FINANCIAL AUDIT

Significant Internal Control Weaknesses Remain in the Preparation of the Consolidated Financial Statements of the U.S. Government

What GAO Found

GAO identified continuing and new weaknesses during its audit of the federal government’s process for preparing the fiscal year 2006 CFS. Such weaknesses 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 its tests of the fiscal year 2006 CFS preparation process involved the following areas:

- reconciling and reporting undistributed offsetting receipts (component of the budget deficit),
- directly linking audited federal agencies’ financial statements to the CFS,
- reporting unexpended budget balances,
- reporting operating cash,
- reporting and disclosing legal contingencies,
- reconciling intragovernmental activity and balances,
- preparing and auditing certain information in federal agencies’ closing packages,
- conformity with U.S. generally accepted accounting principles, and
- various other internal control weaknesses that were identified in previous years’ audits but remained in fiscal year 2006 (see app. I).

Of the 143 open recommendations GAO reported in April 2006 regarding the process for preparing the CFS, 70 remained open as of December 1, 2006, when GAO completed its fieldwork for the audit of the fiscal year 2006 CFS. Of the 73 recommendations that were closed, 53 were closed based on the issuance in fiscal year 2006 of Statement of Federal Financial Accounting Standards No. 32, Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 “Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government.” This standard eliminated or lessened the disclosure requirements for the consolidated financial statements related to certain information that the Department of the Treasury (Treasury) had not been reporting. GAO will continue to monitor the status of corrective actions to address the 11 new recommendations and the new remaining balance of 81 open recommendations during its fiscal year 2007 audit of the CFS.

What GAO Recommends

GAO is making 11 new recommendations to address weaknesses identified during the fiscal year 2006 CFS audit. Treasury and the Office of Management generally concurred with the findings and recommendations in this report; however, Treasury disagreed with the finding and recommendation related to reporting a consolidated total in the consolidated Statement of Social Insurance. GAO believes including a total provides increased transparency, and is meaningful to the users of the CFS.


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.