



United States Government Accountability Office  
Washington, D.C. 20548

June 23, 2005

The Honorable Tina W. Jonas  
Chief Financial Officer  
Department of Defense

The Honorable Joseph E. Schmitz  
Inspector General  
Department of Defense

Subject: *Financial Audit: The Department of Defense's Fiscal Year 2004  
Management Representation Letter on Its Financial Statements*

As you know, the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), is required to annually prepare and submit audited financial statements of the U.S. government to the President and the Congress. We are required to audit these consolidated financial statements (CFS) and report on the results of our work.<sup>1</sup> In connection with fulfilling our requirement to audit the fiscal year 2004 CFS, we evaluated the Department of the Treasury's (Treasury) financial reporting procedures and related internal control over the process for compiling the CFS, including the management representation letter provided us by Treasury and OMB. Written representation letters from management, required by U.S. generally accepted government auditing standards, ordinarily confirm oral representations given to the auditor, indicate and document the continuing appropriateness of those representations, and reduce the possibility of a misunderstanding between management and the auditor.

In our report, which is included in the fiscal year 2004 *Financial Report of the United States Government*,<sup>2</sup> we reported a limitation on the scope of our work due to identified concerns with the adequacy of certain federal agencies' management representations on which Treasury and OMB

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<sup>1</sup>The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. 31 U.S.C. § 331 (e). The federal government has elected to include certain financial information on the legislative and judicial branches in the CFS as well.

<sup>2</sup>The fiscal year 2004 *Financial Report of the United States Government* was completed by the Department of the Treasury on December 15, 2004, and is available through both GAO's Web site at [www.gao.gov](http://www.gao.gov) and Treasury's Web site at [www.fms.treas.gov/fr/index.html](http://www.fms.treas.gov/fr/index.html).

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depend to provide their representations to us regarding the CFS. Specifically, Treasury and OMB stated that their representation letter to us on the CFS was based primarily on the individual federal agency representation letters. Consequently, our audit considered the content of the individual federal agency letters, and the incompleteness of certain of these letters impaired our ability to obtain sufficient evidence in support of our audit of the CFS. This limitation contributed to our disclaimer of opinion on the CFS. We performed sufficient audit work to provide the disclaimer of opinion and issued our audit report, dated December 6, 2004, in accordance with U.S. generally accepted government auditing standards.

As part of our audit of the fiscal year 2004 CFS, we received and reviewed selected federal agencies' management representation letters to assess their adequacy in support of our audit of the CFS. As the federal government gets closer to an opinion on its financial statements, it becomes more important that the federal agencies' management representation letters be complete and reliably prepared.

The purpose of this report is to communicate our observations on the Department of Defense's (DOD) fiscal year 2004 management representation letter. Our objective is to help ensure that future management representation letters submitted by DOD are sufficient to help support Treasury and OMB's preparation of the CFS management representation letter and our ability to rely on the representations in that letter in combination with individual federal agency representation letters. We reviewed five key areas in each management representation letter: (1) signatures, (2) materiality thresholds, (3) representations, (4) summary of unadjusted misstatements, and (5) reliability of representations. In reviewing the management representation letters, we applied the American Institute of Certified Public Accountants' (AICPA) *Codification of Auditing Standards*, AU Section 333, *Management Representations*; OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the GAO/President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual* (FAM) section 1001, entitled "Management Representations."<sup>3</sup>

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<sup>3</sup>GAO, *GAO/PCIE: Financial Audit Manual: Update*, [GAO-04-1015G](#) (Washington, D.C.: July 30, 2004), an update to *Financial Audit Manual: Volumes 1 and 2*, [GAO-01-765G](#) (Washington, D.C.: Aug. 1, 2001).

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## Results in Brief

DOD's fiscal year 2004 management representation letter did not provide all the information necessary to support Treasury and OMB's preparation of the CFS management representation letter. This in turn impacted our ability to rely on the representations in the CFS management representation letter in combination with individual federal agency representation letters.

We identified some needed improvements in three of the five key areas we reviewed. First, DOD's management representation letter was not signed by the appropriate level of management. Second, DOD did not provide the materiality thresholds used to determine, for representation purposes, any matters that were individually or collectively material to its financial statements. Such individual federal agency thresholds are considered by Treasury and OMB in providing a materiality threshold for the CFS representation letter. Finally, the letter included 22 of the 28 representations<sup>4</sup> from the FAM that were applicable to DOD. For the other 6 representations, 4 were not fully included and 2 were not provided at all.

We believe that these matters can be easily addressed. We are making three recommendations to DOD's Chief Financial Officer targeted to specific changes needed. Also, we are recommending that the DOD Inspector General work with the department to help ensure that future management representation letters meet the key conditions noted as needing improvements in this report.

In commenting on a draft of this report, DOD's Office of the Comptroller concurred with the recommendations to improve DOD's future management representation letters. The Office of the Comptroller's response stated that they had coordinated with the Office of the Inspector General and that the Office of the Inspector General would work with the

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<sup>4</sup>The FAM lists 27 representations that are ordinarily included, if applicable, in the management representation letter that an agency provides to the auditor. For 4 of the representations, the agency is required to address three separate components. As such, each agency is ordinarily expected to make a total of 35 representations. However, because DOD received a disclaimer of opinion on its fiscal year 2004 financial statements, DOD's auditor did not provide any unadjusted misstatements and, therefore, DOD was not required to make the related representation. Also, 6 of the 35 representations are not applicable unless the agency received an opinion on its internal control. Since, for fiscal year 2004, DOD received a disclaimer of opinion on its financial statements and did not receive an opinion on its internal control, only 28 of the 35 representations were applicable to DOD's fiscal year 2004 management representation letter.

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department to ensure that future letters contain the specific language in the FAM, when appropriate.

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## Background

In conducting agency financial statement audits, U.S. generally accepted government auditing standards incorporate financial auditing fieldwork and reporting standards issued by the AICPA. Such auditing standards (AU Section 333) require auditors to obtain certain representations from agency management. These representations are part of the evidential matter to be considered by the auditor in its audit of the agency's financial statements. The representations obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. AU Section 333 discusses specific representations that should be obtained from management, including a requirement to attach a schedule of unadjusted financial statement misstatements for entities with uncorrected misstatements.

In addition, OMB Bulletin 01-02 and FAM section 1001 contain guidance on preparing federal agencies' management representation letters. According to the FAM, in addition to the representations included in AU Section 333, the auditor generally should consider the need to obtain representations on other matters based on the circumstances of the audited entity. FAM section 1001A lists 35 specific representations ordinarily included in the management representation letter and also includes a requirement to attach a schedule of unadjusted financial statement misstatements for entities with uncorrected misstatements. (See enc. I for these representations.) Representations listed in FAM section 1001A should be customized to the situation of the entity being audited or excluded if inapplicable. We perform our audit of the CFS in accordance with the FAM and related auditing standards.

Treasury and OMB are to receive management representation letters from certain federal agencies. This is important because U.S. generally accepted government auditing standards require that Treasury and OMB provide us, as principal auditor of the CFS, a management representation letter, and their letter depends on the information in such agencies' management representation letters. In their representation letter to us for the audit of the fiscal year 2004 CFS, Treasury and OMB stated that their representations are based primarily on the representations of those agencies covered by the Chief Financial Officers (CFO) Act and other selected agencies that were made in connection with the preparation of these entities' respective financial statements and provided to OMB and

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Treasury. For this reason, it is important that all federal agency representation letters be complete and reliable.

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## Objectives, Scope, and Methodology

In connection with our audit of the fiscal year 2004 CFS, we evaluated Treasury's financial reporting procedures and related internal control, including the CFS management representation letter. For the fiscal year 2004 CFS, 33 of the 35 "verifying agencies" submitted audited financial statements along with their management representation letters to Treasury.<sup>5</sup> In our review of these 33 management representation letters, our overall objective was to assess their adequacy as it relates to our audit of the CFS. Specifically, we reviewed each agency management representation letter to determine whether the following five key conditions were met:

- the management representation letter was signed by appropriate agency officials;
- the management representation letter included designation as to the amounts above which matters were considered material (materiality thresholds);
- the management representation letter included applicable representations from the FAM;
- the management representation letter included a properly prepared summary of unadjusted misstatements for agencies with uncorrected misstatements; and
- the representations in the management representation letter were reliable based on a review of findings in the auditor's report.

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<sup>5</sup>See *Treasury Financial Manual*, vol. I, part 2, ch. 4700, for a list of the 35 agencies. These agencies, for fiscal year 2004, consisted of 23 CFO Act agencies and 12 material other agencies. The 33 agencies we reviewed did not include the U.S. Securities and Exchange Commission and the Smithsonian Institution because these audits were not complete before the fiscal year 2004 *Financial Report of the United States Government* was issued. The Department of Homeland Security (DHS) Financial Accountability Act, Pub. L. No. 108-330, 118 Stat. 1275 (Oct. 16, 2004), added DHS to the list of CFO Act agencies, increasing the number of CFO Act agencies again to 24 for fiscal year 2005.

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This report is based on the audit work we performed for the audit of the fiscal year 2004 CFS, which was performed in accordance with U.S. generally accepted government auditing standards.

We requested comments on a draft of this report from DOD's Chief Financial Officer and Inspector General or their designees. Written comments from DOD's Principal Deputy in the Office of the Comptroller are reprinted in enclosure II and are also discussed in the Agency Comments section. The Principal Deputy stated that the office's response was coordinated with DOD's Office of the Inspector General.

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## Identified Issues with DOD's Fiscal Year 2004 Management Representation Letter

With respect to DOD's fiscal year 2004 management representation letter, we identified the following three areas that need some improvement: (1) providing the appropriate signatures, (2) providing the materiality thresholds used, and (3) providing or fully including applicable representations from the FAM. Details regarding these issues are as follows.

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### Providing the Appropriate Signatures

The management representation letter should be obtained from the highest level of the federal agency. Officials who sign the management representation letter should be those who are responsible for and knowledgeable about the matters in the representation letter. These officials should generally be the head of the entity and the CFO or CFO equivalent. Federal agencies' management and auditors need to ensure that management representation letters are signed by appropriate management officials.

DOD's fiscal year 2004 management representation letter was not signed by the CFO. A management representation letter that is not signed by officials at the appropriate level of management provides less assurance than an appropriately signed letter that has been reviewed and approved by the person or persons most knowledgeable about the matters it addresses. The auditor cannot be certain that representations made in a letter that has not been appropriately signed actually reflect management's position or are complete. Letters that have not been appropriately signed impair Treasury's and OMB's ability to rely on representations made in the letters in order to prepare the CFS management representation letter.

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## Providing the Materiality Thresholds Used

Management representations may be limited to matters that are considered individually or collectively material to the entity's financial statements, provided that management and the auditor have reached an understanding on the materiality thresholds to be used. Likewise, in preparing the overall management representation letter for the CFS, which is provided to us, Treasury and OMB limit the letter's representations to matters that are considered to be material. While an understanding between management and the auditor of materiality thresholds used is not explicitly required by auditing standards to be included in the management representation letter, Treasury and OMB use agency thresholds in providing a materiality threshold for the governmentwide management representation letter.

For fiscal year 2004, because the materiality thresholds used were not included in DOD's and a number of other federal agencies' management representation letters, or otherwise provided to Treasury and OMB, Treasury and OMB's ability to represent that all matters material to the CFS were properly considered and included in the overall management representation letter for the CFS was impaired.

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## Providing or Fully Including Applicable Representations from the FAM

Written representations from management ordinarily confirm oral representations made to the auditor during the audit, document the continuing appropriateness of those representations, and reduce the possibility of a misunderstanding. To meet auditing standards and OMB requirements, federal agencies' management and auditors need to ensure that management representation letters are complete and accurate.

We found that DOD's fiscal year 2004 management representation letter included 22 of the 28 representations from the FAM that were applicable to DOD. Of the 6 other representations, 4 were not fully included and 2 were not provided at all. For one of the incomplete representations, the DOD management representation letter included the following representation intended to cover the responsibility to prevent and detect fraud representation called for by FAM 15. (See enc. I for this representation.)

"I am responsible for establishing and overseeing the maintenance of internal controls for financial management to prevent and detect fraud."

While this representation addresses controls to prevent and detect fraud, it should also address programs to prevent and detect fraud as called for by FAM 15.

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For 3 of the incomplete representations, the DOD management representation letter included the following representation intended to cover the fraud and suspected fraud representations called for by FAM 16a, 16b, and 16c. (See enc. I for these representations.)

“There has been no material fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material affect on the Principal Statements, the RSSI or the RSI) nor any fraud involving management or employees who have significant roles in internal control, that is not a matter of public record.”

While this representation addresses fraud, it should also address suspected fraud as called for by FAM 16a, 16b, and 16c.

In addition, the two representations not provided were as follows.

- FAM #3b: We have made available to you all, where applicable, minutes of meetings of the Board of Directors [or other similar bodies, such as congressional oversight committees] or summaries of actions of recent meetings for which minutes have not been prepared.
- FAM #17: We have no knowledge of any allegations of fraud or suspected fraud affecting the agency received in communications from employees, former employees, or others.

When agencies do not provide all representations or include incomplete representations in their management representation letters, it impairs our ability to audit the CFS and Treasury and OMB’s ability to make these types of representations in the CFS management representation letter.

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## Conclusions

In three of the five key areas we reviewed, DOD’s fiscal year 2004 management representation letter did not provide all the information necessary to support Treasury and OMB’s preparation of the CFS management representation letter and our ability to rely on the representations in that letter in combination with individual federal agency representation letters, including that of DOD. The additional information needed from DOD is straightforward and should be easy to address.

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## Recommendations for Executive Action

We recommend to DOD's Chief Financial Officer that in the future the management representation letter

- be signed by the appropriate level of management;
- include materiality thresholds or such thresholds be provided separately to Treasury and OMB; and
- fully include all representations from the FAM that are applicable to DOD.

We recommend that the DOD Inspector General work with the department to help ensure that future management representation letters meet the key conditions noted as needing improvements in this report.

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## Agency Comments

In commenting on a draft of this report, DOD's Office of the Comptroller concurred with the recommendations to improve DOD's future management representation letters. The Office of the Comptroller's response stated that they had coordinated with the Office of the Inspector General and that the Office of the Inspector General would work with the department to ensure that future letters contain the specific language in the FAM, when appropriate. The comments are reprinted in enclosure II.

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Within 60 days of the date of this report, we would appreciate receiving a written statement on actions taken to address these recommendations.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Homeland Security and Governmental Affairs; the Subcommittee on Federal Financial Management, Government Information, and International Security, Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Government Reform; and the Subcommittee on Government Management, Finance, and Accountability, House Committee on Government Reform. In addition, we are sending copies to the Fiscal Assistant Secretary of the Treasury and the Controller of OMB. Copies will be made available to others upon request. This report is also available at no charge on GAO's Web site at [www.gao.gov](http://www.gao.gov).

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We appreciate the courtesy and cooperation extended to us by your staff throughout our work. We look forward to continuing to work with your offices to help improve financial management in the federal government. If you have any questions about the contents of this report, please contact me at (202) 512-3406.

A handwritten signature in black ink that reads "Gary T. Engel". The signature is written in a cursive style with a large, stylized initial 'G'.

Gary T. Engel  
Director  
Financial Management and Assurance

Enclosures – 2

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# Enclosure I: Representations in FAM 1001A

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Guidance contained in FAM 1001 and FAM 1001A deals with the management representations that the auditor should obtain from current management as part of the audit. This guidance also acknowledges that judgment needs to be exercised to obtain representations that depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. Representations given in FAM section 1001A should be customized to the situation of the entity being audited, and additional representations may need to be obtained.

FAM 1001A lists 27 representations that are ordinarily included, if applicable, in the management representation letter that an agency provides to the auditor. For representations 3, 11, 16, and 18, the agency should address three separate components. As such, each agency is ordinarily expected to make a total of 35 representations. Representations 18, 19, 20, and 21 are not applicable unless the agency received an opinion on its internal control. In addition, representations 22, 23, and 24 address the three requirements of the Federal Financial Management Improvement Act of 1996 and are only applicable to the 24 CFO Act agencies. The 35 representations in FAM 1001A are as follows.

1. We are responsible for the fair presentation of the financial statements and stewardship information in conformity with U.S. generally accepted accounting principles.
2. The financial statements are fairly presented in conformity with U.S. generally accepted accounting principles.
3. We have made available to you all
  - a. financial records and related data;
  - b. where applicable, minutes of meetings of the Board of Directors [or other similar bodies, such as congressional oversight committees] or summaries of actions of recent meetings for which minutes have not been prepared; and
  - c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. [If management believes that certain of the identified items are not misstatements, management's belief may be acknowledged by adding to the representation, for example, "We believe that items XX and XX do not constitute misstatements because [description of reason]."]
6. The [entity] has satisfactory title to all owned assets, including stewardship property, plant, and equipment; such assets have no liens or encumbrances; and no assets have been pledged.
7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. Guarantees under which the [entity] is contingently liable have been properly reported or disclosed.
9. Related party transactions and related accounts receivable or payable, including assessments, loans, and guarantees, have been properly recorded and disclosed.
10. All intraentity transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intragovernmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intragovernmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intragovernmental asset, liability, and revenue amounts as required by the applicable OMB Bulletin.

11. There are no
  - a. possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,
  - b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed, or
  - c. unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.
12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
13. No material events or transactions have occurred subsequent to September 30, 20X2 [or date of latest audited financial statements], that have not been properly recorded in the financial statements and stewardship information or disclosed in the notes.
14. We are responsible for establishing and maintaining internal control.
15. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements).
16. We have no knowledge of any fraud or suspected fraud affecting the [entity] involving:
  - a. management,
  - b. employees who have significant roles in internal control, or
  - c. others where the fraud could have a material effect on the financial statements.

[If there is knowledge of any such instances, they should be described.]

17. We have no knowledge of any allegations of fraud or suspected fraud affecting the [entity] received in communications from employees, former employees, or others. [If there is knowledge of any such allegations, they should be described.]
  
18. Pursuant to 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act), we have assessed the effectiveness of the [entity's] internal control in achieving the following objectives:
  - a. reliability of financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;
  
  - b. compliance with applicable laws and regulations—transactions are executed in accordance with (i) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and (ii) any other laws, regulations, and governmentwide policies identified by OMB in its audit guidance; and
  
  - c. reliability of performance reporting—transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

[If the entity bases its internal control assessment on suitable criteria other than 31 U.S.C. 3512(c), (d), this item should cite the criteria used (for example, *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission).]

19. Those controls in place on September 30, 20X2 [or date of latest audited financial statements], and during the years ended 20X2 and 20X1, provided reasonable assurance that the foregoing objectives are met. [If there are material weaknesses, the foregoing representation should be modified to read:

Those controls in place on September 30, 20X2, and during the years ended 20X2 and 20X1, provided reasonable assurance that the

foregoing objectives are met except for the effects of the material weaknesses discussed below or in the attachment.

or: Internal controls are not effective.

or: Internal controls do not meet the foregoing objectives.]

20. We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and identified those we believe to be material weaknesses.
21. There have been no changes to internal control subsequent to September 30, 20X2 [or date of latest audited financial statements], or other factors that might significantly affect it. [If there were changes, describe them, including any corrective actions taken with regard to any significant deficiencies or material weaknesses.]
22. We are responsible for implementing and maintaining financial management systems that substantially comply with federal financial management systems requirements, federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government Standard General Ledger at the transaction level.
23. We have assessed the financial management systems to determine whether they substantially comply with these federal financial management systems requirements. Our assessment was based on guidance issued by OMB.
24. The financial management systems substantially complied with federal financial management systems requirements, federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of [date of the latest financial statements].

[If the financial management systems substantially comply with only one or two of the above elements, this representation should be modified as follows:

As of [date of financial statements], the [entity's] financial management systems substantially comply with [specify which of the three elements for which there is substantial compliance (e.g., federal accounting standards and the SGL at the transaction level)],

but did not substantially comply with [specify which of the elements for which there was a lack of substantial compliance (e.g., federal financial management systems requirements)], as described below (or in an attachment).]

[If the financial management systems do not substantially comply with any of the three elements, the following paragraph should be used instead:

As of [date of financial statements], the [entity's] financial management systems do not substantially comply with the federal financial management systems requirements.]

[If there is a lack of substantial compliance with one or more of the three requirements, identify herein or in an attachment all the facts pertaining to the noncompliance, including the nature and extent of the noncompliance and the primary reason or cause of the noncompliance.]

25. We are responsible for the [entity's] compliance with applicable laws and regulations.
26. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
27. We have disclosed to you all known instances of noncompliance with laws and regulations.

# Enclosure II: Comments From the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON DC 20301-1100



JUN 7 2005

Gary T. Engel  
Director  
Financial Management and Assurance  
United States Government Accountability Office  
Washington, DC 20548

Dear Mr. Engel:

This is the Department of Defense response to the Government Accountability Office (GAO) draft report GAO-05-578R, "Financial Audit: The Department of Defense's (DoD) Fiscal Year 2004 Management Representation Letter On Its Financial Statements," dated May 18, 2005. The Department appreciates the opportunity to review the draft and provide comments.

We concur with the recommendations to improve the DoD's future management representation letters. More detailed comments are at the attachment. This response has been coordinated with the DoD Office of the Inspector General.

Our point of contact for this matter is Ms. Karen Nakama. She may be reached by e-mail: [karen.nakama@osd.mil](mailto:karen.nakama@osd.mil) or by telephone at (703) 693-5657.

Sincerely,

Robert J. Henke  
Principal Deputy

Attachment:  
As stated



GAO DRAFT REPORT DATED MAY 18, 2005  
GAO-05-587R

“FINANCIAL AUDIT: THE DEPARTMENT OF DEFENSE’S FISCAL YEAR  
2004 MANAGEMENT REPRESENTATION LETTER ON ITS FINANCIAL  
STATEMENTS

DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommends to the DoD’s Chief Financial Officer (CFO) that future management representation letters be signed by the appropriate level of management.

**DoD RESPONSE:** Concur. The Department plans to have the Deputy Secretary of Defense and the CFO sign future letters.

**RECOMMENDATION 2:** The GAO recommends to the DoD’s CFO that future management representation letters include materiality thresholds or such thresholds be provided separately to Treasury and OMB.

**DoD RESPONSE:** Concur. The Department will include appropriate materiality thresholds in future letters.

**RECOMMENDATION 3:** The GAO recommends to the DoD’s CFO that future management representation letters fully include all representations from the Financial Audit Manual (FAM) that are applicable to DoD.

**DoD RESPONSE:** Concur. The Department will include all representations from the FAM that are appropriate and applicable to DoD in future letters.

**RECOMMENDATION 4:** The GAO recommends that the DoD Office of the Inspector General work with the Department to help ensure that future management representation letters meet the key conditions noted as needing improvements in this report.

**DoD RESPONSE:** Concur. The Office of the Inspector will work with the Department to ensure that future letters contain the specific language in the FAM, verbatim, when appropriate.

Attachment  
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