetary Resources.* The Agency is required to reconcile the SBR and SF 133 on a quarterly basis. However, CSOSA is only required to provide to OMB an explanation for the material differences between the SBR and SF 133 for comparable line items related to budgetary resources, obligations, and outlays. CSOSA's materiality threshold will be established at any variances greater than $1M and should be applied to each of the three (3) categories to determine what differences to separately report.

G. General Accounting Operations

CSOSA and PSA must perform regular reconciliations and follow proper accounting operations control procedures to ensure the Agency's General Ledger is accurately reporting the financial position of the Agency.

(1) SF 133, Statement of Budgetary Resources (SBR), and General Ledger Reconciliation

a) On a quarterly basis, CSOSA must perform and document reconciliation between the Agency's SF 133, SBR and General Ledger balances. The reconciliation must document reported line item amounts from each data source, outline and describe the causes of differences, required corrective actions, and identify transactions and/or parties responsible for the differences.

b) The reconciliation document must be completed by CSOSA, with assistance from PSA, and presented to CSOSA's and PSA's respective Associate Directors, Management and Administration, within 45 calendar days after the quarter is closed in the financial management system.

(2) Formal Open Obligation (Undelivered/Unpaid Delivered Orders) Status Reviews

a) Open (Undelivered/Unpaid Delivered Orders) obligation balances affect the General Ledger and financial statements.

b) On a quarterly basis, CSOSA and PSA must each perform a formal review of all of their open obligation balances, for all TAFS and open fiscal years. The purpose of such reviews is to verify that open obligation balances are valid and correctly classified as Delivered Orders and/or Undelivered Orders before each quarter is closed in the financial management system.

- Open obligations that are determined to be invalid must be properly documented as such and immediately closed in the financial management system. Examples of invalid open obligation balances include:
  - Obligations where no goods and/or services were provided within the period of performance of the procurement;
  - Obligations where all goods and/or services have been provided, accepted and paid for, and the cumulative amount paid is less than the amount of the procurement.
- Open obligations that are determined to be all, or in part, improperly classified as Undelivered or Delivered Orders must be corrected immediately in the financial management system.

- CSOSA and PSA quarterly open obligation reviews must be documented and submitted to the respective CSOSA and PSA, Associate Directors, Management and Administration.

c) Corrections of invalid or erroneously classified open obligations must be made in the financial system through established operational procedures. Adequate supporting justification, justifying the closing of an open obligation or classification correction, must be recorded in the financial system for control purposes. The use of journal vouchers to correct open obligation errors should be performed only on an exception basis.

(3) Preparation and Recording of Journal Vouchers

a. Journal Vouchers (JV) are manual adjustments made to the General Ledger within the financial management system. To the extent possible, the use of operational procedures within the financial management system, versus JVs, should be used to affect the General Ledger.

b. All JVs must be supported by proper and adequate supporting documentation. Documentation must be sufficient to allow the JV approving official and auditors to clearly understand the reason for preparing and posting the JV, and to be able to determine that the amount and accounts posted are both reasonable and accurate. All supporting documentation, including proof of approval, must be recorded with the JV in the financial management system.

c. All JVs must be classified as a source, correcting, or reversing entry.

d. All JVs must be reviewed and approved, via signature, by at least one authorized personnel prior to posting to the General Ledger. Authorized JV approving officials include:

- CSOSA:

  Director, Office of Financial Management

  Associate Director, Management and Administration

- PSA:

  Accounting Officer, Office of Financial Management

  Director, Office of Financial Management

  Associate Director, Management and Administration

e) To maintain proper segregation of duties, the JV preparer and the JV approving official must be two different employees.

f) The JV approving official must have a level of authority higher than that of the preparer.

g) CSOSA and PSA must each maintain supporting documentation for of all approved JVs, sequentially numbered in a log and available for review.

(4) Reconciliation of President's Budget to the Statement of Budgetary Resources

Linkage between budgetary information presented in the annual financial statements and the President's Budget is critical to ensuring the integrity of the information presented. Agencies should follow the steps identified below to avoid inconsistencies between the two documents.

The Agency must ensure that the budgetary information reported in the annual Statement of Budgetary Resources (SBR) is consistent with the budgetary information reported to the Federal Agencies' Centralized Trial-balance System II (FACTS II) during the 4th quarter of the same year. The information submitted through the FACTS II system will be used to produce the 4th quarter Standard Form (SF) 133, Report on Budget Execution and Budgetary Resources; the FMS 2108, Year-end Closing Statement; and much of the initial data that will appear in the prior year column of the Program and Financing Schedule of the President's Budget.

Due to timing differences, changes may be made to budgetary information included in the President's Budget after the annual SBR has been issued. Agencies should post all such changes for the President's Budget, whether material or non-material, using OMB's MAX Circular A-11 Budget Preparation System during the time frames provided by OMB. Agencies must also report these changes, whether material or non-material, to FACTS II during its revision window (November/December time frame) for the year. These efforts must be coordinated by the CSOSA and PSA budget offices.

Agencies must discuss any material changes to budgetary information that occur subsequent to the issuance of the annual audited SBR with their auditors to determine if restatement or disclosure is necessary.

The reconciliation of certain budgetary information reported in the SBR and the President's Budget for a given fiscal year must be prepared and documented to ensure that amounts are accurate and sufficiently supported. The information contained in the President's Budget is at a level that only certain line items can be reconciled to the SBR. Those three (3) line items are as follows:

- Total New Obligations Incurred
- Total New Budget Authority
- Net Outlays

This reconciliation of prior year reported budgetary information is performed and documented by CSOSA at the Agency level as part of the annual financial statement development and audit process. The results of the Agency's reconciliation are reported at a summary level in the accompanying footnotes (Note 11: Explanation of differences Between the SBR and the Budget of the US Government). The Agency's reconciliation document must provide detailed explanations of differences. At a minimum, any material differences between comparable information contained in the

SBR and the actual information presented in the President's Budget must be disclosed in the Note 11.

(5) Reconciliation of Funds Balance with Treasury

a. Fund Balance with Treasury (FBWT) represents the amount of CSOSA's and PSA's combined fund balance with Treasury that is available for the purposes and time periods for which the funds were appropriated.

b. On a monthly basis, the Agency's draft SF 224 (Statement of Transactions), containing monthly cash disbursement and deposit information, reported for the Agency's Agency Location Code (ALC), is developed by the Agency's financial services provider. The Agency's financial services provider then provides a preliminary copy of the Agency's SF-224 to CSOSA and PSA for review. CSOSA and PSA reviews the Agency's preliminary SF-224 and provides the service provider with any corrections (if needed) and/or approval (if no corrections are needed) within required timeframes. This review process must be performed in a very short time frame because the Treasury reporting window for the SF-224 is limited to the first three working days of each month. The Agency's financial services provider then submits the final, Agency-approved SF-224 to Treasury.

c. The SF 224 (Statement of Transactions) Exception Report identifies differences between cash disbursements and deposits reported by the Agency to Treasury via the SF-224, and Agency FBWT information maintained by Treasury.

d. CSOSA and PSA must research and take action to clear any differences in cash disbursements and deposits identified by Treasury through the monthly SF 224 process prior to the next month's reporting process.

H. Audit Managers, Audit Liaisons and Corrective Action Plans (CAP)

(1) Audit Managers

a. CSOSA and PSA must each designate one primary employee to serve as Audit Manager to represent the component for each financial statement audit. Audit Managers are designated by:

- CSOSA:

  Director, Office of Financial Management

- PSA:

  Director, Office of Financial Management

b. The Audit Managers' roles include:

- Performance of overall audit project management functions;

- Attend all audit meetings including entrance conferences, status meetings, etc.;
- Ensure all auditor requests and questions are processed in a timely and accurate manner;
- Ensure interim and annual financial statements and notes are complete, accurate and prepared within required timeframes;
- Review and coordinate responses to draft audit findings; and
- Develop and report on the progress of correcting audit findings identified in annual auditor reports through Corrective Action Plans (CAP)**. Ensure CAPs are implemented and properly completed.**

2. Audit Liaisons

a. Certain Agency organizational components must designate employee Audit Liaisons to coordinate audit issues related to their functional areas. At a minimum, CSOSA and PSA offices of human resources and information technology must establish Audit Liaisons for each financial statement audit. In addition, CSOSA's Office of Legislative, Intergovernmental and Public Affairs and Office of Research and Evaluation and PSA's Office of Research, Analysis and Development must designate Audit Liaisons to develop and report performance information for the CSOSA selected key performance measures in AFR Section I.

Offices of Human Resources Audit Liaisons are designated by:

- CSOSA:

  Associate Director, Office of Human Resources
- PSA:

  Director, Office of Human Capital Management

Offices of Information Technology Audit Liaisons are designated by:

- CSOSA:

  Chief Information Officer
- PSA:

  Director, Office of Information Technology

b. The Audit Liaisons' roles include:

- Attend all audit meetings that involve their functional area, including entrance conferences, status meetings, etc.;
- Assist Audit Managers and serve as the auditors' points of contact for issues relating to their respective organization's functions;
- Monitor, track and respond to auditor questions, issues and audit findings relating to their respective organization function within required timeframes;
- Assist Audit Managers with reviewing and responding to draft audit findings relating to their functional area; and
- Assist Audit Managers with the development and reporting of CAPs relating to audit findings within their functional areas.

(3) Corrective Action Plans

a. A Corrective Action Plan (CAP) must be prepared by the Agency to properly address any material weakness or significant deficiency identified by the auditor or deemed as such by management through annual assessments.

b. The development and implementation of a CAP is a joint effort between the CSOSA and PSA Audit Managers, Audit Liaisons (if applicable) and executive management (e.g., CSOSA Associate Director) in the CSOSA or PSA organization in which the audit finding occurred. However, primary responsibility for developing and implementing a CAP is with the executive manager(s) of the CSOSA and/or PSA organization from which the audit finding arose. Hereafter, these individuals are referred to as CAP Managers. In cases where more than one organization is involved with a CAP issue, the CSOSA Associate Director, Management and Administration and/or PSA Director, Office of Financial Management will identify the responsible CAP Manager(s). The Audit Manager must ensure that CAPs are completed.

c. A CAP Template is reported in Appendix D. A CAP must include:

1. Sufficient information for the reader to identify the audit finding or management assessment that generated the need for the CAP. This should include:
   - Fiscal year of the audit;
   - The auditor's finding number/ finding title;
   - Audit area; and
   - Cause or facts surrounding the finding, auditor recommendations, and management's response. This information is typically found in the auditor reports and/or the auditor's Notification of Finding and Recommendation (NFR).

2. Detailed information concerning the CAP Manager's proposal to correct the issue, including:
   - Proposed solution to correct the issue;
   - Additional resources (if necessary) to achieve the solution;
   - Assistance from other organizations (if necessary) to achieve the solution;
   - Specific milestones and timelines to complete the proposal;

d. A proposed CAP must be submitted by the CAP Manager(s) to the Audit Managers and CSOSA Associate Director, Management and Administration and/or PSA Associate Director, Management and Administration for approval within 60 calendar days after issuance of the annual audit reports.

e. CAP Managers are Responsible for:

- Developing and submitting the proposed CAP within required timeframes;
- Implementing the approved CAP within agreed-upon timeframes and milestones; and
- Submitting quarterly CAP progress reports to the Audit Managers and CSOSA Associate Director, Management and Administration and/or PSA Associate Director, Management and Administration.

f. CAP Monitoring Plan

- The Audit Managers are responsible for monitoring the status of the implementation of the approved CAP against established timelines and milestones.
- Audit Managers shall provide the results of their monitoring reviews to the CSOSA Associate Director, Management and Administration and/or PSA Associate Director, Management and Administration on a quarterly basis.

I. <u>Legal Representation Letter</u>

As part of the annual financial statement preparation process, the Agency's Office of General Counsel must report all CSOSA and PSA existing, pending and threatened litigation and unasserted claims to the auditor in the form of a legal representation letter. In addition to reporting the status of current cases, the letter should also include cases reported in the previous year's letter that are no longer pending. The Office of General Counsel should submit interim and final legal representation letters to the auditor and Agency audit managers according to a schedule provided by the CSOSA audit manager. Issuance of the final legal letter must coincide closely with the date of the final audit reports. The Office of General Counsel must report the following information for each case item:

1. Case number an case status (open or closed);
2. Nature of matter;
3. Period (month/year) of underlying cause;
4. CSOSA/PSA component where matter arose;
5. Progress of case to date (brief narrative description of major actions that have taken place);
6. Current or intended response;
7. Evaluation or likelihood of unfavorable outcome (probable, reasonably possible, and remote);
8. Estimated or Actual loss amounts; and
9. Assigned Government Attorney.

The Agency audit managers must make an assessment as to whether pending, threatened litigation or unasserted claims should be reported or disclosed in the financial statements. In order for a contingent liability to be recognized in the financial statements, each of these three conditions must be met:

1. A past event or exchange transaction has occurred;
2. A future outflow or other sacrifice of resources is probable;
3. The future outflow of resources is measurable.

A contingent liability should be disclosed in the notes to the financial statements if any of the conditions for liability recognition on the financial statements are not met and there is at least a reasonable possibility that a loss or an additional loss may be incurred.

J. Management Representation Letter

The auditor relies on written representations obtained from the Agency's management concerning information reported in the AFR. A management representation letter must be issued by the Agency to the auditor containing representations concerning internal controls, systems, compliance with laws and regulations, compliance with accounting standards and materiality thresholds. In addition, the management representation letter should reference uncorrected financial statement misstatements. The management representation letter should be signed by those members of CSOSA and PSA management with overall responsibility for financial and operating matters that the auditor believes are responsible for and knowledgeable about the matters covered by the letter. Issuance of the management representation letter must coincide closely with the date of the final audit reports.

APPENDIX C

BASIC FORMAT OF FINANCIAL STATEMENTS

Court Services and Offender Supervision Agency
Balance Sheet
As of September 30, 20XX and 20XX
(in dollars)

	20XX	20XX
Assets		
Intragovernmental		
Fund Balance with Treasury - **Note 2**	$ XXX	$ XXX
Accounts Receivable - Federal - **Note 3**	XXX	XXX
With The Public		
Accounts Receivable - **Note 3**	XXX	XXX
Property, Plant and Equipment - **Note 4**	XXX	XXX
Total Assets	**$ XXX**	**$ XXX**
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable	$ XXX	$ XXX
Advances from Other Federal Agencies	XXX	XXX
With The Public		
Accounts Payable	XXX	XXX
Accrued Payroll & Benefits	XXX	XXX
Actuarial FECA Liability	XXX	XXX
Accrued Unfunded Liabilities	XXX	XXX
Total Liabilities - Note 5	**$ XXX**	**$ XXX**
Net Position		
Unexpended Appropriation	$ XXX	$ XXX
Cumulative Results of Operations	XXX	XXX
Total Net Position	**$ XXX**	**$ XXX**
Total Liabilities and Net Position	**$ XXX**	**$ XXX**

Court Services and Offender Supervision Agency
Statement of Net Cost
For the Years Ended September 30, 20XX and 20XX
(in dollars)

	20XX	20XX
Critical Success Factor 1		
Program Costs		
Intragovernmental Costs	$ XXX	$ XXX
Less Intragovernmental Revenue - **Note 6**	(XXX)	(XXX)
Intragovernmental Net Costs	$ XXX	$ XXX
Public Costs	$ XXX	$ XXX
Less Earned Revenue from Public - **Note 6**	(XXX)	(XXX)
Net Public Costs	$ XXX	$ XXX
Total Net Cost CSF 1	**$ XXX**	**$ XXX**
Critical Success Factor 2		
Program Costs		
Intragovernmental Costs	$ XXX	$ XXX
Less Intragovernmental Revenue - **Note 6**	(XXX)	(XXX)
Intragovernmental Net Costs	$ XXX	$ XXX
Public Costs	$ XXX	$ XXX
Less Earned Revenue from Public - **Note 6**	(XXX)	(XXX)
Net Public Costs	$ XXX	$ XXX
Total Net Cost CSF 2	**$ XXX**	**$ XXX**
Critical Success Factor 3		
Program Costs		
Intragovernmental Costs	$ XXX	$ XXX
Less Intragovernmental Revenue - **Note 6**	(XXX)	(XXX)
Intragovernmental Net Costs	$ XXX	$ XXX
Public Costs	$ XXX	$ XXX
Less Earned Revenue from Public - **Note 6**	(XXX)	(XXX)
Net Public Costs	$ XXX	$ XXX
Total Net Cost CSF 3	**$ XXX**	**$ XXX**
Critical Success Factor 4		
Program Costs		
Intragovernmental Costs	$ XXX	$ XXX
Less Intragovernmental Revenue - **Note 6**	(XXX)	(XXX)
Intragovernmental Net Costs	$ XXX	$ XXX
Public Costs	$ XXX	$ XXX
Less Earned Revenue from Public - **Note 6**	(XXX)	(XXX)
Net Public Costs	$ XXX	$ XXX
Total Net Cost CSF 4	**$ XXX**	**$ XXX**
Net Cost of Operations	**$ XXX**	**$ XXX**

Court Services and Offender Supervision Agency
Statement of Changes in Net Position
For the Years Ended September 30, 20XX and 20XX
(in dollars)

	20XX	20XX
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	$ XXX	$ XXX
Adjustment to Beginning Balance	XXX	XXX
Beginning Balance, As Adjusted	$ XXX	$ XXX
Budgetary Financing Sources:		
Appropriations Used	XXX	XXX
Imputed Financing - **Note 8**	XXX	XXX
Total Financing Sources	$ XXX	$ XXX
Net Cost of Operations	XXX	XXX
Ending Cumulative Results of Operations	**$ XXX**	**$ XXX**
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ XXX	$ XXX
Budgetary Financing Sources		
Appropriations Received	XXX	XXX
Other Adjustments	XXX	XXX
Appropriations Used	XXX	XXX
Total Financing Sources	$ XXX	$ XXX
Ending Unexpended Appropriations	**$ XXX**	**$ XXX**
ENDING TOTAL NET POSITION	**$ XXX**	**$ XXX**

Court Services and Offender Supervision Agency
Statement of Budgetary Resources
As of September 30, 20XX and 20XX
(in dollars)

	20XX	20XX
Budgetary Resources		
Unobligated Balance:		
Brought forward, October 1	$ XXX	$ XXX
Recoveries of Prior Year Obligations:		
Actual	XXX	XXX
Budget Authority:		
Appropriation	XXX	XXX
Spending Authority from Offsetting Collections:		
Earned		
Collected	XXX	XXX
Receivables	XXX	XXX
Change in unfilled customer orders		
With Advance from Federal Sources	XXX	XXX
Without Advance from Federal Sources	XXX	XXX
Nonexpenditure transfers, net:		
Transfer - Prior Year Balance	XXX	XXX
Cancellation of expired and no-year accounts	XXX	XXX
Total Budgetary Resources	**$ XXX**	**$ XXX**
Status of Budgetary Resources		
Obligation Incurred		
Direct	$ XXX	$ XXX
Reimbursable	XXX	XXX
Total Obligations Incurred - **Note 10**	$ XXX	$ XXX
Unobligated Balance		
Apportioned Balance Available	$ XXX	$ XXX
Unobligated Balances Not Available	XXX	XXX
Total Status of Budgetary Resources	**$ XXX**	**$ XXX**
Change in Obligated Balances		
Obligated Balance, Net:		
Unpaid obligations, brought forward, October 1	$ XXX	$ XXX
Uncollected customer payments from Federal sources	XXX	XXX
Obligations incurred	XXX	XXX
Recoveries of prior year unpaid obligations	XXX	XXX
Change in uncollected customer payments	XXX	XXX
Total Obligated Balance	**$ XXX**	**$ XXX**
Obligated balance, net, end of period:		
Unpaid obligations	$ XXX	$ XXX
Uncollected customer payments from Federal sources	XXX	XXX
Total Obligated Balance, end of period	**$ XXX**	**$ XXX**
Net Outlays		
Gross Outlays	$ XXX	$ XXX
Less: Offsetting collections	XXX	XXX
Total Net Outlays	**$ XXX**	**$ XXX**

APPENDIX D

CORRECTIVE ACTION PLAN TEMPLATE

CORRECTIVE ACTION PLAN TEMPLATE	
Finding No. / Title:	Indicate the finding number from the related NFR.
Audit Area:	Identify the audit area to which the NFR applies.
Cause:	Enter a brief description of the cause (from the NFR).
Effect:	Enter a brief description of the effect (from the NFR).
CORRECTIVE ACTIONS	
Corrective Action:	Describe the steps that will be taken to correct the NFR (should agree with management's response on the NFR). The description should explain what will be done, and how it will be done.
Roles and Responsibilities:	Describe the roles and responsibilities of each individual involved with implementing the CAP, this should include names of the manager, staff that will be working on the issue, the audit liaison, etc., as well as a brief description of what each person is expected to do.
Interim Activities:	Procedures to be followed until the CAP is implemented (if any)
SCHEDULE	
Major Milestones:	Provide the milestones and dates for the implementation of the CAP.
Dependencies:	List any dependencies to other reviews, tasks, projects, etc.
REVIEW AND ACCEPTANCE	
Review Schedule:	Identify the schedule to be followed for monitoring the implementation of the CAP by the audit liaison.
Review Process:	Describe the process that the audit liaison will follow to verify compliance with the CAP.
Conclusion:	Describe the process that the office will follow to determine that the CAP has been successfully implemented, and that the issue has been resolved, or that the CAP will not be implemented.