



G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

March 23, 2010

The Honorable Thomas R. Carper
Chairman
The Honorable John McCain
Ranking Member
Subcommittee on Federal Financial Management,
Government Information, Federal Services, and
International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Briefing on the Results of GAO's Audit of the Fiscal Years 2009 and 2008
U.S. Government's Consolidated Financial Statements*

This letter formally transmits the enclosed briefing slides we provided in a briefing to the subcommittee staff on March 4, 2010. Our briefing highlighted the results of the Government Accountability Office (GAO) audit of the Consolidated Financial Statements of the U.S. Government (CFS) for fiscal years 2009 and 2008. GAO is required by the Government Management Reform Act of 1994 to perform an annual audit of the CFS.

This report, along with the *Financial Report of the United States Government*, which includes our complete audit report, will be available at no charge on GAO's Web site at <http://www.gao.gov>. We look forward to continuing to work with you and your staff to help further financial management reform in the federal government. If you or your staff have any questions concerning our audit or results, please contact me on (202) 512-3406 or engelg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Gary T. Engel
Director
Financial Management and Assurance

Enclosure

Enclosure: Briefing slides



Audit Report on the U.S. Government's Consolidated Financial Statements for Fiscal Years 2009 and 2008

Briefing to the Subcommittee on Federal Financial
Management, Government Information, Federal Services, and
International Security,
Committee on Homeland Security and Governmental Affairs,
U. S. Senate

March 4, 2010

1



- We are unable to, and we do not, express an opinion on the U.S. government's accrual-based consolidated financial statements for fiscal years 2009 and 2008 because of the federal government's inability to demonstrate the reliability of significant portions of its accrual-based consolidated financial statements, principally resulting from limitations related to certain material weaknesses in internal control over financial reporting and other limitations on the scope of our work.
- We rendered unqualified opinions on the Statements of Social Insurance for 2009, 2008, and 2007, marking 3 consecutive years for this achievement.
- Material weaknesses resulted in ineffective internal control over the federal government's financial reporting.
- Our work to test compliance with selected provisions of laws and regulations in fiscal year 2009 was limited by the material weaknesses and other scope limitations discussed in our audit report.



Significant Matters of Emphasis

- Key items were emphasized in order to put the information contained in the consolidated financial statements and the Management's Discussion and Analysis section of the *2009 Financial Report of the United States Government* into context:
 - The Federal Government's Actions to Stabilize Financial Markets and to Promote Economic Recovery
 - Uncertainties Regarding Certain Asset and Liability Valuations
 - Long-Term Fiscal Challenges
 - Equity Interests in Certain Financial Organizations and Commercial Entities



Major Impediments to an Opinion on the Accrual-Based Consolidated Financial Statements

- The following major impediments continue to prevent us from rendering an opinion on the accrual-based consolidated financial statements:
 - Serious financial management problems at the Department of Defense (DOD) that have prevented DOD's financial statements from being auditable
 - The federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities
 - The federal government's ineffective process for preparing the consolidated financial statements



Material Weaknesses Contributing to Our
Disclaimer of Opinion on the Accrual-Based
Consolidated Financial Statements

- Material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements relate to the following areas:
 - Property, Plant, and Equipment and Inventories and Related Property
 - Liabilities and Commitments and Contingencies
 - Cost of Government Operations and Disbursement Activity
 - Accounting for and Reconciliation of Intragovernmental Activity and Balances
 - Preparation of Consolidated Financial Statements
 - Components of the Budget Deficit



Other Limitations on the
Scope of Our Work

- There were limitations on the scope of our work in addition to the material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements.
 - The Department of Treasury (Treasury) and the Office of Management and Budget (OMB) were unable to provide us with adequate representations regarding the U.S. government's accrual-based consolidated financial statements for fiscal years 2009 and 2008.
 - The federal government was also unable to provide us with adequate legal representations regarding the U.S. government's accrual-based consolidated financial statements for fiscal year 2009.



Other Material Weaknesses

- In addition to the material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements, we found three other material weaknesses in internal control relating to the following areas:
 - Improper Payments
 - Information Security
 - Tax Collection Activities



- We also identified three significant deficiencies in internal control relating to the following areas:
 - Loans Receivable, Mortgage-Backed Securities, and Loan Guarantee Liabilities
 - Verification Procedures for Data Input for the Troubled Asset Relief Program (TARP) Equity Investment and Direct Loan Valuations
 - Preparation of the Statement of Social Insurance
- Individual federal entity financial statement audit reports identify additional control deficiencies that were reported by the entity's auditors as either material weaknesses or significant deficiencies at the individual entity level. We do not consider these additional deficiencies to represent material weaknesses or significant deficiencies at the governmentwide level.



- Although certain individual entity audit reports contain instances of noncompliance with laws and regulations, none of these instances were deemed to be reportable noncompliance with regard to the U.S. government's consolidated financial statements.
- Our objective was not to, and we do not, express an opinion on compliance with laws and regulations.
 - Our work to test compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements was limited by the material weaknesses and other scope limitations discussed in our audit report.



- Long-standing financial management systems weaknesses at several large CFO Act agencies along with the size and complexity of the federal government continue to present a formidable management challenge in providing accountability to the nation's taxpayers and have contributed significantly to our inability to determine the reliability of the accrual-based consolidated financial statements.
 - For fiscal years 2009 and 2008, auditors for 10 and 14 of the 24 CFO Act agencies, respectively, reported that the agencies' financial management systems did not substantially comply with one or more of the three Federal Financial Management Improvement Act of 1996 (FFMIA) requirements.
 - A fewer number of agency heads (7 in 2009 and 9 in 2008) reported that their agencies' systems were not in substantial compliance with one or more of the three FFMIA requirements.



- As required by the Government Management Reform Act of 1994, we performed our annual audit of the U.S. government's consolidated financial statements for fiscal year 2009.
- Our work was performed in coordination and cooperation with the inspectors general and independent public accountants for the 35 entities identified by OMB and Treasury as significant to the U.S. government's consolidated financial statements.
- Our audit approach regarding the accrual-based consolidated financial statements focused primarily on determining the current status of the material weaknesses we had previously identified in our report on the consolidated financial statements for fiscal year 2008.



- Our work included separately auditing the financial statements of the following significant federal entities and federal agency components:
 - Treasury's Internal Revenue Service
 - Schedule of Federal Debt Managed by Treasury's Bureau of the Public Debt
 - Securities and Exchange Commission
 - Federal Housing Finance Agency (*1st year audit*)
 - Treasury's Office of Financial Stability for TARP (*1st year audit*)
 - Federal Deposit Insurance Corporation (December 31, 2008)



- In planning and performing our audit, we considered internal control over financial reporting; however, we do not express an opinion on internal control over financial reporting because the purpose of our work was to determine our procedures for auditing the financial statements, not to express an opinion on internal control.
- Based on the scope of our work and the effects of the other limitations on the scope of our audit, our internal control work would not necessarily identify all deficiencies in internal control including those that might be material weaknesses or significant deficiencies.



- Our audit approach regarding the Statement of Social Insurance focused primarily on the Social Security Administration and the Department of Health and Human Services because of the significance of the amounts included from these agencies in the consolidated Statement of Social Insurance.
- We believe our audit, including internal control and substantive audit procedures, reperformance procedures, and review of the other auditors' Statement of Social Insurance-related audit work, provides a reasonable basis for our opinions on the 2009, 2008, and 2007 Statements of Social Insurance.



- We considered the CFO Act agencies' and certain other federal entities' fiscal year 2009 and 2008 financial statements and the related auditors' reports prepared by the inspectors general or contracted independent public accountants.
 - We did not audit, and we do not express an opinion on, any of these individual federal entity financial statements.
- We considered DOD's assertion that DOD management had prepared and submitted pursuant to the provisions of the National Defense Authorization Act for Fiscal Year 2002. In accordance with section 1008 of this act, DOD reported that certain major deficiencies related to noncompliant systems and noncompliant processes continued to impact the department's ability to prepare reliable financial statements.



- We performed our audit of the U.S. government's consolidated financial statements for fiscal years 2009 and 2008 (as well as 2007 and 2006 with respect to the Statements of Social Insurance) in accordance with U.S. generally accepted government auditing standards.

(198616)

16

(198616)

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

