MANAGEMENT REPORT

Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements

Why GAO Did This Study
Treasury, in coordination with OMB, prepares the Financial Report of the United States Government, 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 its work have prevented GAO from expressing an opinion on the accrual-based CFS. As part of the fiscal year 2013 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 the control deficiencies GAO identified related to the processes used to prepare the CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken by Treasury and OMB to address GAO’s prior recommendations relating to the processes used to prepare the CFS that remained open at the end of the fiscal year 2012 audit.

What GAO Found
During its audit of the fiscal year 2013 consolidated financial statements of the U.S. government (CFS), GAO identified 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 (1) consistent with the underlying audited entities’ financial statements, (2) properly balanced, and (3) in conformity with U.S. generally accepted accounting principles; and

- ensure the consistency of (1) information used by Treasury to compute the budget deficit reported in the consolidated financial statements, (2) Treasury’s records of cash transactions, and (3) information reported in federal entity financial statements and underlying financial information and records.

Specifically, for fiscal year 2013, GAO found that

- Treasury’s and OMB’s corrective action plans are not adequate to reasonably assure that internal control deficiencies involving the processes used to prepare the CFS are efficiently and effectively addressed,

- Treasury does not have procedures to sufficiently document management’s conclusions and the basis for such conclusions regarding the accounting policies for the CFS, and

- Treasury does not have adequate procedures for verifying staff’s preparation of the narrative within the notes to the CFS to reasonably assure that the narrative is accurate and supported by the underlying financial information of the significant component entities.

GAO also updated the description of the control deficiencies related to the long-standing material weakness regarding the federal government’s inability to adequately account for and reconcile intragovernmental activity and balances between federal entities. GAO closed 6 recommendations from prior GAO reports and made 4 new recommendations that are better aligned with the remaining internal control deficiencies in this area. In addition, GAO found that various other control deficiencies identified in previous years’ audits with respect to the processes used to prepare the CFS continued to exist. Specifically, 24 of the 37 recommendations from GAO’s prior reports regarding control deficiencies in the processes used to prepare the CFS remained open as of February 19, 2014, the date of GAO’s report on its audit of the fiscal year 2013 CFS. GAO will continue to monitor the status of corrective actions taken to address the 7 new recommendations as well as the 24 open recommendations from prior years as part of its fiscal year 2014 CFS audit.

What GAO Recommends
GAO is making seven new recommendations—five to both Treasury and OMB and two to Treasury—to address the control deficiencies identified by GAO during the fiscal year 2013 CFS audit. In commenting on GAO’s draft, Treasury and OMB generally concurred with GAO’s recommendations.

View GAO-14-543. For more information, contact Gary Engel at (202) 512-3406 or engelg@gao.gov.