United States Government Accountability Office

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Report to the Secretary of the Treasury and the Director of the Office of Management and Budget

May 2005

FINANCIAL AUDIT

Process for Preparing the Consolidated Financial Statements of the U.S. Government Continues to Need Improvement

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GAO-05-407

May 2005

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Highlights

Highlights of GAO-05-407, a report to the Secretary of the Treasury and the Director of the Office of Management and Budget

FINANCIAL AUDIT

Process for Preparing the Consolidated Financial Statements of the U.S. Government Continues to Need Improvement

Why GAO Did This Study

For the past 8 years, since the first audit of the consolidated financial statements of the U.S. government (CFS), certain material weaknesses in internal control and in selected accounting and financial reporting practices have resulted in conditions that prevented GAO from expressing an opinion on the CFS. Specifically, GAO has reported that the U.S. government did not have adequate systems, controls, and procedures to properly prepare the CFS. In December 2004, GAO reported on weaknesses identified during its fiscal year 2004 audit of the CFS, including weaknesses relating to the Department of the Treasury's (Treasury) preparation of the CFS. The purpose of this report is to (1) discuss the details of the weaknesses relating to Treasury's preparation of the CFS, (2) recommend improvements to address those weaknesses, and (3) provide the status of corrective actions to address the 142 open recommendations GAO previously reported.

What GAO Recommends

GAO is making 20 new recommendations to address compilation and reporting weaknesses identified during the fiscal year 2004 CFS audit. Treasury and the Office of Management and Budget stated that they generally concur with the findings in the report. Treasury also stated that it is addressing many of the recommendations from GAO's prior reports.

www.gao.gov/cgi-bin/getrpt?GAO-05-407.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gary T. Engel at (202) 512-3406 or engelg@gao.gov.

What GAO Found

GAO identified weaknesses during its tests of Treasury's process for preparing the fiscal year 2004 CFS. Such weaknesses in the CFS preparation process impair the U.S. government's ability to ensure that the CFS is consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles.

The weaknesses GAO identified during the fiscal year 2004 CFS audit involved the following six areas:

- directly linking audited federal agency financial statements to the CFS,
- controls over the compilation process,
- consolidated reporting guidance to agencies,
- intragovernmental activity and balances—explanations for material unreconciled transactions,
- consistency of the Department of Justice's and agencies' opinions on legal cases, and
- conformity with U.S. generally accepted accounting principles.

During fiscal year 2004, Treasury made progress in laying the foundation to address certain long-standing material deficiencies in preparing the CFS. Foremost is the ongoing development of a new system, which is intended to directly link information from federal agencies' audited financial statements to amounts reported in the CFS. Additional actions are under way and planned.

Of the 142 open recommendations that GAO reported in September 2004 regarding the process for preparing the CFS, 135 remained open as of December 6, 2004, the end of GAO's fieldwork for the fiscal year 2004 CFS audit. However, 86 of these 135 recommendations relate to specific disclosures required under U.S. generally accepted accounting principles. Treasury has taken action to begin addressing the conformity with U.S. generally accepted accounting principles issue. GAO plans to determine the status of corrective actions to address its open recommendations during its fiscal year 2005 audit of the CFS.

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Abbreviations

CFS	consolidated financial statements of the U.S. government
FASAB	Federal Accounting Standards Advisory Board
GAAP	generally accepted accounting principles
GFRS	Governmentwide Financial Reporting System
Justice	Department of Justice
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
SFFAS	Statement of Federal Financial Accounting Standards
TFM	*Treasury Financial Manual*
Treasury	Department of the Treasury
VA	Department of Veterans Affairs

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Accountability * Integrity * Reliability

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

May 4, 2005

The Honorable John W. Snow
The Secretary of the Treasury

The Honorable Joshua B. Bolten
Director, Office of Management and Budget

In our report dated December 6, 2004, we disclaimed an opinion on the consolidated financial statements of the U.S. government (CFS) for the fiscal years ended September 30, 2004 and 2003.[1] For the past 8 years, certain material weaknesses in internal control and in selected accounting and financial reporting practices resulted in conditions that prevented us from expressing an opinion on the CFS. Specifically, we have reported that the federal government did not have adequate systems, controls, and procedures to properly prepare its consolidated financial statements. Many of these weaknesses in internal control that contributed to our continuing disclaimers of opinion were identified by agency financial statement auditors during their audits of federal agencies' financial statements and were reported in detail with recommendations to the agencies in separate reports. However, some of the internal control weaknesses were identified during our tests of the Department of the Treasury's (Treasury) process for preparing the CFS.

Such weaknesses in the CFS preparation process impair the federal government's ability to ensure that the CFS is consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles (GAAP). Consequently, these weaknesses also contributed to our inability to render an opinion on the CFS.

The purpose of this report is to (1) discuss the details of the weaknesses we identified during our fiscal year 2004 audit regarding financial reporting procedures and internal control over the process for preparing the CFS, (2) recommend improvements to address those weaknesses, and (3) provide the status of corrective actions to address the

[1] The fiscal year 2004 *Financial Report of the United States Government* includes our report and was completed by the Department of the Treasury (Treasury) on December 15, 2004, and is available through GAO's Web site at www.gao.gov/financial.html and Treasury's Web site at www.fms.treas.gov/fr/index.html.

open recommendations detailed in our prior reports and listed in appendix II. We have discussed each of the new weaknesses identified during our fiscal year 2004 audit with your staff and have incorporated their comments as appropriate.

Results in Brief

We identified weaknesses in the compilation and reporting processes during our fiscal year 2004 audit. Specifically, we found that

- Treasury's process for compiling the CFS does not yet ensure that financial information from federal agencies' audited financial statements and other financial data directly link to amounts reported in the CFS;
- Treasury's process for compiling the CFS has weaknesses in internal control, including a lack of adequate segregation of duties and management reviews of certain key data;
- Treasury did not provide clear guidance to federal agencies about certain financial information that they were required to provide Treasury to be compiled in the CFS and Treasury and the Office of Management and Budget (OMB) did not perform follow-up procedures to ensure we had all the necessary audit documentation to perform certain of our audit procedures relating to the compilation of the CFS;
- Treasury does not require federal agencies to provide detailed explanations for all material differences identified in the intragovernmental reconciliations that Treasury and OMB require the agencies to perform;
- Treasury does not have specific policies and procedures to address discrepancies of opinion between the Department of Justice's (Justice) and applicable federal agencies' legal counsel for purposes of providing legal representations to us at the governmentwide level; and
- Treasury continues to lack an adequate process to ensure that the financial statements, related notes, stewardship information, and supplementary information in the CFS are presented in conformity with GAAP.

During fiscal year 2004, Treasury made progress in laying the foundation to address certain long-standing material deficiencies in preparing the CFS.

Foremost is the ongoing development of a new system, which is intended to directly link information from federal agencies' audited financial statements to amounts reported in the CFS. Additional actions are under way and planned.

This report includes 20 new recommendations to address the weaknesses we identified during our fiscal year 2004 CFS audit, including 6 related to three required GAAP disclosure areas identified in appendix I. Consistent with our position on previously identified disclosure weaknesses, we are recommending that the required disclosures that are not included in the fiscal year 2004 CFS either be included in future years' CFS or that the specific basis for their exclusion be documented. Appendix II of this report reflects the status of actions taken as of December 6, 2004, the date of completion of our fieldwork on our fiscal year 2004 CFS audit, to address the open recommendations from our previous reports and shows that 135 recommendations contained in our prior reports remain open and 7 were closed during our fiscal year 2004 audit. However, 86 of these 135 recommendations relate to specific disclosures required under GAAP. Treasury has taken action to begin addressing the conformity with GAAP issue. We plan to determine the status of corrective actions to address our open recommendations during our fiscal year 2005 audit of the CFS.

OMB stated that it generally agreed with the new findings and related recommendations in this report. Treasury stated that it agrees that the reporting process still needs improvement and that it is addressing many of the recommendations in our previous reports. Treasury also stated that it generally concurs with our new recommendations and that it will work with OMB and the federal agencies to improve reporting practices. Also, Treasury asked that we reconsider or modify our recommendations in three areas: (1) controls over the compilation process, (2) consistency of Justice's and agencies' opinions on legal cases, and (3) directly linking audited federal agency financial statements to the CFS. We modified recommendations in the first two areas.

With regard to controls over the compilation process, we found that Treasury did not have adequate supporting documentation for several journal vouchers to adjust data submitted by agencies in their audited closing packages. Treasury stated that it agrees that there are instances where it should obtain agency approvals before changing federal agencies' audited data when compiling the CFS, but it needs the flexibility and authority to make appropriate adjustments when needed regardless of whether agencies agree and asked that we modify our recommendation

accordingly. Treasury believes that agency approval is not necessary when certain adjustments to agencies' closing package data are made. Treasury is correct that certain circumstances may require adjustments to agency closing package data. In such instances, we believe that Treasury should contact agencies to resolve any discrepancies between agencies' audited closing packages and audited financial statements and discuss any other situations that require adjustments to agencies' audited closing package data. The purpose of our recommendation was to provide improved controls over adjustments made to agencies' data and was not intended to limit Treasury's flexibility in preparing the CFS. We have modified our recommendation to clarify our intent.

With regard to consistency of Justice's and agencies' opinions on legal cases, Treasury stated that it and OMB have agreed that Justice is the final authority on legal liabilities and disclosure amounts at the governmentwide level. Treasury also stated that it will work with OMB to develop a policy to eliminate any inconsistencies between Justice's and federal agencies' opinions on legal cases. We have modified our recommendation to reflect that Treasury and OMB will work jointly to address the issue.

With regard to directly linking audited federal agency financial statements to the CFS, Treasury continues to disagree that additional information should be collected from federal agencies' audited financial statements to demonstrate consistency and completeness of reporting for both the Reconciliation of Net Operating Cost and Unified Budget Deficit and the Statement of Changes in Cash Balance from Unified Budget and Other Activities. For fiscal year 2004, these two financial statements included some amounts that Treasury could not explain or fully support or for which Treasury could not demonstrate the link to agencies' audited financial statements. We continue to believe that the process of directly linking relevant audited federal agencies' financial statement information to these two financial statements would be the most efficient and effective manner for Treasury, as the preparer of the CFS, to obtain and demonstrate the necessary assurance on certain information reported in such financial statements. As such, we have not modified our recommendations in this area.

Scope and Methodology

As part of our audit of the fiscal years 2004 and 2003 CFS, we evaluated Treasury's financial reporting procedures and related internal control and we followed up on the status of Treasury and OMB corrective actions to address open recommendations regarding the process for preparing the CFS that were in our prior years' reports. In our report, which is included in the fiscal year 2004 *Financial Report of the United States Government*, we reported material deficiencies relating to Treasury's preparation of the CFS. These material deficiencies contributed to our disclaimer of opinion on the CFS and also constitute material weaknesses in internal control, which contributed to our adverse opinion on internal control. We performed sufficient audit procedures to provide the disclaimer of opinion in accordance with U.S. generally accepted government auditing standards. This report provides the details of the additional weaknesses we identified in performing our fiscal year 2004 audit procedures and our recommendations to correct those weaknesses, as well as the status of corrective actions taken by Treasury and OMB to address open recommendations contained in our prior years' reports.

We requested comments on a draft of this report from the Director of OMB and the Secretary of the Treasury or their designees. OMB provided oral comments, which are discussed in the Agency Comments and Our Evaluation section of this report. Treasury's comments are reprinted in appendix III and are also discussed in the Agency Comments and Our Evaluation section.

Directly Linking Audited Federal Agency Financial Statements to the CFS

As we have reported in the past, Treasury's process for compiling the CFS does not yet ensure that financial information from federal agencies' audited financial statements and other financial data directly link to amounts reported in the CFS. Statement of Federal Financial Accounting Concepts No. 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states that the consolidated financial report should be a general purpose report that is aggregated from agency reports and that it should tell users where to find information in other formats, both aggregated and disaggregated, such as in individual agency reports, on agency Web sites, and in the President's Budget. In our prior report,[2] we recommended that as Treasury continues to design and further implement its new process for compiling the CFS, the Secretary of the Treasury direct the Fiscal Assistant Secretary, in coordination with the Controller of the OMB, to modify Treasury's closing package to (1) require federal agencies to directly link their audited financial statement notes to the CFS notes and (2) provide the necessary information to demonstrate that all of the five principal consolidated financial statements are consistent with the underlying information in federal agencies' audited financial statements and other financial data.

As discussed in our fiscal year 2004 audit report, Treasury made progress in laying the foundation to address certain long-standing material deficiencies in preparing the CFS. Foremost is the ongoing development of a new system, the Governmentwide Financial Reporting System (GFRS), to collect agency financial statement information taken directly from federal agencies' audited financial statements rather than using federal agencies' *Standard General Ledger* data, as Treasury had done in previous years to compile the CFS. The goal of the new system is to be able to directly link information from federal agencies' audited financial statements to amounts reported in the CFS, a concept that we strongly support. Once Treasury is able to achieve this, a major impediment to our ability to audit the CFS would be eliminated.

[2] GAO, *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Further Improvement*, GAO-04-866 (Washington, D.C.: Sept. 10, 2004).

Based on our review of Treasury's new process for compiling the CFS, we found that Treasury was unable to demonstrate that the information in the fiscal year 2004 CFS directly linked to agencies' audited financial statements. Even though Treasury required each significant agency[3] to submit its audited financial statement data in the GFRS closing package and certify their accuracy, the closing package does not require federal agencies to directly link their audited financial statement notes to the closing package notes and does not require the necessary information to compile all five of the required consolidated financial statements. In some cases, we found that Treasury was unable to demonstrate that the financial information in the CFS directly linked to federal agencies' audited financial statements because federal agencies provided Treasury with incomplete and inaccurate financial information. Also, because of other internal control weaknesses over the compilation process noted in this report, Treasury could not fully ensure that the information in the CFS was consistent with underlying information in agencies' audited financial statements and other financial data.

Controls over the Compilation Process

We continued to find that there are specific areas of internal control in Treasury's process for compiling the CFS that need to be strengthened. Treasury had to resort to last-minute, alternative methods to gather the needed fiscal year 2004 information. These problems were compounded by Treasury's reliance on internal controls that were dependent on procedures that would attempt to identify any errors after they were made by an agency (detective controls) rather than on internal controls that may have prevented or minimized the errors from occurring (preventive controls). Treasury had planned to perform certain tests of its new fiscal year 2004 process and design the necessary internal controls by collecting agencies' fiscal year 2003 financial information during the summer of fiscal year 2004. Although Treasury did collect the fiscal year 2003 financial information, it did not perform the necessary detailed tests to identify and correct potential issues with its new reporting process and develop adequate internal control for the fiscal year 2004 reporting process.

[3] Treasury refers to the significant agencies as "verifying agencies." They are the Chief Financial Officers Act agencies, the Export-Import Bank of the United States, the Farm Credit System Insurance Corporation, the Federal Communications Commission, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the U.S. Postal Service, the Pension Benefit Guaranty Corporation, the Railroad Retirement Board, the Securities and Exchange Commission, the Smithsonian Institution, and the Tennessee Valley Authority.

Internal control should provide, among other things, reasonable assurance that financial reporting is reliable. GAO's *Standards for Internal Control in the Federal Government*[4] defines the minimum level of quality acceptable for internal control in the federal government and provides the standards against which internal control is to be evaluated. These standards state that internal controls should include (1) segregation of duties, (2) appropriate documentation of transactions and internal control, (3) reviews by management at the functional or activity level, and (4) access controls over information systems. We found many internal controls in place, but we also continued to identify areas that need to be improved, as well as the need for a strong financial reporting infrastructure. As Treasury continues to develop its new compilation process, implementing adequate internal control remains important and needs to be considered during the development process.

Segregation of Duties

Segregation of duties is the practice of dividing the steps in a critical function among different individuals in order to reduce the risk of error, thus preventing a single individual from having full control of a transaction or event. Lack of proper segregation of duties for critical processes leaves the CFS vulnerable to errors and could result in incomplete and inaccurate summarization of data within these financial statements. During our fiscal year 2004 audit, we identified a lack of segregation of duties over (1) Treasury's new process for preparing governmentwide adjustments to the financial statements,(2) the process for making changes to Excel spreadsheets that contain audited agency financial information, and (3) access to federal agencies' closing package data in Treasury's new system. The lack of segregation of duties over these areas allowed a single Treasury employee to perform functions that should have been divided among several employees. In each of the following examples, a single Treasury employee was allowed to

- determine and approve the amount of a journal voucher to adjust the financial statements,
- solely determine needed changes to the Excel spreadsheets and make the changes without obtaining any approval, and

[4] GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

- have access to agency closing package data entered in Treasury's new system by individual agencies and edit the same information without obtaining approval from the agency.

Appropriate Documentation of Transactions and Internal Control

Agency management is responsible for developing appropriate detailed policies, procedures, and practices to perform agency operations and ensuring that internal control is an integral part of operations. Although GAO's *Standards for Internal Control in the Federal Government* calls for clear documentation of policies and procedures and transactions, we continued to find that many key policies and procedures were not documented in Treasury's standard operating procedures and that Treasury did not have appropriate supporting documentation for all transactions recorded in the CFS.

In our prior report,[5] we recommended that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and fully document policies and procedures for the consolidated financial statement preparation process so that they are proper, complete, and consistently applied among staff members. Without documented policies and procedures, staff could apply practices inconsistently or not perform necessary practices at all. However, during our fiscal year 2004 audit, we found that Treasury had not fully documented its policies and procedures for preparing the CFS before the fiscal year 2004 process began and continued to develop its policies and procedures throughout our audit and up to the end-of-fieldwork date. Treasury's standard operating procedures did not include the following key procedures:

- procedures for correcting any errors identified in agencies' closing packages;
- detailed and comprehensive procedures for the allocation of certain costs on the statement of net cost; and
- procedures for compiling information that was not collected in GFRS or Excel spreadsheets, such as how to properly analyze and compile contingency information.

[5] GAO, *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Improvement*, GAO-04-45 (Washington, D.C.: Oct. 30, 2003).

Also, Treasury did not have appropriate supporting documentation for all transactions recorded in the CFS. Recording transactions in the financial statements without adequate underlying support increases the risk that inappropriate adjustments to balances in the financial statements could be made. Specifically, we found that 20 of the 51 journal vouchers recorded in Treasury's journal voucher log did not have adequate supporting documentation. Eighteen of these journal vouchers were necessary because agencies submitted data in their closing packages that did not agree to their audited financial statements. Treasury did not document communications with these agencies before recording such adjustments. For example, we found that the supporting documentation for 13 fiscal year 2004 journal vouchers to correct agency data was simply a printout from GFRS or a copy of a page from an agency's financial statements without any agency confirmation of the correction. We also found that some significant changes were made directly to the CFS and not through the journal voucher process or any other formal documentation process.

Management Review

During our fiscal year 2004 audit, we found that Treasury management did not review transactions within several key compilation processes. Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. Appropriate reviews by management of key decisions and data are vital controls to ensure that only authorized actions occur. Inadequate management reviews and lack of documentation of changes, reviews, and approvals could allow the CFS to be manipulated or changed without any supervisory control or review, resulting in the possibility that agency data could be changed or incorrectly compiled in the CFS. For example, we found that some changes to the Excel spreadsheets used to compile agency financial information were not documented, and therefore, there was no documentation of review and approval from management. We also found that not all journal vouchers were approved by management before being recorded in the CFS. In some cases, the lack of management review was the result of improperly segregating duties as discussed above.

Access Controls over Information Systems

During our fiscal year 2004 audit, we found that information system control weaknesses, including inadequate access controls, existed within the segments of GFRS used during the fiscal year 2004 reporting process. Access controls should provide reasonable assurance that computer resources are protected against unauthorized modification, disclosure, loss, or impairment. Limiting access ensures that access to very sensitive

resources is limited to very few individuals and that employees are restricted from performing incompatible functions or functions beyond their responsibility. Treasury's lack of adequate controls to prevent inappropriate access increases the risk of unauthorized information or computer resource modification, disclosure, loss, or impairment. Specifically, we found that inappropriate access to GFRS was granted to certain Treasury personnel, and the GFRS database was not configured to prevent the unauthorized alteration of data submitted by federal agencies. We also found that the GFRS production database was also used for testing, which could result in inadvertent alteration of the production data used to compile the CFS.

Financial Reporting Infrastructure

During our fiscal year 2004 audit, Treasury did not have the infrastructure to address the magnitude of the fiscal year 2004 financial reporting challenges it faced, such as an incomplete financial reporting system, compressed time frames for compiling the financial information, and inaccurate and incomplete information provided by certain federal agencies. As a result, we found that Treasury's Financial Management Service personnel had excessive workloads and that an extraordinary amount of effort and dedication was required to compile the CFS. Also, too few Financial Management Service personnel had the specialized financial reporting experience necessary to ensure accurate and reliable financial reporting by the accelerated reporting date. We found that there was a heavy reliance on just a few personnel to perform key functions without any trained backup employees. If these personnel were unavailable, Treasury's financial reporting process would be negatively affected.

Recommendations for Executive Action

In connection with Treasury's development of its new compilation system and process, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to

- segregate the duties of individuals performing key functions in Treasury's processes for preparing governmentwide adjustments to the financial statements, making changes to Excel spreadsheets that contain audited agency financial information, and accessing federal agencies' closing package data in Treasury's new system;
- require and maintain appropriate supporting documentation for all journal vouchers recorded in the CFS;

- require that Treasury employees contact and document communications with agencies before recording journal vouchers to change agency audited closing package data;

- require and document management reviews of all procedures that result in data changes to the CFS;

- configure the GFRS database to prevent Treasury personnel from altering data submitted by federal agencies and to use separate GFRS databases for testing and production; and

- assess the infrastructure associated with the compilation process and modify it as necessary to achieve a sound internal control environment.

Consolidated Reporting Guidance to Agencies

The *Treasury Financial Manual* (TFM) prescribes how federal agencies are to submit financial information to Treasury to be compiled in the CFS. While our planned audit procedures were not to review the entire TFM to determine if its guidance to agencies was clear, we found several areas where the TFM did not give clear guidance to federal agencies about the information that they were required to provide in the notes to the financial statements. Specifically, we found that the TFM did not give clear guidance for reporting note disclosures for loans receivable and loan guarantees; property, plant, and equipment; federal employee and veteran benefits payable; and contingencies. Also, the TFM did not provide clear guidance on how to consistently report debit and credit amounts throughout various notes so that like amounts are appropriately added and subtracted. For example, we noted that the TFM did not provide instructions about which line in the property, plant, and equipment note should include land improvements. As a result, agencies reported financial data inconsistently. This increases the risk of incomplete and inaccurate summarization of data in the CFS.

The TFM required federal agencies to also provide GAO, as the principal auditor of the CFS, a complete closing package consisting of the special purpose audit opinion, the management representation letter for the closing package, audit trail report (reclassification journal voucher report), closing package financial statement report, trading partner summary report, notes reports, and other data reports. Certain federal agencies did not provide us with complete closing packages. For example, many federal agencies did not provide the audit trail report, which is a vital report demonstrating the linkage between agencies' audited financial statement

line items and the CFS line items. Treasury and OMB did not perform follow-up procedures to obtain missing information from those agencies to ensure that we had all the necessary audit documentation to perform our audit procedures.

Recommendations for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to review the TFM and any other guidance to federal agencies to ensure that they provide clear instructions for reporting accurate data to Treasury in the following specific areas:

- loans receivable and loan guarantees;
- property, plant, and equipment;
- federal employee and veteran benefits payable;
- contingencies; and
- reporting debit and credit amounts.

We also recommend that the Director of OMB direct the Controller of the Office of Federal Financial Management, in coordination with the Fiscal Assistant Secretary, to ensure that federal agencies submit to GAO a complete closing package, as required by the TFM as part of the consolidation process, consisting of the

- special purpose audit opinion,
- management representation letter for the closing package,
- audit trail report (reclassification journal voucher report),
- closing package financial statement reports,
- trading partner summary reports,
- notes reports, and
- other data reports.

Intragovernmental Activity and Balances—Explanations for Material Unreconciled Differences

OMB and Treasury require federal agencies to reconcile selected intragovernmental activity and balances with their "trading partners"[6] and report on the extent and results of the reconciliation efforts to Treasury. As part of the reconciliation report, federal agencies were required to categorize any material differences, as determined by Treasury, with their trading partners at fiscal year-end within five categories: (1) confirmed reporting (in which the agency is stating that it has confirmed its balance to be correct); (2) accounting methodology differences; (3) accounting or reporting errors; (4) timing difference—current year, timing difference—prior year; and (5) unknown/unreconciled. If a federal agency selects the category "accounting methodology differences," it is also required to provide a detailed explanation. However, Treasury does not require federal agencies to provide any detailed explanations for the material differences reported in any other category selected. Lack of detailed explanations may hinder efforts to identify and correct problems that federal agencies are experiencing in reconciling with their trading partners.

Recommendation for Executive Action

As Treasury continues to make strides to address issues related to intragovernmental transactions, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to require that federal agencies provide detailed explanations for all material differences identified in the intragovernmental reconciliations.

[6] Trading partners are U.S. government agencies, departments, or other components included in the CFS that do business with each other.

Consistency of Justice's and Agencies' Opinions on Legal Cases

For each agency financial statement audit, generally accepted government auditing standards require that the agency auditors obtain written legal representations as part of the audit. Legal representation letters, along with related management schedules,[7] are essential to properly reporting the possible effects of litigation on federal agency financial statements. Legal counsel's assessment of the likelihood of an unfavorable outcome and the estimated potential losses on its agency's cases are the basis for reporting legal contingencies in the financial statements and making related disclosures in the notes. Inconsistent assessments on the likelihood of an unfavorable outcome or estimated potential losses for the same cases by Justice and agency legal counsel limit both the ability of management to determine the proper accounting treatment in the CFS in accordance with GAAP and GAO's ability to audit the CFS.

Generally, Justice is charged with the supervision of litigation to which the U.S. government or its departments, agencies, officers, or employees are a party and with providing advice and opinions to the President and the heads of the executive departments of the U.S. government, when requested. Accordingly, Justice has a special role in ensuring that we receive legal representations to conduct our audit of the CFS in accordance with generally accepted government auditing standards. During our audit, we noted that the opinion of Justice's legal counsel on certain agencies' legal cases differed from the opinion of the respective individual federal agencies' legal counsel on such cases. For example, one agency estimated its probable losses for certain cases, yet Justice's legal counsel reported that it was not able to estimate the potential losses for the same cases. In another legal case involving multiple agencies, legal counsel from each of the agencies had a differing assessment of the legal case's outcome, while Justice's legal counsel was unable to provide an assessment. Treasury did not have specific policies and procedures to address discrepancies of opinion between Justice's and applicable agencies' legal counsel.

[7] Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, OMB-01-02 (Washington, D.C.: Oct. 16, 2000), requires each agency chief financial officer to prepare a management schedule that documents how the information obtained in the legal counsel's response was considered in preparing the financial statements.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to develop policies and procedures to determine the proper resolution and the appropriate legal representations to GAO at the governmentwide level when Justice's legal counsel and agencies' legal counsel provide inconsistent opinions.

Conformity with U.S. Generally Accepted Accounting Principles

As we have reported in previous years, and noted again during our fiscal year 2004 audit, Treasury lacks an adequate process to ensure that the financial statements, related notes, stewardship information, and supplemental information in the CFS are presented in conformity with GAAP. Statement of Federal Financial Accounting Standards No. 24, *Selected Standards for the Consolidated Financial Report of the United States Government*, states that the Federal Accounting Standards Advisory Board (FASAB) standards apply to all federal agencies, including the U.S. government as a whole, unless provision is made for different accounting treatment in a current or subsequent standard. In our prior report,[8] we recommended that the Secretary of the Treasury direct the Fiscal Assistant Secretary to establish a formal process that will cause the financial statements, related notes, stewardship information, and supplemental information in the CFS to be presented in conformity with GAAP in all material respects. The process should

- timely identify GAAP requirements;
- make timely modifications to Treasury's closing package requirements to obtain information needed;
- assess, qualitatively and quantitatively, the impact of any omitted disclosures;[9] and
- document decisions reached and the rationale for such decisions.

[8] GAO-04-45.

[9] An item's omission or error is considered material if the surrounding circumstances make it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

However, during fiscal year 2004, Treasury did not implement our recommendations. As a result of our prior audits, recommendations related to 86 specific disclosures that may not have been in conformity with applicable standards remain open. During our fiscal year 2004 audit, we identified 6 additional specific disclosures required by applicable standards that were not included in the CFS. These additional required disclosures are described in appendix I. Treasury did not provide us with documentation of its rationale for excluding this information. As a result of this and certain of the material deficiencies identified during the fiscal year 2004 audit, we were unable to determine if the missing information was material to the CFS. Treasury has not yet begun an annual process to determine the proper GAAP disclosures. However, in an effort to begin addressing this issue, Treasury collected certain additional note information required by GAAP in its new process for fiscal year 2004. However, due to the compressed time frames to compile the CFS and because GFRS is still being developed, Treasury did not analyze such information in preparing the fiscal year 2004 CFS. Treasury plans to analyze this information in fiscal year 2005 and determine how or whether to disclose this information in future years' CFS.

Recommendations for Executive Action

With respect to the six specific disclosures related to three disclosure areas identified in appendix I for which information was either not included in the CFS or was presented in a way that did not meet GAAP standards, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to include each of the six specific disclosures in the CFS or document the specific rationale for excluding any of them.

Agency Comments and Our Evaluation

OMB Comments

In oral comments on a draft of this report, OMB stated that it generally agreed with the new findings and related recommendations in this report. In addition, OMB provided some technical comments, which we have incorporated as appropriate.

Treasury Comments

In written comments on a draft of this report, which are reprinted in appendix III, Treasury stated that it agrees that the reporting process still needs improvement and that it is addressing many of the recommendations in our previous reports. Treasury also stated that it generally concurs with our new recommendations and that it will work with OMB and the federal agencies to improve reporting practices. Also, Treasury asked that we reconsider or modify our recommendations in three areas: (1) controls over the compilation process, (2) consistency of Justice's and agencies' opinions on legal cases, and (3) directly linking audited federal agency financial statements to the CFS. We modified recommendations in the first two areas.

Controls over the Compilation Process

Treasury stated that it agrees that there are instances where it should obtain agency approvals before changing federal agencies' audited data when compiling the CFS. However, Treasury also stated that it, as the preparer of the CFS, needs the flexibility and authority to make appropriate adjustments when needed regardless of whether federal agencies agree and asked that we modify our recommendation accordingly. Treasury believes that agency approval is not necessary when adjustments are required to (1) make agency closing packages agree with their financial statements, (2) apply a consistent application of an accounting principle between agencies, and (3) make an agency conform to GAAP. In this regard, the premise of the new compilation process is that the federal agencies' audited closing package provides a direct link from agencies audited financial statements to the CFS. Without that link, a timely and effective audit is not possible. Federal agencies receive audit opinions on their closing packages, and therefore, any adjustments that are necessary to agencies' audited closing package data should be discussed with the agencies. Treasury is correct that certain circumstances may require adjustments to agency closing package data. In such instances, Treasury should contact agencies to resolve any discrepancies between agencies' audited closing packages and audited financial statements and to discuss any other situations that require adjustments to agencies' audited closing package data.

These communications should be documented and maintained as supporting documentation for any resulting journal vouchers. This could be done by e-mail. During our fiscal year 2004 audit of the CFS, we found that Treasury did not have adequate supporting documentation for several journal vouchers to adjust data submitted by agencies in their audited closing packages. Treasury's supporting documentation for some of these

journal vouchers was simply a printout from GFRS or a copy of a page from an agency's financial statements. The purpose of our recommendation is to provide improved controls over adjustments made to federal agencies' closing package data and was not intended to limit Treasury's flexibility in preparing the CFS. We have modified our recommendation to clarify our intent that Treasury should contact and document communications with agencies before recording journal vouchers to change agencies' audited closing package data.

Consistency of Justice's and Agencies' Opinions on Legal Cases

Treasury stated that with regard to the governmentwide legal letter, Treasury and OMB have agreed that Justice is the final authority on legal liabilities and disclosure amounts. Treasury also stated that it will work with OMB to develop a policy to eliminate any inconsistencies between Justice's and the agencies' opinions on legal cases. We have modified our recommendation to reflect that Treasury and OMB will work jointly to address the issue.

Directly Linking Audited Federal Agency Financial Statements to the CFS

Treasury stated that it recognizes the value and need for the CFS to be consistent with the underlying agency financial statements, and it looks to improve its process for compiling the CFS to allow for the expanded traceability of the federal agencies' audited financial statement note data to the CFS notes. However, Treasury continues to disagree that additional information should be collected through the closing package from federal agencies' audited financial statements to demonstrate consistency and completeness of reporting for both the Reconciliation of Net Operating Cost and Unified Budget Deficit and the Statement of Changes in Cash Balance from Unified Budget and Other Activities—two of the five principal financial statements.[10]

Treasury acknowledged that problems with these two statements need to be resolved, but does not believe that rolling up federal agencies' reported data will help to improve these statements. Treasury stated that the FASAB standard related to the two statements makes clear that agency-reported data are not relevant to these statements. We disagree with Treasury's underlying premise. While the FASAB standard does not require the CFS to include the Statement of Budgetary Resources and Statement of Financing,

[10] The CFS has five principal financial statements—the Balance Sheet, Statement of Net Cost, Statement of Operations and Changes in Net Position, Reconciliation of Net Operating Cost and Unified Budget Deficit, and Statement of Changes in Cash Balance from Unified Budget and Other Activities.

which are required financial statements at the agency level, the standard should not be interpreted to mean that none of the information reported in federal agency financial statements is relevant to the Reconciliation of Net Operating Cost and Unified Budget Deficit and the Statement of Changes in Cash Balance from Unified Budget and Other Activities. For example, federal agencies report net outlays in their Statements of Budgetary Resources, and net outlays for all federal agencies are reflected in the budget deficit amount reported in the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities in the CFS. During our fiscal year 2004 audit, we identified material differences between net outlays reported by the agencies and the records used by Treasury to report net outlays at the consolidated level, totaling about $69 billion.

When differences arise between the amounts Treasury uses to compile the CFS and related amounts federal agencies are reporting, it is important for management of the federal government to understand and be able to explain those differences and take corrective action where needed. For fiscal year 2004, the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities included some amounts that Treasury could not explain or fully support or for which Treasury could not demonstrate the link to agencies' audited financial statements. We continue to believe that the process of directly linking relevant audited federal agencies' financial statement information to these two financial statements would be the most efficient and effective manner for Treasury, as the preparer of the CFS, to obtain and demonstrate the necessary assurance on certain information reported in such financial statements. As such, we have not modified our recommendations in this area.

Treasury stated that it would welcome specific recommendations to address problems with its Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities. In this regard, we have previously provided several specific recommendations to Treasury regarding the preparation and reporting of these financial statements, and these recommendations are included in appendix II of this report.[11] Our recommendations are intended to allow some flexibility in developing viable solutions to address

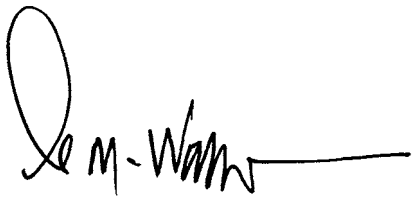
[11] See recommendations 02-12 through 02-21 and 03-4 through 03-7 in appendix II of this report.

the issues. At the same time, we believe it is crucial that Treasury develop corrective actions to address our recommendations now as it is still designing and further implementing its new system and process for compiling the CFS. Prolonging corrective actions could result in additional costs to Treasury if it decides later to modify its new system to collect and compile additional information.

This report contains recommendations to the Secretary of the Treasury and the Director of OMB. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations. You should submit your statement to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Government Reform within 60 days of the date of this report. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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 Deputy Director for Management 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 http://www.gao.gov.

We acknowledge and appreciate the cooperation and assistance provided by Treasury and OMB during our audit. If you or your staff have any questions or wish to discuss this report, please contact Jeffrey C. Steinhoff, Managing Director, Financial Management and Assurance, on (202) 512-2600 or Gary T. Engel, Director, Financial Management and Assurance, on (202) 512-3406.



David M. Walker
Comptroller General
of the United States

Disclosure Issues

U.S. generally accepted accounting principles (GAAP) require the six specific disclosures related to three disclosure areas described below to be included in the consolidated financial statements (CFS), if material. If management determines that the required disclosures need not be included, the specific rationale for their exclusion should be sufficiently documented. However, the Department of the Treasury (Treasury) neither included the disclosures in the CFS nor provided documentation with the rationale for exclusion of these required disclosures.

Federal Employee and Veteran Benefits Payable

Treasury did not disclose certain required information on the Department of Veterans Affairs' (VA) insurance benefit liabilities in the CFS. Such information, as noted below, would include all components of the liability for future policy benefits with a description of each amount and an explanation of its projected use and any other potential uses for noncancelable or renewable VA life insurance.

For noncancelable or renewable VA life insurance, Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 110, table 9, states that all components of the liability for future policy benefits should be separately disclosed in a footnote with a description of each amount and an explanation of its projected use and any other potential uses.

In accordance with SFFAS No. 5, paragraphs 117 and 118, all federal reporting entities with whole life insurance programs should follow the standards as prescribed in the private sector standards when reporting the liability for future policy benefits, in addition to the following required disclosures: liability for future policy benefits relating to participating life insurance contracts should be equal to the sum of (1) the net level premium reserve for death and endowment policy benefits, (2) the liability for terminal dividends, and (3) any premium deficiency.

Additionally, SFFAS No. 5, paragraph 121, states that all components of the liability for future policy benefits (i.e., the net-level premium reserve for death and endowment policy and the liability for terminal dividends) should be separately disclosed in a footnote with a description of each amount and an explanation of its projected use and any other potential uses (e.g., reducing premiums, determining and declaring dividends available, or reducing federal support in the form of appropriations related to administrative cost or subsidies).

Cash and Other Monetary Assets

The CFS note disclosure for cash and other monetary assets departed from the disclosure requirements of SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, paragraph 30, which requires that financial reports disclose the reasons for and nature of restricted cash. SFFAS No. 1 defines restricted cash as restrictions usually imposed on cash deposits (in escrow or other special accounts) by law, regulation, or agreement. Treasury did not adequately ensure that the note disclosure relating to Cash and Other Monetary Assets was presented in conformity with GAAP. Specifically, while agencies are required by Treasury to describe in the closing package the nature of the amount reported in the line item Other Cash, they are not required to designate whether such cash is restricted.

In addition, cash held by certain agencies, although not restricted as it relates to the operations of those agencies, could be legally or otherwise restricted from a governmentwide perspective. For example, as disclosed by the Pension Benefit Guaranty Corporation (PBGC), the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 1987 established revolving funds in which premiums collected and held are to be used for specific purposes related to the operations of PBGC. As such, at the governmentwide level, the cash held by PBGC relating to these revolving funds could be considered as restricted for governmentwide reporting purposes. However, Treasury's process did not require agencies to designate any amounts reported for the "other cash" line items that are restricted with respect to the federal government taken as a whole.

Other Liabilities

The CFS includes life insurance liabilities in the Other Liabilities line item. However, the CFS did not report indicators of the range of uncertainty around insurance-related estimates and the sensitivity of the estimates to changes in major assumptions, in accordance with SFFAS No. 5, paragraph 114.

Status of Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS

This appendix includes open recommendations from two prior GAO reports: *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Improvement*, GAO-04-45 (Oct. 30, 2003), and *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Further Improvement*, GAO-04-866 (Sept. 10, 2004). Recommendations that were closed in prior reports are not included in this appendix. This appendix also includes the status of the recommendations according to Treasury and the Office of Management and Budget (OMB) and according to GAO. Explanations are included in the GAO status of recommendations when Treasury and OMB disagreed with our recommendation.

			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
GAO-04-45 (results of the fiscal year 2002 audit)				
1	02-1	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in connection with Treasury's current compilation process and the development of Treasury's new compilation system and process, to segregate the duties of individuals who have the capability to enter, change, and delete data within the Federal Agencies' Centralized Trial Balance System (FACTS I) and the Hyperion database and post adjustments to the CFS.	Treasury established significant policies and procedures to segregate duties with the new fiscal year 2004 process. Treasury is currently addressing the instances identified by GAO and expects to address this recommendation completely in fiscal year 2005.	Closed during the fiscal year 2004 audit for FACTS I, but there are segregation of duties issues with the new process used during fiscal year 2004.
2	02-2	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in connection with Treasury's current compilation process and the development of Treasury's new compilation system and process, to develop and fully document policies and procedures for the CFS preparation process so that they are proper, complete, and consistently applied by staff members.	Treasury developed substantial documentation relative to our policies and procedures for the new fiscal year 2004 process. Treasury is currently addressing the instances identified by GAO and expects to address this recommendation completely in fiscal year 2005.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
3	02-4	As Treasury is designing its new financial statement compilation process to begin with the fiscal year 2004 CFS, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop reconciliation procedures that will aid in understanding and controlling the net position balance as well as eliminate the plugs previously associated with compiling the CFS.	This is a long-standing problem that Treasury will continue analyzing. However, Treasury designed a process to eliminate intragovernmental activity and balances using formal balanced accounting entries and developed a model to provide an analysis of the unreconciled transactions that affect net position (plug) for fiscal year 2004. Treasury will further analyze the results of the 2004 process and continue to work on this issue in 2005 by starting to establish the reciprocal category for the General Fund and analyzing the changes in net position from the beginning of the year to the end of the year to eliminate or explain the adjustments to net position.	Open.
4	02-5	As Treasury is designing its new financial statement compilation process to begin with the fiscal year 2004 CFS, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to use balanced accounting entries to account for the change in net position rather than simple subtraction of liabilities from assets.	See status of recommendation No. 02-4.	Open.
5	02-6	As OMB continues to make strides to address issues related to intragovernmental transactions, the Director of OMB should direct the Controller of OMB to develop policies and procedures that document how OMB will enforce the business rules provided in OMB Memorandum M-03-01*, Business Rules for Intragovernmental Transactions*.	OMB is reviewing the business rules and also performing additional analysis on several groupings of intragovernmental transactions. Upon the conclusion of the review and analysis, OMB will determine how best to proceed with the business rules.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
6	02-7	As OMB continues to make strides to address issues related to intragovernmental transactions, the Director of OMB should direct the Controller of OMB to require that significant differences noted between business partners be resolved and the resolution be documented.	OMB and Treasury are performing additional analysis on several groupings of intragovernmental transactions and will work with individual agencies to resolve imbalances. As part of OMB's standard practice, resolutions reached will be communicated to all parties.	Open.
7	02-8	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to implement the plan to require federal agencies to report in Treasury's new closing package, beginning with fiscal year 2004, intragovernmental activity and balances by trading partner and to indicate amounts that have not been reconciled with trading partners and amounts, if any, that are in dispute.	Treasury is in the process of identifying material differences so that OMB and Treasury can work with agencies to resolve differences. Also, the Chief Financial Officers Council Financial Reporting Acceleration Committee has begun efforts to identify issues and impediments to intragovernmental reconciliations and recommend solutions to mitigate those issues.	Open.
8	02-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to design procedures that will account for the difference in intragovernmental assets and liabilities throughout the compilation process by means of formal consolidating and elimination accounting entries.	See status of recommendation No. 02-4.	Open.
9	02-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop solutions for intragovernmental activity and balance issues relating to federal agencies' accounting, reconciling, and reporting in areas other than those OMB now requires be reconciled, primarily areas relating to appropriations.	See status of recommendation No. 02-4.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
10	02-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to reconcile the change in intragovernmental assets and liabilities for the fiscal year, including the amount and nature of all changes in intragovernmental assets or liabilities not attributable to cost and revenue activity recognized during the fiscal year. Examples of these differences would include capitalized purchases, such as inventory or equipment, and deferred revenue.	See status of recommendation No. 02-4.	Open.
11	02-12	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should report "net unreconciled differences" included in the net operating results line item as a separate reconciling activity in the reconciliation statement.	Treasury disagrees with GAO on this item. No further action is contemplated for this recommendation.	Open. Treasury disagrees with all of our recommendations regarding the Statement of Changes in Cash Balance from Unified Budget and Other Activities and the Reconciliations of Net Operating Cost and Unified Budget Deficit even though these statements include some amounts that Treasury cannot explain or fully support or for which Treasury cannot demonstrate that the amounts clearly link to agencies' audited financial statements. Treasury has not developed any alternative solutions. We continue to believe that implementation of our recommendations would result in the most efficient and effective manner for Treasury, as the preparer of the CFS, to obtain and demonstrate the necessary assurance on the significant amounts reported in the Statement of Changes in Cash Balance from Unified Budget and Other Activities and the Reconciliation of Net Operating Cost and Unified Budget Deficit.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
12	02-13	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should develop policies and procedures to ensure completeness of reporting and document how all the applicable components reported in the other consolidated financial statements (and related note disclosures included in the CFS) were properly reflected in the reconciliation statement.	Treasury disagrees with GAO on this item. No further action is contemplated for this recommendation.	Open. In fiscal year 2004, Treasury developed standard operating procedures for preparing the Reconciliations of the Net Operating Cost and Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities. However, the procedures merely covered the source of the information, with no process for ensuring that (1) information obtained was correct and consistent with underlying agency audited financial statements and (2) reporting was complete.
13	02-14	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should establish reporting materiality thresholds for determining which agency financial statement activities to collect and report at the governmentwide level to assist in ensuring that the reconciliation statement is useful and conveys meaningful information.	Treasury disagrees with GAO on this item. No further action is contemplated for this recommendation.	Open. The standard operating procedures that Treasury developed did not include considerations for materiality thresholds in its financial reporting or reconciling activities.
14	02-15	If Treasury chooses to continue using information from both federal agencies' financial statements and the Central Accounting and Reporting System (STAR), Treasury should demonstrate how the amounts from STAR reconcile to federal agencies' financial statements.	Treasury disagrees with GAO on this item. No further action is contemplated for this recommendation.	Open. See status of recommendation No. 02-12.
15	02-16	If Treasury chooses to continue using information from both federal agencies' financial statements and from STAR, Treasury should identify and document the cause of any significant differences, if any are noted.	Treasury disagrees with GAO on this item. No further action is contemplated for this recommendation.	Open. See status of recommendation No. 02-12.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
16	02-17	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should document the consistency of the significant line items on this statement to agencies' audited financial statements.	Treasury disagrees with GAO on this item. This statement is not prepared from the agency's financial statements. As cited in GAO-04-866, p. 44, #3, para. 3: "It is important to note that the "information" [referred to in SFFAS 24, 9. SFFAS 7, paras. 77-82] is not required therefore agency budgetary data is not used nor was ever contemplated to be used in our reports. Treasury maintains the source of original entry for budgetary information in the STAR system and consider the use of other data not only less accurate but also a waste of taxpayer resources to both obtain and then correct the balances when Treasury already has the information at their finger tips. There are no material differences between outlays reported by us and those included in the President's Budget. The standard does not require either receipts or outlays."	Open. See status of recommendation No. 02-12.
17	02-18	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should request, through its closing package, that federal agencies provide the net outlays reported in their Combined Statement of Budgetary Resources and explanations for any significant differences between net outlay amounts reported in the Combined Statement of Budgetary Resources and the budget of the U.S. government.	Treasury disagrees with GAO's recommendation to collect the agency Statement of Budgetary Resources outlay data through the Closing Package process because Treasury already collects agency outlay data for budgetary reporting purposes. Treasury and OMB are working closely with the agencies to assure that the outlays reported in their Statement of Budgetary Resources match the outlays reported to Treasury for budgetary reporting purposes.	Open. See status of recommendation No. 02-12.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
18	02-19	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should investigate the differences between net outlays reported in federal agencies' Combined Statement of Budgetary Resources and Treasury's records in STAR to ensure that the proper amounts are reported in the Statement of Changes in Cash Balance from Unified Budget and Other Activities.	See status of recommendation No. 02-18.	Open. Material unexplained differences between net outlays reported by the agencies and the central accounting records used to report net outlays at the consolidated level remained, totaling about $69 billion in fiscal year 2004.
19	02-20	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should explain and document the differences between the operating revenue amount reported on the Statement of Operations and Changes in Net Position and unified budget receipts reported on the Statement of Changes in Cash Balance from Unified Budget and Other Activities.	See status of recommendation No. 02-17.	Open. In fiscal year 2004, there was a $34.5 billion unexplained or unreported difference between the unified budget receipts as a component of the deficit and the modified cash operating revenue on the Statement of Operations and Changes in Net Position.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
20	02-21	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should provide support for how the line items in the "other activities" section of this statement relate to either the underlying Balance Sheet or related notes accompanying the CFS.	Treasury disagrees with GAO on this item. However, further research and discussion will take place in fiscal year 2005.	Open. See status of recommendation No. 02-12.
21	02-22	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to perform an assessment to define the reporting entity, including its specific components, in conformity with the criteria issued by the Federal Accounting Standards Advisory Board. Key decisions made in this assessment should be documented, including the reason for including or excluding components and the basis for concluding on any issue. Particular emphasis should be placed on demonstrating that any financial information that should be included but is not included is immaterial.	Treasury's Office of the Fiscal Assistant Secretary (OFAS) has developed an action plan for defining the reporting entity. Treasury will determine the relevant information not currently received, and the Financial Management Service will implement changes OFAS identifies.	Open.
22	02-23	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to provide in the financial statements all the financial information relevant to the defined reporting entity, in all material respects. Such information would include, for example, the reporting entity's assets, liabilities, and revenues.	See status of recommendation No. 02-22.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
23	02-24	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to disclose in the financial statements all information that is necessary to inform users adequately about the reporting entity. Such disclosures should clearly describe the reporting entity and explain the reason for excluding any components that are not included in the defined reporting entity.	See status of recommendation No. 02-22.	Open.
24	02-25	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should timely identify GAAP requirements.	Treasury developed and documented a process to compare federal accounting standards and the closing package to ensure that all disclosures are requested from federal agencies. Treasury is currently analyzing the reporting and modifying the CFS to include GAAP requirements. Treasury expects to address the majority of these items in the 2005 CFS by including the appropriate disclosures in the CFS or documenting the rationale for excluding inappropriate disclosures.	Open.
25	02-26	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should make timely modifications to Treasury's closing package requirements to obtain information needed.	See status of recommendation No. 02-25.	Open.
26	02-27	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should assess, qualitatively and quantitatively, the impact of the omitted disclosures.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
27	02-28	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should document decisions reached and the rationale for such decisions.	See status of recommendation No. 02-25.	Open.
28	02-29	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an analysis of the agency management representations to determine if discrepancies exist between what the agency auditor reported and the representations made by the agency, including the resolution of such discrepancies.	Discussions are ongoing with GAO as to the use of the agencies' management representation letters, supplemented with other procedures.	Open.
29	02-30	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require a determination that the agency management representation letters have been signed by the highest-level agency officials who are responsible for and knowledgeable about the matters included in the agency management representation letters.	Treasury and OMB's policy includes the following sentence: "Items included or not included in the agencies' rep letters will generally not be challenged by Treasury and OMB since they were obviously not a factor in that agency's audit and, therefore, should not then rise to the consolidated governmentwide audit level." Discussions are ongoing with GAO as to the use of the agencies' management representation letters, supplemented with other procedures.	Open. The policies and procedures discuss signatures on agency management representation letters, but do not include steps for Treasury's review of the signatures to determine if the letters have been signed by the highest-level agency officials who are responsible for and knowledgeable about the matters included in the agency management representation letters.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
30	02-31	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an assessment of the materiality thresholds used by federal agencies in their respective management representation letters.	When preparing the governmentwide management representation letter, Treasury follows the guidance in GAO's *Financial Audit Manual* (FAM) to calculate an amount for materiality. The FAM is GAO's guidance for those entities that are performing audits of federal entities. Treasury then executes the following step, which is written in Treasury and OMB's policy: "We check to ensure that the materiality amounts cited by those agencies who do quantitatively discuss materiality are not larger than the materiality cited in the FR management representation letter."	Open. In the fiscal years 2003 and 2004 audits, 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 depend to provide their representations to us regarding the CFS. These concerns included the omission of materiality thresholds. The policies and procedures do not include steps to obtain and assess materiality thresholds from agencies that do not quantitatively cite the amounts in their management representation letters.
31	02-32	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an assessment of the impact, if any, of federal agencies' materiality thresholds on the management representations made at the governmentwide level.	When preparing the governmentwide management representation letter, Treasury follows the guidance in GAO's FAM to calculate an amount for materiality. The FAM is GAO's guidance for those entities that are performing audits of federal entities. Treasury then executes the following step, which is written in Treasury and OMB's policy: "We check to ensure that the materiality amounts cited by those agencies who do quantitatively discuss materiality are not larger than the materiality cited in the FR management representation letter."	Open. In the fiscal years 2003 and 2004 audits, 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 depend to provide their representations to us regarding the CFS. These concerns included the omission of materiality thresholds. The policies and procedures do not include steps to obtain and assess materiality thresholds from agencies that do not quantitatively cite the amounts in their management representation letters. In addition, the policies and procedures are not sufficient to assess the impact of agencies' materiality thresholds on the management representations made at the governmentwide level.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
32	02-33	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an evaluation and assessment of the omission of representations ordinarily included in agency management representation letters.	Treasury and OMB's policy includes the following sentence: "Items included or not included in the agencies' rep letters will generally not be challenged by Treasury and OMB since they were obviously not a factor in that agency's audit and, therefore, should not then rise to the consolidated governmentwide audit level." Discussions are ongoing with GAO as to the use of the agencies' management representation letters, supplemented with other procedures.	Open. In the fiscal years 2003 and 2004 audits, 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 depend to provide their representations to us regarding the CFS. These concerns included the omission and incompleteness of required representations. The policies and procedures do not include steps to review the agencies' management representation letters for omitted or incomplete representations. In addition, the policies and procedures do not include steps to assess the impact of omitted or incomplete representations on the governmentwide management representation letter.
33	02-34	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an analysis and aggregation of the agencies' summary of unadjusted misstatements to determine the completeness of the summaries and to ascertain the materiality, both individually and in the aggregate, of such unadjusted misstatements to the CFS taken as a whole.	Financial Management Service is currently updating the standard operating procedures for the summaries of unadjusted misstatements.	Open. In the fiscal years 2003 and 2004 audits, 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 depend to provide their representations to us regarding the CFS. These concerns included the omission and incompleteness of the summaries of unadjusted misstatements, which are, attached to the agencies management representation letters. The policies and procedures do not include steps to ensure that all summaries of unadjusted misstatements have been received from the agencies. In addition, the policies and procedures do not include steps to obtain information missing from summaries submitted by the agencies in order to adequately prepare the governmentwide summary of unadjusted misstatements.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
34	02-35	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to help ensure that agencies provide adequate information in their legal representation letters regarding the expected outcome of the cases.	OMB and Treasury will work to ensure that adequate information is provided in the legal representation letters regarding the expected outcome of cases.	Open.
35	02-36	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to help ensure that agencies provide related management schedules.	OMB and Treasury will follow up with agencies that have not provided their management schedules to ensure they do so.	Open.
36	02-37	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that agencies develop a detailed schedule of all major treaties and other international agreements that obligate the U.S. government to provide cash, goods, or services, or that create other financial arrangements that are contingent on the occurrence or nonoccurrence of future events (a starting point for compiling these data could be the State Department's *Treaties in Force*).	OMB will analyze the appropriateness of reporting "treaties" before developing specific corrective actions.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
37	02-38	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that agencies classify all such scheduled major treaties and other international agreements as commitments or contingencies.	OMB will analyze the appropriateness of reporting "treaties" before developing specific corrective actions.	Open.
38	02-39	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that agencies disclose in the notes to the CFS amounts for major treaties and other international agreements that have a reasonably possible chance of resulting in a loss or claim as a contingency.	OMB will analyze the appropriateness of reporting "treaties" before developing specific corrective actions.	Open.
39	02-40	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that agencies disclose in the notes to the CFS amounts for major treaties and other international agreements that are classified as commitments and that may require measurable future financial obligations.	OMB will analyze the appropriateness of reporting "treaties" before developing specific corrective actions.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
40	02-41	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that agencies take steps to prevent major treaties and other international agreements that are classified as remote from being recorded or disclosed as probable or reasonably possible in the CFS.	OMB will analyze the appropriateness of reporting "treaties" before developing specific corrective actions.	Open.
41	02-42	As Treasury is designing its new compilation process, which it expects to implement beginning with the fiscal year 2004 CFS, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to design the new compilation process to directly link information from federal agencies' audited financial statements to amounts reported in all the applicable CFS and related footnotes.	Treasury developed and implemented the new compilation process, which directly links agency audited financial statements to the CFS except for Reconciliation of Net Operating Cost and Statements of Changes in Cash Balance for fiscal year 2004. For fiscal year 2005, for completeness, Treasury will establish traceability from agency audited financial statement footnotes to the CFS footnotes.	Open. Treasury's goal for the new system is to directly link financial information from federal agencies' audited financial statements to amounts reported in the CFS, a concept that we strongly support. However, based on our review of Treasury's new process, Treasury was unable to demonstrate that the information in the CFS directly linked to agencies' audited financial statements.
42	02-43	As Treasury is designing its new compilation process, which it expects to implement beginning with the fiscal year 2004 CFS, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to consider the other applicable recommendations in this report when designing and implementing the new compilation process.	Treasury will continue to consider applicable recommendations as the new compilation system is enhanced.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
43	02-44	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, paragraph 91, which requires the reporting entity to disclose the valuation basis for foreclosed property.	See status of recommendation No. 02-25.	Open.
44	02-45	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 91, which requires the reporting entity to disclose the changes from the prior year's accounting methods, if any.	See status of recommendation No. 02-25.	Open.
45	02-46	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 91, which requires the reporting entity to disclose the restrictions on the use/disposal of property.	See status of recommendation No. 02-25.	Open.
46	02-47	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 91, which requires the reporting entity to disclose the balances by categories (i.e., pre-1992 and post-1991 foreclosed property).	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
47	02-48	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 91, which requires the reporting entity to disclose the number of properties held and average holding period by type or category.	See status of recommendation No. 02-25.	Open.
48	02-49	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 91, which requires the reporting entity to disclose the number of properties for which foreclosure proceedings are in process at the end of the period for foreclosed assets acquired in full or partial settlement of a direct or guaranteed loan.	See status of recommendation No. 02-25.	Open.
49	02-50	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, paragraph 9, which requires credit programs to reestimate the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees. There are two kinds of reestimates: (1) interest rate reestimates and (2) technical/default reestimates. Entities should measure and disclose each program's reestimates in these two components separately.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
50	02-51	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, paragraph 10, which requires the reporting entity to display in the notes to the financial statements a reconciliation between the beginning and ending balances of the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees reported on the entity's balance sheet.	See status of recommendation No. 02-25.	Open.
51	02-52	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, paragraph 11, which requires disclosure of the total amount of direct or guaranteed loans disbursed for the current reporting year and the preceding reporting year.	See status of recommendation No. 02-25.	Open.
52	02-53	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, paragraph 11, which requires disclosure of the subsidy expense by components, recognized for the direct or guaranteed loans disbursed in the current reporting year and the preceding reporting year.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
53	02-54	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, paragraph 11, which requires disclosure of the subsidy reestimates by components for the current reporting year and the preceding reporting year.	See status of recommendation No. 02-25.	Open.
54	02-55	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, paragraph 11, which requires disclosure, at the program level, of the subsidy rates for the total subsidy cost and its components for the interest subsidy costs, default costs (net of recoveries), fees and other collections, and other costs estimated for direct loans and loan guarantees in the current year's budget for the current year's cohorts.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
55	02-56	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, paragraph 11, which requires the reporting entity to disclose, discuss, and explain events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.	See status of recommendation No. 02-25.	Open.
56	02-57	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 30, which requires the difference between the carrying amount and the expected net realizable value to be recognized as a loss or gain and either separately reported or disclosed when inventory or operating materials and supplies are declared excess, obsolete, or unserviceable.	See status of recommendation No. 02-25.	Open.
57	02-58	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraphs 35 and 50, which require disclosure of inventory and operating materials and supplies general composition.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
58	02-59	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraphs 35 and 50, that require disclosure of any changes from the prior year in accounting methods for inventory and operating materials and supplies.	See status of recommendation No. 02-25.	Open.
59	02-60	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraphs 35 and 50, which require the disclosure of any restrictions on the sale of inventory and the use of operating materials and supplies.	See status of recommendation No. 02-25.	Open.
60	02-61	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraphs 35 and 50, which requires disclosure of any changes in the criteria for categorizing inventory and operating materials and supplies.	See status of recommendation No. 02-25.	Open.
61	02-62	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 56, which requires disclosure of the basis for valuing stockpile material, including valuation method and any cost flow assumptions.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
62	02-63	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 56, which requires disclosure of any changes from the prior year's accounting methods.	See status of recommendation No. 02-25.	Open.
63	02-64	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 56, which requires disclosure of restrictions on the use of stockpile material.	See status of recommendation No. 02-25.	Open.
64	02-65	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 56, which requires disclosure of the balances in each category of stockpile material (i.e., stockpile material held and held for sale).	See status of recommendation No. 02-25.	Open.
65	02-66	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 56, which requires disclosure of the criteria for grouping stockpile material held for sale.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
66	02-67	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 56, which requires disclosure of changes in criteria for categorizing stockpile material held for sale.	See status of recommendation No. 02-25.	Open.
67	02-68	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 55, which requires disclosure of any difference between the carrying amount (i.e., purchase price or cost) of stockpile material held for sale and the estimated selling price of such assets.	See status of recommendation No. 02-25.	Open.
68	02-69	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for seized material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 66, which requires disclosure of the valuation method.	See status of recommendation No. 02-25.	Open.
69	02-70	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for seized material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 66, which requires disclosure of any changes from the prior year's accounting methods.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
70	02-71	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for seized material meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 66, which requires disclosure of the analysis of change in seized property (including dollar value and number of seized properties) that is on hand at the beginning of the year, seized during the year, disposed of during the year, and on hand at the end of the year, as well as known liens or other claims against the property. This information should be presented by type of seizure and method of disposition, when material.	See status of recommendation No. 02-25.	Open.
71	02-72	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for forfeited property meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 78, which requires disclosure of the valuation method.	See status of recommendation No. 02-25.	Open.
72	02-73	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for forfeited property meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 78, which requires disclosure of the analysis of the changes in forfeited property by type and dollar amount that includes (1) number of forfeitures on hand at the beginning of the year, (2) additions, (3) disposals and method of disposition, and (4) end-of-year balances.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
73	02-74	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for forfeited property meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 78, which requires disclosure of any restriction on the use or disposition of the property.	See status of recommendation No. 02-25.	Open.
74	02-75	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for forfeited property meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 78, which requires disclosure, if available, of an estimate of the value of property to be distributed to other federal, state, and local agencies in future reporting periods.	See status of recommendation No. 02-25.	Open.
75	02-76	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 98, which requires that if a contingent loss is not recognized because it is less than probable or it is not reasonably measurable, disclosure of the contingency shall be made if it is at least reasonably possible that a loss may occur.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
76	02-77	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 109, which requires disclosure of the basis for valuing commodities, including valuation method and cost flow assumptions.	See status of recommendation No. 02-25.	Open.
77	02-78	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 109, which requires disclosure of any changes from the prior year's accounting methods.	See status of recommendation No. 02-25.	Open.
78	02-79	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 109, which requires disclosure of any restrictions on the use, disposal, or sale of commodities.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
79	02-80	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, *Accounting for Inventory and Related Property*, paragraph 109, which requires disclosure of the analysis of the change in dollar amount and volume of commodities, including those (1) on hand at the beginning of the year, (2) acquired during the year, (3) disposed of during the year listed by method of disposition, (4) on hand at the end of the year, (5) on hand at year-end and estimated to be donated or transferred during the coming period, and (6) received as a result of surrender of collateral related to nonrecourse loans outstanding. The analysis should also show the dollar value and volume of purchase agreement commitments.	See status of recommendation No. 02-25.	Open.
80	02-81	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for property, plant, and equipment (PP&E) meets the disclosure requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 45, which requires disclosure of the estimated useful lives for each major class of PP&E.	See status of recommendation No. 02-25.	Open.
81	02-82	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 45, which requires disclosure of capitalization thresholds, including any changes in thresholds during the period.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
82	02-83	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 45, which requires disclosure of restrictions on the use or convertibility of general PP&E.	See status of recommendation No. 02-25.	Open.
83	02-85	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 10, *Accounting for Internal Use Software*, paragraph 35, which requires disclosure of the estimated useful life for each major class of software for internal use software.	See status of recommendation No. 02-25.	Open.
84	02-86	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 10, *Accounting for Internal Use Software*, paragraph 35, which requires disclosure of the method of amortization for internal use software.	See status of recommendation No. 02-25.	Open.
85	02-87	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 16, *Amendments to Accounting for Property, Plant, and Equipment*, paragraph 9, which requires an appropriate PP&E note disclosure to explain that "physical quantity" information for the multiuse heritage assets is included in supplemental stewardship reporting for heritage assets.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
86	02-88	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for federal employee and veteran benefits payable is completely and properly reported, specifically, that (1) it include a line for the valuation of plan amendments that occurred during the year and (2) the liability for military pensions and note disclosure related to the "change in actuarial accrued pension liability and components of related expenses" agree with the information presented in the Department of Defense's financial statements.	See status of recommendation No. 02-25.	Open.
87	02-89	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which requires (1) estimation and recognition of cleanup costs associated with general PP&E at the time the PP&E is placed in service and (2) recognition of a liability for the portion of the estimated total cleanup cost attributable to that portion of the physical capacity used or that portion of the estimated useful life that has passed since the general PP&E was placed in service.	See status of recommendation No. 02-25.	Open.
88	02-90	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which requires inclusion of material changes in total estimated cleanup costs due to changes in laws, technology, or plans.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
89	02-91	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for capital leases meets the requirements of Federal Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*, paragraph 16, which requires future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the 5 succeeding fiscal years, with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments, and for the amount of the imputed interest necessary to reduce the net minimum lease payments to present value.	See status of recommendation No. 02-25.	Open.
90	02-92	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for capital leases meets the requirements of FASB, SFAS No. 13, *Accounting for Leases*, paragraph 16, which requires a summary of assets under capital lease by major asset category and the related total accumulated amortization.	See status of recommendation No. 02-25.	Open.
91	02-93	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for capital leases meets the requirements of FASB, SFAS No. 13, *Accounting for Leases*, paragraph 16, which requires a general description of the lessee's leasing arrangements, including but not limited to (1) the basis on which contingent rental payments are determined; (2) the existence and terms of renewal or purchase options and escalation clauses; and (3) restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
92	02-94	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for life insurance liabilities meets the requirements of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 117, which requires all federal reporting entities with whole life insurance programs to follow applicable standards as prescribed in the private sector standards when reporting the liability for future policy benefits: FASB SFAS No. 60, Accounting and Reporting by Insurance Enterprises; SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*; SFAS No. 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*; and American Institute of Certified Public Accountants Statement of Position 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
93	02-95	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for life insurance liabilities meets the requirements of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 5, which requires all components of the liability for future policy benefits (i.e., the net-level premium reserve for death and endowment policies and the liability for terminal dividends) to be separately disclosed in a footnote with a description of each amount and an explanation of its projected use and any other potential uses (e.g., reducing premiums, determining and declaring dividends available, and reducing federal support in the form of appropriations related to administrative cost or subsidies).	See status of recommendation No. 02-25.	Open.
94	02-96	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure on major commitments and contingencies is consistent with disclosed information in individual agencies' financial statements.	See status of recommendation No. 02-25.	Open.
95	02-97	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure on major commitments and contingencies discloses sufficient information (detailed discussion) regarding certain major commitments and contingencies.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
96	02-99	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for collections and refunds of federal revenue meets the requirements of SFFAS No. 7, *Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 69.2, which requires collecting entities to provide in the other accompanying information any relevant estimates of the annual tax gap that become available as a result of federal government surveys or studies.	See status of recommendation No. 02-25.	Open.
97	02-100	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for dedicated collections meets the requirements of SFFAS No. 7, Part I, *Accounting for Revenue and Other Financing Sources*, paragraph 85, which requires inclusion of condensed information about assets and liabilities showing investments in Treasury securities, other assets, liabilities due and payable to beneficiaries, other liabilities, and fund balance.	See status of recommendation No. 02-25.	Open.
98	02-101	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for dedicated collections meets the requirements of SFFAS No. 7, Part I, *Accounting for Revenue and Other Financing Sources*, paragraph 85, which requires inclusion of condensed information on net cost and changes to fund balance, showing revenues by type (exchange/nonexchange), program expenses, other expenses, other financing sources, and other changes in fund balance.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
99	02-102	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for dedicated collections meets the requirements of SFFAS No. 7, Part I, *Accounting for Revenue and Other Financing Sources*, paragraph 85, which requires inclusion of any revenues, other financing sources, or costs attributable to the fund under accounting standards but not legally allowable as credits or charges to the fund.	See status of recommendation No. 02-25.	Open.
100	02-103	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for Indian trust funds meets the requirements of SFFAS No. 7, Part I, *Accounting for Revenue and Other Financing Sources*, paragraph 85, which requires a description of each fund's purpose, how the administrative entity accounts for and reports the fund, and its authority to use those collections.	See status of recommendation No. 02-25.	Open.
101	02-104	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for Indian trust funds meets the requirements of SFFAS No. 7, Part I, *Accounting for Revenue and Other Financing Sources*, paragraph 85, which requires disclosure of the sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the government or the result of intragovernmental flows.	See status of recommendation No. 02-25.	Open.

(Continued From Previous Page)

			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
102	02-105	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for Indian trust funds meets the requirements of SFFAS No. 7, Part I, *Accounting for Revenue and Other Financing Sources*, paragraph 85, which requires condensed information about assets and liabilities showing investments in Treasury securities, other assets, liabilities due and payable to beneficiaries, and other liabilities.	See status of recommendation No. 02-25.	Open.
103	02-106	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for Indian trust funds meets the requirements of SFFAS No. 7, Part I, *Accounting for Revenue and Other Financing Sources*, paragraph 85, which requires condensed information on net cost and changes to fund balance, showing revenues by type (exchange/nonexchange), program expenses, other expenses, other financing sources, and other changes in fund balance.	See status of recommendation No. 02-25.	Open.
104	02-107	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for Indian trust funds meets the requirements of SFFAS No. 7, Part I, *Accounting for Revenue and Other Financing Sources*, paragraph 85, which requires disclosure of any revenues, other financing sources, or costs attributable to the fund under accounting standards, but not legally allowable as credits or charges to the fund.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
105	02-114	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for social insurance meets the requirements of SFFAS No. 17, *Accounting for Social Insurance*, paragraph 32(4), which requires individual program sensitivity analyses for projection period cash flow in present value dollars and annual cash flow in nominal dollars. The CFS includes only present value sensitivity analyses for Social Security and Hospital Insurance. Paragraph 32(4) states that at a minimum the summary should present Social Security, Hospital Insurance, and Supplementary Medical Insurance separately.	See status of recommendation No. 02-25.	Open.
106	02-115	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for social insurance meets the requirements of SFFAS No. 17, *Accounting for Social Insurance*, paragraph 27(4)(a), which requires the individual program sensitivity analyses for Social Security and Hospital Insurance to include an analysis of assumptions regarding net immigration.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
107	02-118	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for nonfederal physical property included in stewardship information meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 87, which requires disclosure of the annual investment, including a description of federally owned physical property transferred to state and local governments. This information should be provided for the year ended on the balance sheet date as well as for each of the 4 preceding years. If data for additional years would provide a better indication of investment, reporting of the additional years' data is encouraged. Reporting should be at a meaningful category or level.	See status of recommendation No. 02-25.	Open.
108	02-119	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for nonfederal physical property included in stewardship information meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 87, which requires a description of major programs involving federal investments in nonfederal physical property, including a description of programs or policies under which noncash assets are transferred to state and local governments.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
109	02-120	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for human capital included in stewardship information meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 94, which requires a narrative description and the full cost of the investment in human capital for the year being reported on as well as the preceding 4 years (if full cost data are not available, outlay data can be reported).	See status of recommendation No. 02-25.	Open.
110	02-121	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for human capital included in stewardship information meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 94, which requires the full cost or outlay data for investments in human capital at a meaningful category or level (e.g., by major program, agency, or department).	See status of recommendation No. 02-25.	Open.
111	02-122	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for human capital included in stewardship information meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 94, which requires a narrative description of major education and training programs considered federal investments in human capital.	See status of recommendation No. 02-25.	Open.

(Continued From Previous Page)

			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
112	02-123	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for research and development included in stewardship information meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 94, which requires reporting of the annual investment made in the year ended on the balance sheet date as well as in each of the 4 years preceding that year. (As defined in this standard, "annual investment" includes more than the annual expenditure reported by character class for budget execution. Full cost shall be measured and accounted for in accordance with SFFAS No. 4, *Managerial Cost Accounting Standards for the Federal Government*.) If data for additional years would provide a better indication of investment, reporting of the additional years' data is encouraged. In those unusual instances when entities have no historical data, only current reporting year data need be reported. Reporting must be at a meaningful category or level, for example, a major program or department.	See status of recommendation No. 02-25.	Open.
113	02-124	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for research and development included in stewardship information meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 94, which requires a narrative description of major research and development programs.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
114	02-125	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for deferred maintenance meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraphs 83 and 84, which requires inclusion of the method of measuring deferred maintenance for each major class of PP&E.	See status of recommendation No. 02-25.	Open.
115	02-126	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for deferred maintenance meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraphs 83 and 84, which requires that if the condition assessment survey method of measuring deferred maintenance is used, the following should be presented for each major class of PP&E: (1) description of requirements or standards for acceptable operating condition, (2) any changes in the condition requirements or standards, and (3) asset condition and a range estimate of the dollar amount of maintenance needed to return the asset to its acceptable operating condition.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
116	02-127	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for deferred maintenance meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraphs 83 and 84, which requires that if the total life-cycle cost method is used, the following should be presented for each major class of PP&E: (1) the original date of the maintenance forecast and an explanation for any changes to the forecast; (2) prior year balance of the cumulative deferred maintenance amount; (3) the dollar amount of maintenance that was defined by the professionals who designed, built, or managed the PP&E as required maintenance for the reporting period; (4) the dollar amount of maintenance actually performed during the period; (5) the difference between the forecast and actual maintenance; (6) any adjustments to the scheduled amounts deemed necessary by the managers of the PP&E; and (7) the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance.	See status of recommendation No. 02-25.	Open.
117	02-128	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, to ensure that the note disclosure for deferred maintenance meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraphs 83 and 84, which requires that if management elects to disclose critical and noncritical amounts, the disclosure is to include management's definition of these categories.	See status of recommendation No. 02-25.	Open.

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Count	No.	Recommendations	Status of recommendations: Per Treasury and OMB	Status of recommendations: Per GAO
118	02-129	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stewardship responsibilities related to the risk assumed for federal insurance and guarantee programs meets the requirements of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 106, which requires that when financial information pursuant to FASB standards on federal insurance and guarantee programs conducted by government corporations is incorporated in general purpose financial reports of a larger federal reporting entity, the entity should report as required supplementary information what amounts and periodic change in those amounts would be reported under the "risk assumed" approach.	See status of recommendation No. 02-25.	Open.
GAO-04-866 (results of the fiscal year 2003 audit)				
119	03-1	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that if full-time equivalents (FTE) are used as part of Treasury's methodology for allocating Office of Personnel Management (OPM) costs, the FTEs used for the agencies listed on the Statement of Net Cost agree with the FTEs listed in the *Analytical Perspectives, Budget of the United States Government* as currently stated in Treasury's methodology.	Closed.	Closed during the fiscal year 2004 audit. Treasury changed its methodology and did not use the FTEs listed in the *Analytical Perspectives, Budget of the United States Government*.
120	03-2	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to document any changes to the stated methodology for allocating OPM costs and the rationale for these changes.	Closed.	Closed during the fiscal year 2004 audit. Treasury changed its methodology and did not use the FTEs listed in the *Analytical Perspectives, Budget of the United States Government*.
121	03-3	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require reviews by Treasury management of the accuracy of the allocated OPM costs.	Closed.	Closed during the fiscal year 2004 audit. Treasury changed its methodology and did not use the FTEs listed in the *Analytical Perspectives, Budget of the United States Government*.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
122	03-4	The Director of OMB should direct the Controller of OMB, in coordination with Treasury's Fiscal Assistant Secretary, to work with the federal agencies so that the differences between net outlays the agencies report in their Statement of Budgetary Resources and the net outlay records Treasury uses to prepare the Statement of Changes in Cash Balance are reconciled.	See status of recommendation No. 02-18.	Open.
123	03-5	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to determine and address the effects that any of the differences between net outlays the agencies report in their Statement of Budgetary Resources and Treasury's net outlay records may have on the CFS.	Treasury will wait to see the results of the work between Treasury, OMB, and the agencies to address GAO's recommendation for No. 02-18. Pending the results of that work and analysis, this step may not be necessary.	Open.
124	03-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop a process that will allow full reporting of the changes in cash balance of the U.S. government. Specifically, the process should provide for reporting on the change in cash reported on the consolidated balance sheet, which should be linked to cash balances reported in federal agencies' audited financial statements.	Treasury disagrees with GAO. The total operating cash reported in the 2004 CFS was linked to the amounts reported in the agencies' audited financial statements. The Statement of Changes in Cash Balance reconciles to Operating Cash, which is in accordance with SFFAS 24. SFFAS 24, paras. 12-13, requires reconciliation to the Government Cash balance. It also references an illustration that is not prescriptive.	Open. The Statement of Changes in Cash Balance reported only the changes in the "operating" cash of the U.S. government of $19.8 billion rather than the change in all cash reported on the U.S. government's Balance Sheet of $22.6 billion, as of September 30, 2004.
125	03-7	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to report gross amounts for receipts and disbursements of cash related to direct loans and loan guarantees.	Treasury disagrees with GAO on this item. However, further research and discussion will take place in fiscal year 2005.	Open. See status of recommendation No. 02-12.
126	03-8	The Director of OMB should direct the Controller of OMB, in coordination with Treasury's Fiscal Assistant Secretary, to work with Justice and certain other executive branch agencies to ensure that these agencies report or disclose relevant criminal debt information in conformity with GAAP in their financial statements and have such information subjected to audit.	OMB is participating in a multi-agency task force that will begin to address the issues related to criminal debt.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
127	03-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to include relevant criminal debt information in the CFS or document the specific rationale for excluding such information.	See status of recommendation No. 03-8.	Open.
128	03-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to include in the new system a request for federal agencies to provide contingency loss information to assist Treasury in disclosing contingencies in the CFS in accordance with GAAP.	Treasury plans to modify the new system to request contingency loss information for fiscal year 2005.	Open.
129	03-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to modify Treasury's plans for the new closing package to (1) require federal agencies to directly link their audited financial statement notes to the CFS notes and (2) provide the necessary information to demonstrate that all of the five principal consolidated financial statements are consistent with the underlying information in federal agencies' audited financial statements and other financial data.	See status of recommendation No. 02-42.	Open.
130	03-12	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to report prior period adjustments in accordance with SFFAS No. 21 by (1) restating the prior year for corrections of material errors and adjusting the beginning balance of cumulative results of operations and disclosing the nature of the errors in the notes to the CFS and (2) including corrections of immaterial errors in the current year and not citing them as prior period adjustments on the Statement of Changes in Net Position and not disclosing them in the notes to the CFS.	Closed.	Closed during the fiscal year 2004 audit.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
131	03-13	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to include in Treasury's new closing package a process that will allow federal agencies to clearly distinguish between prior period adjustments and changes in accounting principles in accordance with SFFAS No. 21.	Closed.	Closed during the fiscal year 2004 audit.
132	03-14	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, to ensure that the note disclosure for federal employees and veterans benefits payable meets the requirements of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 65, which requires that the actuarial assumptions be the basis of the actual experience of the covered group, to the extent that credible experience data are available, but should emphasize expected long-term future trends rather than give undue weight to recent experience.	Closed.	Closed during the fiscal year 2004 audit.
133	03-15	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, to ensure that the note disclosure for federal employees and veterans benefits payable meets the requirements of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 83, which requires the reporting entity to disclose the assumptions used for veterans compensation and burial benefits.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
134	03-16	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for federal employees and veterans benefits payable meets the requirements of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 72, which requires the reporting entity to disclose prior service costs from plan amendments as a separate component.	See status of recommendation No. 02-25.	Open.
135	03-17	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for federal employees and veterans benefits payable meets the requirements of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 88, which requires the reporting entity to disclose gains or losses due to a change in the medical inflation rate assumption for health benefits as a separate component.	See status of recommendation No. 02-25.	Open.
136	03-18	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which requires the reporting entity to disclose the method for assigning estimated total cleanup costs to current operating periods.	See status of recommendation No. 02-25.	Open.
137	03-19	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which requires the reporting entity to disclose, for cleanup costs associated with general property, plant, and equipment, the unrecognized portion of estimated total cleanup costs be disclosed.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
138	03-20	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which requires the reporting entity to disclose the nature of estimates and information regarding possible changes to the estimates resulting from inflation, deflation, technology, or applicable laws and regulations.	See status of recommendation No. 02-25.	Open.
139	03-21	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to consider whether the reader would be interested in understanding why the environmental and disposal liabilities amount significantly changed during the year and include the explanation for the change in the note disclosure.	See status of recommendation No. 02-25.	Open.
140	03-22	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the information in stewardship information for research and development meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 99, which requires the reporting entity to include a narrative discussion of the major results achieved by the program along the lines of basic research, applied research, and development.	See status of recommendation No. 02-25.	Open.

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			Status of recommendations	
Count	**No.**	**Recommendations**	**Per Treasury and OMB**	**Per GAO**
141	03-23	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the information in stewardship information for research and development meets the requirements of SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 99, which requires the reporting entity to include a narrative description of the major results achieved through the investments in basic research, applied research, and development.	See status of recommendation No. 02-25.	Open.
142	03-24	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the required supplemental information for deferred maintenance meets the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 83, which requires the reporting entity to disclose the identification of each major class of asset (i.e., building and structures, furniture and fixtures, equipment, vehicles, and land) for which maintenance has been deferred.	See status of recommendation No. 02-25.	Open.

Source: GAO.

Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

April 18, 2005

Mr. Jeffrey C. Steinhoff
Managing Director, Financial Management Assurance
Government Accountability Office
Washington, DC 20548

Dear Mr. Steinhoff:

Thank you for the opportunity to comment on GAO's draft management letter on the Fiscal Year 2004 financial audit, GAO-05-407, *Process for Preparing the Consolidated Financial Statements of the U.S. Government Continues to Need Improvement.*

Your report recognized the progress Treasury has made in preparing the Consolidated Financial Report. Of special note was the development of the first phase of the new Governmentwide Financial Report System (GFRS), a closing package system which was implemented concurrently with the accelerated reporting dates for the agency statements and the government-wide statements. The audit report also noted that GFRS was an on-going work in progress and we believe that this new system has put us on the right track for improved report preparation. Treasury will make further improvements to GFRS for this year's reporting cycle.

GAO's audit report clearly pointed out the issues we need to address in continuing to develop and deploy our new closing package system to collect and consolidate the data for preparing the consolidated statements. We agree that the reporting process still needs improvement, and, to that end, we have been addressing many of the recommendations in previous reports through the continued development of the new system and procedural changes to address items such as segregation of duties, documentation, and management review.

The FY 2004 audit report offers 20 new recommendations for improving report compilation and preparation and discusses six principal areas of concern mentioned in previous audit reports. We generally concur with these new recommendations and will work with OMB and the agencies to adopt them and improve reporting practices. There are two areas; however, where we would like you to reconsider your recommendations.

1. **Directly linking audited federal agency financial statements to the CFS**. We recognize the value and need for the government-wide financial statements to be consistent with the underlying agency financial statements. During the year, we look to improve our process for compiling the CFS to allow for the expanded traceability of the federal agencies' audited financial statement note data to the CFS notes.

   While three of the principal consolidated statements are now linked directly to the agency statements, your report recommends that Treasury require the necessary information from the agencies to compile all five consolidated financial statements. We continue to disagree with the assertion that the Closing Package should require this additional information for two reasons. First, the FASAB standard relating to the Statement of Changes in Cash Balance from Unified Budget and Other Activities and the Reconciliation of Net Operating

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Cost and Unified Budget Deficit makes it clear that the agency reported data is not relevant to these consolidated reports and second, rolling up such data will not help us improve the statements. We agree that the agency Statements of Financing and Budgetary Resources should be improved and we also agree that other problems with our reconciliation statements need to be resolved. We would welcome specific recommendations as to how to accomplish both objectives; however, we believe rolling up the agency amounts will not be effective at achieving either one.

2. **Controls over the compilation process.** Your report recommends that Treasury employees obtain and document approval from agencies before changing agency data. We agree that there are instances where we should obtain agency approvals prior to posting adjustments. We also agree that all adjustments must be properly documented and approved by us; however, we believe that the following are examples of situations that do not require agency approval:

   - Adjustments required to make agency closing packages agree with their financial statements
   - Adjustments required to apply a consistent application of an accounting principle between agencies
   - Adjustments required to make an agency conform to GAAP.

   As the preparers of the statement, we must have the flexibility and authority to make appropriate adjustments when needed regardless of whether or not agencies agree. We would hope you would modify your recommendation accordingly.

With regard to the government-wide legal letter, Treasury and OMB agree that the Justice Department is the final authority on legal liability/disclosure amounts. Treasury will assist OMB in developing a policy to eliminate any inconsistencies between Justice and the agencies. Please reflect this position in your recommendation.

In conclusion, we will continue to work with you on those many items on which we agree improvements need to be made, and we will continue the dialogue to try to resolve those areas in which we disagree with your recommended approach. If you have any questions, please contact Robert Reid at 622-0550.

Sincerely,

Donald V. Hammond
Fiscal Assistant Secretary

cc: Linda Combs
David Zavada

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