

September 1999

FINANCIAL AUDIT

Issues Regarding Reconciliations of Fund Balances With Treasury Accounts



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United States General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-283392

September 17, 1999

The Honorable Lawrence H. Summers
The Secretary of the Treasury

Dear Mr. Secretary:

Reconciliations of federal agencies' Fund Balances with Treasury accounts continue to be a significant problem contributing to our inability to render an opinion on the U.S. government's fiscal year 1998 financial statements. In our March 1999 audit report on the 1998 Financial Report of the United States Government, we reported that several major agencies were not effectively reconciling cash disbursements.¹ We also reported that there continued to be billions of dollars of unresolved gross differences between agencies' and the Department of the Treasury's records of cash disbursements as of September 30, 1998. We previously reported similar problems for fiscal year 1997.²

Federal agencies record their budget spending authorization in Fund Balances with Treasury accounts, and increase or decrease these accounts as they collect or disburse funds. Treasury designed various procedures and controls—called the reconciliation process—aimed primarily at ensuring the reliability of receipt and disbursement data reported by agencies. This monthly reconciliation process—similar in concept to individuals reconciling personal checkbooks with a bank's records each month—is intended to be a key internal control over the federal receipts and disbursements that flow through these accounts.

As part of our audit of the U.S. government's fiscal year 1998 financial statements, we continued our efforts to monitor and evaluate the overall effectiveness of agencies' reconciliation processes for Fund Balances with Treasury accounts. In addition, we followed up on Treasury's actions to improve its assistance to agencies in their reconciliation efforts. This report provides the results of that work.

¹Financial Audit: 1998 Financial Report of the United States Government (GAO/AIMD-99-130, March 31, 1999).

²Financial Audit: 1997 Consolidated Financial Statements of the United States Government (GAO/AIMD-98-127, March 31, 1998) and Financial Audit: Issues Regarding Reconciliations of Fund Balances with Treasury Accounts (GAO/AIMD-99-3, October 14, 1998).

Results in Brief

Auditors continued to find significant problems with federal agencies' reconciliations of Fund Balances with Treasury accounts in fiscal year 1998.³ Auditors reported reconciliation problems at 11 federal agencies covered by the Chief Financial Officers Act of 1990 (CFO Act).⁴ These agencies disbursed about 48 percent of the total federal dollars disbursed in fiscal year 1998 and had billions of dollars in unreconciled differences outstanding at year-end.

These agencies were either not timely in reconciling their Fund Balances with Treasury accounts or were adjusting their accounts to match the amounts reported by Treasury. These adjustments were made without adequately researching the causes of the differences and thus without knowing which number, if any, was correct.

Auditors reported that the lack of effective internal control procedures was, in general, the underlying cause of agency reconciliation problems. Auditors also reported that improper reconciliations contributed to management not detecting certain instances of fraud and mismanagement of funds at two agencies. We reported that ineffective cash disbursement reconciliations affect the reliability of the U.S. government's fiscal year 1998 financial statements and the underlying financial information. We also reported that the failure of certain agencies to properly reconcile their disbursements increases the risks of inaccuracies in the President's budget and contributes to the overall inability of the federal government to accurately measure the full cost of its programs.

Agencies depend on Treasury for support in fulfilling their reconciliation responsibilities. Treasury has taken steps to improve its assistance to agencies in performing their reconciliation processes, such as providing more detailed reports to agencies and developing supplemental written guidance and training courses for agencies. However, because of the timing and nature of these actions, at the end of our field work for the audit of the U.S. government's fiscal year 1998 financial statements, it was too early to

³The fiscal year 1998 audits were performed by auditors from the Offices of the Inspectors General (OIG), or Independent Public Accounting firms under contract with the OIGs, or by us.

⁴The CFO Act, as expanded by the Government Management Reform Act of 1994, requires the issuance of annual audited financial statements for the 24 executive agencies specified in the law. However, the audit reports for four of the agencies covered by the CFO Act were not issued in time for us to include their results in this report. When we refer to agencies in this report, we are referring to the agencies covered by the CFO Act.

assess the impact such actions had on improving the overall effectiveness of agencies' reconciliations of Fund Balances with Treasury accounts.

Background

We first reported on agencies' long-standing reconciliation problems during our preparation for the audit of the U.S. government's fiscal year 1997 financial statements. At that time, we issued a letter dated June 24, 1997, to alert agency Inspectors General and Chief Financial Officers of our concerns about large unreconciled differences and improper agency adjustments.⁵ However, as indicated in our report on the audit of the U.S. government's fiscal year 1997 financial statements, several major agencies were not effectively reconciling their records with Treasury's records of cash disbursements. Thus, agency reconciliation problems, one of several material deficiencies included in our March 1998 report, contributed to our inability to render an opinion on those financial statements. Further, we issued a report in October 1998 which presented a more in-depth analysis of the agency reconciliation problems identified in our fiscal year 1997 audit and recommended ways for Treasury to enhance its assistance to agencies to help them fulfill their responsibility to timely and properly reconcile Fund Balances with Treasury accounts.

Because most assets, liabilities, revenues, and expenses stem from or result in cash transactions, errors in the receipt or disbursement data affect the accuracy of the individual agency financial reports and various U.S. government financial reports, including data provided by agencies for inclusion in the President's budget concerning fiscal year obligations and outlays. Further, the lack of effective reconciliations increases the risk of fraud, waste, and mismanagement of government funds. Inaccurate receipt and disbursement data also contribute to the overall inability of the federal government to accurately measure the full cost of its programs.

Even though Treasury serves as the central banker for most federal agencies, unlike commercial banking institutions, it does not maintain independent accounting records of each agency's Fund Balances with Treasury accounts.

Instead, Treasury relies on monthly data reported by agencies for its record of agencies' collections and disbursements and Fund Balances with

⁵Financial Statement Audit: Reconciliation of Fund Balances with Treasury (GAO/AIMD-97-104R, June 24, 1997).

Treasury account balances. Treasury reports these data in the Monthly Treasury Statement of Receipts and Outlays of the U.S. Government and other U.S. government financial reports.

Treasury's Financial Management Service (FMS) designed the reconciliation process primarily to help ensure the reliability of receipt and disbursement data reported by agencies. FMS also developed the automated systems used in the reconciliation process. The primary system used by agencies in transaction processing and in their monthly reporting to Treasury is the Government On-line Accounting Link System (GOALS). Also, the GOALS On-line Payment and Collections (OPAC) and Regional Financial Center/Agency Link applications, and CA\$HLINK, the cash collections system, are used by agencies for processing and reconciling transactions.

Treasury policies require each agency to submit monthly Statements of Transactions (Standard Form 224) or Statements of Accountability/Transactions (Standard Forms 1218/1221 and 1219/1220) to report agency collection and disbursement activity along with other financial information. Also, Treasury requires each agency to submit a Year-End Closing Statement (FMS Form 2108) showing the funds unobligated under each appropriation and fund account that is included in an agency's Fund Balances with Treasury account. The balances in the Year-End Closing Statement, however, would not reflect any unreconciled differences. Thus, the accuracy of the appropriation and fund account balances reported on the FMS Form 2108 depends on whether an agency has properly reconciled its Fund Balances with Treasury accounts. Further, the balances reported on FMS Form 2108 and related transactions reported monthly by the agencies are used to prepare the U.S. Government Fiscal Year 1998 Annual Report and should agree with the corresponding balances and transactions reported by agencies on their final Standard Form 133 budget execution reports to the Office of Management and Budget (OMB).

The reconciliation process begins when Treasury compares agency reported receipts and disbursements to amounts reported by independent sources, such as Federal Reserve Banks. Treasury then reports the details of any discrepancies identified to agencies in a monthly Statement of Differences report (FMS Form 6652). Also monthly, Treasury sends the Undisbursed Appropriation Account Ledgers (FMS Form 6653) and the Receipt Account Ledger and Trial Balance (FMS Form 6655) showing the monthly activity in each appropriation account. This includes

disbursements and receipts as well as noncash transactions, such as additional allocated budget authority and reprogramming or budget rescissions. Agencies are responsible for investigating and resolving differences (1) reported on the monthly Statement of Differences reports and (2) between their fund account records and Treasury's Undisbursed Appropriation and Receipt Account ledgers. Once differences are resolved, agencies must record any necessary adjustments to their Fund Balances with Treasury accounts and report these adjustments to Treasury.

Treasury sends agencies Statement of Differences reports monthly until the differences are cleared. Each month, Treasury also reviews agencies' unresolved Statements of Differences and sends reminder letters to each agency that has (1) not reconciled a difference of over \$50,000 within 3 months or (2) has 6 or more months of unresolved differences (regardless of the dollar amount). Also, a quarterly letter is sent to the Chief Financial Officer (CFO) of each agency with unresolved differences to notify the CFO of the reconciliation problem and to offer Treasury assistance in resolving the differences and improving the agency's reconciliation process. Until April 1998, differences that remained outstanding for 6 months were aggregated by month and each month's net amount was transferred to Budget Clearing Accounts (BCAs) by Treasury.⁶ After the transfer, monthly Statement of Differences reports and reminder letters were no longer sent to agencies. Instead, the net transfers and net BCA balances were reported monthly to agencies on the Undisbursed Appropriation Account Ledger (FMS Form 6653).

Scope and Methodology

In order to meet our objectives of monitoring and evaluating the overall effectiveness of federal agencies' reconciliation processes and follow up on Treasury's actions to improve its assistance to agencies in their reconciliation efforts, we:

- Determined if agency auditors reported any reconciliation problems by reviewing the fiscal year 1998 audit reports issued at the time of our review on 20 of the federal agencies covered by the CFO Act.

⁶Treasury issued Treasury Financial Manual Bulletin 98-07 in early 1998 to notify agencies that the process of transferring unresolved differences over 6 months old to Budget Clearing accounts—called the chargeback process—was to be discontinued effective for the April 1998 reporting cycle. This bulletin also notified agencies to take the necessary and appropriate actions to clear all BCA balances not later than September 30, 1998.

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- Selected the same 10 federal agencies as in the prior year (called major agencies in this report) as well as 5 other agencies for which we reported reconciliation problems in our prior year report. We also selected the agency with the largest receipts in fiscal year 1998. The agencies selected accounted for approximately 95 percent of total federal disbursements and about 94 percent of total federal receipts in fiscal year 1998. We obtained detailed information from the auditors of these agencies on any current problems with reconciling Fund Balances with Treasury accounts and actions to correct the problems found in the prior year.
 - Obtained information on the status of Treasury's actions to implement the recommendations we made in our October 1998 report to improve assistance to agencies. We obtained this information through interviews with Treasury officials and reviews of Treasury action plans and documentation supporting actions taken.

We requested comments on a draft of this report from the Secretary of the Treasury or his designee. Treasury's comments are reprinted in appendix I. We performed our work from October 1998 through July 1999 in accordance with generally accepted government auditing standards.

Many Agencies Continue to Have Problems Reconciling Their Fund Balances With Treasury Accounts

Auditors reported problems with Fund Balances with Treasury account reconciliations at 11 of the 20 CFO agencies for which audit reports were issued as of the completion of our fieldwork.⁷ In general, the auditors found that these agencies did not have procedures in place to ensure effective reconciliations of Fund Balances with Treasury accounts. These 11 agencies accounted for about 48 percent of the total dollars disbursed by the federal government in fiscal year 1998. Auditors did not report any reconciliation problems at the nine other CFO agencies for which audits had been completed.

⁷These 11 agencies included 7 of the major agencies we reviewed.

For 7 of the 11 agencies with reported reconciliation problems, the auditors reported the problems as material weaknesses.⁸ For the four other agencies, auditors reported reconciliation problems that they did not consider to be material weaknesses at the agency level. However, for two of these agencies, one or more of their components reported material weaknesses related to Fund Balances with Treasury reconciliations.

In order to effectively reconcile their Fund Balances with Treasury accounts, agencies must timely research and resolve any differences between their records and Treasury's records. However, for the second consecutive year we found that there were billions of dollars of unreconciled gross differences between agencies' and Treasury's records of disbursements, as of the end of the fiscal year. While some of these differences could be related to timing, as noted in our examples below, auditors identified differences that had been outstanding for several years. Also, some agencies continued to arbitrarily write off unreconciled differences in order to match their records with Treasury's reported balances without adequately determining whether, in fact, their records may have been correct. In addition, auditors identified certain instances of fraud and mismanagement of funds that went undetected partly due to the lack of effective agency reconciliations of Fund Balances with Treasury accounts. In general, auditors recommended that agency management develop and implement procedures, or take other appropriate corrective actions, to ensure timely and proper reconciliations of Fund Balances with Treasury accounts. Some examples of the problems found at agencies follow.

- One major agency had about \$1.8 billion in gross unresolved differences between records of the checks it issued and Treasury's records of checks that had cleared the Federal Reserve Banks. At this same agency, auditors identified an instance where long-standing reconciliation problems contributed to the mismanagement of funds. Specifically, in 1991 the agency made a deposit for nearly \$2.1 million, but the bank mistakenly recorded the deposit for only \$3,458.89 (the deposit ticket number). Because this agency failed to adequately reconcile its records with Treasury's records, this error went undetected until auditors found

⁸A material weakness is a reportable condition in which the design or operation of the internal controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their duties.

the discrepancy. In fiscal year 1998, the bank subsequently paid the government the correct deposit amount plus \$640,000 in interest.

Auditors found that this agency's reconciliation problems were primarily caused by inadequate procedures to ensure that timely reconciliations were performed, but acknowledged that the agency had made some improvements in its procedures during fiscal year 1998. Although this agency's auditor issued a disclaimer of opinion because it did not receive the agency's financial statements in time to perform all the necessary audit work, the auditor reported that deficiencies in internal controls, including these reconciliation problems, would also have precluded an audit opinion on the agency's financial statements.

- The auditor of another major agency reported that in fiscal year 1998, this agency had unreconciled differences of \$11 million. While this amount may be deemed not material, it represents an increase of 36 percent over the unreconciled amounts at the end of fiscal year 1997. Also, this agency still had unreconciled differences in its Budget Clearing Accounts totaling \$500,000 even though Treasury had instructed agencies to reconcile the amounts in these accounts by the end of fiscal year 1998. The auditor also found that several payments intended for program claimants had been diverted to an employee's personal bank account and concluded that this fraudulent situation could have been detected if proper reconciliations of Fund Balances with Treasury accounts were conducted. Although the auditor issued an unqualified opinion on the agency's financial statements, the auditor reported that, because of these unreconciled differences, the agency could not ensure that all disbursements and deposits were accurately recorded.
- Another major agency was routinely adjusting the amounts reported on the SF 224, Statement of Transactions, to make them agree with Treasury's records. In reality, the agency was simply transferring the differences to various suspense accounts and did not research the differences to determine which accounts were affected. As a result, the auditor found that the agency had gross unreconciled differences of \$4.4 billion for disbursements and \$383 million for receipts between the agency and Treasury records at the end of fiscal year 1998. According to the auditor, this agency had been making these types of unsupported adjustments to the SF 224 since 1992. The auditor noted that this agency had initiated a corrective action plan to address this serious problem and was making progress in fixing it. However, corrective actions are not scheduled to be fully completed until March 2000. As a result of the

reconciliation problems, the auditor was unable to conclude as to the accuracy of the over \$37 billion in this agency's Fund Balances with Treasury accounts as of September 30, 1998. This was one of the reasons the auditor rendered a disclaimer of opinion on the agency's fiscal year 1998 financial statements.

- Another agency did not reconcile its Fund Balances with Treasury accounts during fiscal year 1998. When the agency attempted to reconcile for the 12-month period, the auditors found that material amounts on the reconciliations did not agree with supporting records and the reconciling items identified were not investigated and resolved. This lack of timely and thorough reconciliation made it difficult or impossible for the agency to determine if its operating funds had been properly spent or if the reported amounts of expenses, assets, and liabilities were reliable. This weakness affected the agency's ability to ensure that it complies with laws governing the use of its budget authority. Because of these reconciliation problems, the auditor was unable to conclude whether the amount reported for the Fund Balances with Treasury accounts was reliable. In addition, the auditor qualified its opinion on the agency's balance sheet and disclaimed an opinion on the agency's other financial statements, in part, because of these reconciliation problems.

Treasury Has Acted to Improve Its Reconciliation Processes and Assistance to Agencies

In our October 1998 report on Fund Balances with Treasury accounts reconciliation issues, we reported on problems some agencies were having with Treasury's reconciliation processes and assistance, and we recommended improvements to Treasury. Specifically, certain agencies cited that Treasury's reports lacked sufficient details on checks issued and on transactions recorded in the Budget Clearing Accounts. Agencies also expressed problems with Treasury's GOALS reporting system. For example, several agencies expressed frustration over having to manually input their receipt and disbursement data each month into GOALS. Further, agencies mentioned a lack of adequate Treasury assistance in the areas of (1) written guidance on detailed reconciliation procedures, (2) training, and (3) availability of knowledgeable personnel to help with reconciliation problems.

In response to our recommendations, Treasury established a Fund Balance with Treasury team to identify ways to improve assistance to agencies and resolve the problems we noted in last year's report and has either completed or initiated actions to address all of our recommendations. For example, Treasury developed training courses for agencies and Treasury

personnel on reconciliation of Fund Balances with Treasury accounts, and standard operating procedures for reconciling agency Fund Balances with Treasury accounts that will soon be available to agencies on Treasury's internet web site.

Treasury has recognized that current GOALS technology is outdated and is working on enhancements to update the GOALS system. However, we recognize that Treasury faces other priorities such as Year 2000 computer conversion issues and significant challenges associated with the nonstandardized agency systems across the federal government as it works to complete enhancements to GOALS.

Conclusion

Reconciliations of agencies' Fund Balances with Treasury accounts continue to be a significant problem that (1) increases the risks of misstatements in agencies' and the government's financial statements, (2) increases the risks of fraud, waste, and mismanagement, and (3) affects the ability to accurately measure the full cost of the federal government's programs. Auditors reported that some agencies had improved their reconciliation processes. However, to overcome the persistent reconciliations problems will require the continued commitment of all agencies to develop and implement effective internal control procedures. In addition, it is important for Treasury to continue its efforts to work with agencies to identify and provide the resources and assistance they need to perform efficient and effective reconciliations.

Because of the nature and timing of the actions taken by Treasury, at the end of our field work for the audit of the U.S. government's fiscal year 1998 financial statements, it was too early to assess the impact of Treasury's actions on the overall reconciliation process. Future audits of agencies' Fund Balances with Treasury accounts reconciliation processes will help determine the effectiveness of Treasury's actions in assisting agencies in timely and properly reconciling their Fund Balances with Treasury accounts. In addition, we recognize that competing demands associated with Year 2000 computer conversion issues should take precedence in making system modifications. Considering this priority, we reaffirm our recommendation that the GOALS system enhancements be completed as soon as practical in order to provide agencies with the technology needed to promote efficient and effective reconciliations.

Agency Comments

Treasury agreed with our findings and recommendation. Treasury stated that it will continue its efforts in training, standardizing policies and procedures, and visiting federal program agencies to identify and provide the necessary assistance for the agencies to perform timely and effective reconciliations. It will also work on enhancing the GOALS system. We will continue to evaluate Treasury and agency actions to address the issues discussed in this report during our audit of the U.S. government's fiscal year 1999 financial statements.

We are sending a copy of this report to Senator Robert Byrd, Senator Ben Nighthorse Campbell, Senator Pete Domenici, Senator Byron Dorgan, Senator Frank Lautenberg, Senator Joseph Lieberman, Senator Daniel Moynihan, Senator William Roth, Senator Ted Stevens, and Senator Fred Thompson, and to Representative Bill Archer, Representative Dan Burton, Representative Stephen Horn, Representative Steny Hoyer, Representative John R. Kasich, Representative Jim Kolbe, Representative David R. Obey, Representative Charles Rangel, Representative John M. Spratt, Jr., Representative Jim Turner, Representative Henry A. Waxman, and Representative C. W. Bill Young in their capacities as Chairmen or Ranking Minority Members of Senate and House Committees and Subcommittees. We are also sending copies of this report to: Donald Hammond, Fiscal Assistant Secretary, Department of the Treasury; Richard L. Gregg, Commissioner of the Financial Management Service, Department of the Treasury; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and the Inspectors General and Chief Financial Officers of the 24 federal executive agencies covered by the Chief Financial Officers Act of 1990. Copies will be made available to others upon request.

If you have any questions regarding this report, please contact me or Christine Robertson at (202) 512-3406. Other key contributors to this assignment were Suzanne Murphy, Jerry Marvin, and Carolyn Voltz.

Sincerely yours,

A handwritten signature in black ink that reads "Gary T. Engel". The signature is written in a cursive style with a large initial "G".

Gary T. Engel
Associate Director
Governmentwide Accounting and
Financial Management Issues

Comments From the Department of the Treasury



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

August 26, 1999

Mr. Gary T. Engel
Associate Director
Governmentwide Accounting and
Financial Management Issues
General Accounting Office
441 G Street, N.W.
Washington, DC 20548-0001

Dear Mr. Engel:

The Financial Management Service (FMS) has received for comment a copy of your recent audit report (GAO/AIMD-99-271), entitled Issues Regarding Reconciliations of Fund Balances with Treasury Accounts. We offer the following comments on the report.

We concur with all of the observations and recommendations contained within the report. We are especially pleased to have all of the work FMS has undertaken both recognized and acknowledged. At the same time, we recognize that more work does remain to be done with FPAs in addressing this issue of achieving efficient and effective agency reconciliations.

During the past year we have worked very hard to institute the recommendations you provided in the previous year's report. In the coming months we will continue working with Federal Program Agencies (FPAs) in this effort. Our efforts will concentrate on continued training, standardizing policies and procedures, and visiting FPAs in a focused effort to identify and provide the necessary assistance for them to perform timely and effective reconciliations.

Concurrently, we will continue our efforts working on enhancements to the GOALS system. To that end, development of the new GOALS II is well underway. In fact, all of the applications are to be either completed or implemented by September 2001. When this event occurs, these applications will support agency reporting to the central accounting system and various intragovernmental payments activities while, at the same time, replacing the current GOALS system.

Thank you for the opportunity to respond to this draft GAO report.

Sincerely,

Handwritten signature of Richard L. Gregg in cursive script.
Richard L. Gregg