



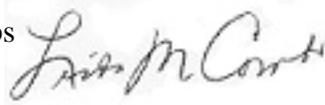
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
FINANCIAL MANAGEMENT

March 23, 2007

M-07-12

MEMORANDUM FOR INSPECTORS GENERAL AND CHIEF FINANCIAL OFFICERS

FROM: Linda M. Combs
Controller 

SUBJECT: Guidance to OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, on Auditing Allocation Transfers

OMB Circular No. A-136, *Financial Reporting Requirements*, revised July 24, 2006, changed the financial reporting requirements for transferring, or “allocating,” budget authority from one entity to another within or to another Federal department (i.e., parent/child reporting). This memorandum clarifies agencies’ responsibilities under OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, when auditing allocation transfers in light of this financial reporting requirement.

OMB Circular No. A-136 establishes a central point of reference for all Federal financial reporting guidance for agencies required to submit audited financial statements. As explained in OMB Circular No. A-136, effective for FY 2007, the department (i.e., parent) that transfers budget authority to another Federal entity (i.e., child) must report all budgetary and proprietary activity in its financial statements, whether material to the parent or not. Although the child account receives an allocation of budget authority and then obligates and outlays the amount included in the allocation, it must submit the budgetary and proprietary information to the parent to be reported in the parent’s financial statements. OMB Circular No. A-136 requires the receiving agencies with transfer appropriation accounts to submit the information required to the parent no later than 12 calendar days following the end of the reporting period or a date required by the parent to meet its reporting and auditing deadlines, whichever comes first. The receiving department (child) must not report any information relating to the transfer appropriation account on its own financial statements. (See OMB Circular No. A-136, Section II.4.2, Question 7 for more information and exceptions.)

OMB Bulletin No. 06-03 establishes minimum requirements for audits of Federal financial statements. Because financial statements must be prepared in accordance with OMB Circular No. A-136, the audit requirements in OMB Bulletin No. 06-03 are informed by the reporting procedures in OMB Circular No. A-136.

This memorandum clarifies that, under OMB Bulletin No. 06-03, when auditing allocation transfers, the parent’s auditor (whether the Office of the Inspector General or a contractor) is responsible for ensuring that the child’s information receives the audit coverage

that, in the auditor's professional judgment, is required as part of the annual financial statement audit (i.e., the amounts should be subject to the same annual financial statement auditing procedures and materiality considerations as all other funding sources). Doing so will satisfy the reporting requirements in OMB Circular No. A-136.

In addition, as explained in OMB Circular No. A-136, the two agencies and/or departments may need to coordinate to ensure that the parent auditor's needs, as they relate to the allocation transfer, are met. Such coordination should take place during the early planning phase of the annual financial statement audit.

If you have questions or need more information on this subject, please contact Audrey Duchesne or Carrie Hug of my staff at (202) 395-3993.