MANAGEMENT REPORT

Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements

Why GAO Did This Study

The Department of the Treasury (Treasury), in coordination with the Office of Management and Budget (OMB), is primarily responsible for preparing the financial report of the U.S. government, which contains the consolidated financial statements of the U.S. government (CFS). Since GAO's first audit of the fiscal year 1997 CFS, certain material weaknesses in internal control and other limitations on the scope of GAO's work have prevented GAO from expressing an opinion on the CFS, exclusive of the Statement of Social Insurance (SOSI). Also, GAO was unable to express an opinion on the 2010 SOSI because of significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2010 SOSI. As part of the fiscal year 2010 CFS audit, GAO identified material weaknesses and other control deficiencies in the processes used to prepare the CFS. The purpose of this report is to (1) provide details on new financial statement preparation control deficiencies GAO identified during its audit of the fiscal year 2010 CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken to address GAO's recommendations in this area that remained open at the end of the fiscal year 2009 audit.

What GAO Recommends

GAO is making four recommendations—two each to Treasury and OMB—to address new control deficiencies. In commenting on GAO’s draft report, Treasury and OMB generally concurred with GAO’s findings.

What GAO Found

During its audit of the fiscal year 2010 CFS, GAO identified new and continuing control deficiencies in the federal government’s processes used to prepare the CFS.

New control deficiencies GAO identified involved

- the need to enhance policies and procedures for carrying out and documenting that certain amounts and disclosures were reported consistently and in conformity with Statement of Federal Financial Accounting Standards No. 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, which became effective in fiscal year 2010; and
- the need to fully develop procedures for carrying out and documenting certain other information related to the federal government’s financial management reported in appendixes to the 2010 Financial Report of the United States Government.

In addition, GAO found that various other control deficiencies identified in previous years’ audits with respect to the CFS preparation continued to exist, and the related recommendations are included in appendix I.

These control deficiencies contributed to material weaknesses in internal control over the federal government’s ability to (1) adequately account for and reconcile intragovernmental activity and balances between federal entities; (2) ensure that the federal government’s accrual-based consolidated financial statements were consistent with the underlying audited entities’ financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles; and (3) identify and either resolve or explain material differences between certain components of the budget deficit reported in Treasury’s central accounting records and related amounts reported in federal entities’ financial statements and underlying financial information and records. The budget deficit reported in Treasury’s central accounting records is used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit, the Statement of Changes in Cash Balance from Unified Budget and Other Activities, and the Fiscal Projections for the U.S. Government (included in Supplemental Information). As a result of these and other material weaknesses, the federal government did not have effective internal control over financial reporting.

As summarized in appendix I, of the 52 open recommendations GAO reported in July 2010, 6 were closed and 46 remained open as of December 13, 2010, the date of GAO’s report on its audit of the fiscal year 2010 CFS. GAO will continue to monitor the status of corrective actions taken to address the 4 new recommendations as well as the 46 open recommendations from prior years as part of our fiscal year 2011 CFS audit.

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