MANAGEMENT REPORT

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

Why GAO Did This Study

Treasury, in coordination with OMB, is primarily responsible for preparing the Financial Report, which contains the CFS. Since GAO’s first audit of the fiscal year 1997 CFS, certain material weaknesses 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 opinions on the 2011 and 2010 SOSI and the 2011 Statement of Changes in Social Insurance Amounts because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, reflected in these statements.

As part of the fiscal year 2011 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 control deficiencies GAO identified related to the preparation of the CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken to address GAO’s prior recommendations in this area that remained open at the end of the fiscal year 2010 audit.

What GAO Found

During its audit of the fiscal year 2011 consolidated financial statements of the U.S. government (CFS), GAO identified new and continuing control deficiencies in the Department of the Treasury’s (Treasury) and the Office of Management and Budget’s (OMB) processes used to prepare the CFS. These control deficiencies contributed to material weaknesses in internal control over the federal government’s ability to

- adequately account for and reconcile intragovernmental activity and balances between federal entities;
- 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
- identify and either resolve or explain material differences between (1) components of the budget deficit that are used to prepare certain information in the CFS and (2) related amounts reported in federal entities’ financial statements and underlying financial information and records.

GAO identified new control deficiencies involving the need to

- develop or revise and implement written procedures for appropriate Treasury and OMB officials to (1) review and approve the drafts of the Financial Report of the United States Government (Financial Report) before they are provided to GAO and (2) better ensure that key federal entity personnel are actively involved in the process for preparing and reviewing the Financial Report;
- enhance procedures for timely review, approval, and use of the CFS disclosure checklist;
- develop procedures for pursuing indications that financial information provided by federal entities for inclusion in the CFS may not be in conformity with applicable accounting standards;
- enhance Treasury’s intragovernmental data validation process; and
- enhance procedures for timely identifying, notifying, and obtaining closing packages from federal entities as they first become significant to the Financial Report.

In addition, GAO found that various other control deficiencies identified in previous years’ audits with respect to the CFS preparation continued to exist. Specifically, of the 50 open recommendations from GAO’s prior reports regarding control deficiencies in the CFS preparation process, 12 were closed and 38 remained open as of December 12, 2011, the date of GAO’s report on its audit of the fiscal year 2011 CFS. GAO will continue to monitor the status of corrective actions taken to address the 10 new recommendations as well as the 38 open recommendations from prior years as part of its fiscal year 2012 CFS audit.

What GAO Recommends

GAO is making 10 recommendations—9 to Treasury and 1 to OMB—to address new control deficiencies. In commenting on GAO’s draft report, Treasury and OMB generally concurred with GAO’s findings.

View GAO-12-529. For more information, contact Gary Engel at (202) 512-3406 or engelg@gao.gov.