



June 2014

# MANAGEMENT REPORT

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

# GAO Highlights

Highlights of [GAO-14-543](#), a report to agency officials

## 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 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](mailto:engelg@gao.gov).

June 2014

## MANAGEMENT REPORT

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

## 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.

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## Abbreviations

CFS	consolidated financial statements of the U.S. government
FASAB	Federal Accounting Standards Advisory Board
GAAP	generally accepted accounting principles
OMB	Office of Management and Budget
SOP	standard operating procedure
SOSI	Statement of Social Insurance

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June 19, 2014

The Honorable Jacob J. Lew  
Secretary of the Treasury

The Honorable Brian C. Deese  
Acting Director  
Office of Management and Budget

In our February 2014 report on the results of our audit of the consolidated financial statements of the U.S. government (CFS) for the fiscal years ended September 30, 2013, and 2012,<sup>1</sup> we disclaimed an opinion on the CFS, except for the 2009 Statement of Social Insurance (SOSI), which received an unmodified opinion.<sup>2</sup> Since GAO's first audit of the fiscal year 1997 CFS, certain material weaknesses<sup>3</sup> in internal control over financial reporting and other limitations on the scope of our work have resulted in conditions that prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements.<sup>4</sup> These include material weaknesses that relate to the federal government's

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<sup>1</sup>The CFS for the fiscal years ended September 30, 2013, and 2012, consist of the Statements of Net Cost; Statements of Operations and Changes in Net Position; Reconciliations of Net Operating Cost and Unified Budget Deficit; Statements of Changes in Cash Balance from Unified Budget and Other Activities; Balance Sheets; 2013, 2012, 2011, 2010, and 2009 Statements of Social Insurance; and 2013 and 2012 Statements of Changes in Social Insurance Amounts, including the related notes to these financial statements. See GAO, *Financial Audit: U.S. Government's Fiscal Years 2013 and 2012 Consolidated Financial Statements*, GAO-14-319R (Washington, D.C.: Feb. 27, 2014).

<sup>2</sup>Because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2013, 2012, 2011, and 2010 SOSI, we were unable to, and did not, express opinions on the 2013, 2012, 2011, and 2010 SOSI as well as on the 2013 and 2012 Statements of Changes in Social Insurance Amounts. We were able to render an unmodified opinion on the 2009 SOSI.

<sup>3</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

<sup>4</sup>As used in this report, accrual-based consolidated financial statements refer to all of the consolidated financial statements and notes, except for those related to the SOSI and the Statements of Changes in Social Insurance Amounts.

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processes used to prepare the CFS.<sup>5</sup> Such material weaknesses involve the federal government's inability 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 the Department of the Treasury (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.

Treasury, in coordination with the Office of Management and Budget (OMB), prepares the CFS on behalf of the federal government.<sup>6</sup> Several of the material weaknesses in internal control over financial reporting that have contributed to our continuing disclaimers of opinion on the federal government's accrual-based consolidated financial statements were reported in detail along with related recommendations by other auditors in their audit reports on individual federal entities' financial statements.

The purpose of this report is to provide (1) detailed information on control deficiencies identified during our fiscal year 2013 audit that relate to the processes used by Treasury and OMB to prepare the CFS, (2) 7 new recommendations to address these control deficiencies, and (3) the status of corrective actions taken by Treasury and OMB to address the 37 recommendations relating to the processes used by them to prepare the CFS, detailed in our previous reports, that remained open at the end of the fiscal year 2012 audit.<sup>7</sup> Appendix I provides a summary of the status

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<sup>5</sup>Our February 2014 report also discussed material weaknesses and scope limitations that did not relate to the processes used to prepare the CFS but that also prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements.

<sup>6</sup>The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. 31 U.S.C. § 331(e). The federal government has elected to include certain financial information on the legislative and judicial branches in the CFS as well.

<sup>7</sup>GAO, *Management Report: Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements*, [GAO-13-540](#) (Washington, D.C.: June 28, 2013).

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of actions taken to address the open recommendations from our previous reports as of February 19, 2014, the date of our report on the audit of the fiscal year 2013 CFS.

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## Scope and Methodology

As part of our audit of the fiscal years 2013 and 2012 CFS, we considered the federal government's financial reporting procedures and related internal control. Also, we determined the status of corrective actions taken by Treasury and OMB to address open recommendations relating to the processes used by them to prepare the CFS that were detailed in our previous reports. A full discussion of our scope and methodology is included in our February 2014 report on our audit of the fiscal years 2013 and 2012 CFS.<sup>8</sup> We have communicated each of the control deficiencies discussed in this report to your staff. We performed our audit of the fiscal years 2013 and 2012 CFS in accordance with U.S. generally accepted government auditing standards. We believe that our audit provided a reasonable basis for our conclusions in this report.

We requested comments on a draft of this report from the Director of OMB and the Secretary of the Treasury or their designees. OMB provided oral comments, which are summarized in the Agency Comments section of this report. Treasury's Fiscal Assistant Secretary provided written comments on June 10, 2014, which are reprinted in their entirety in appendix II and are also summarized in the Agency Comments section.

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## Control Deficiencies Identified during Our Fiscal Year 2013 Audit

During our audit of the fiscal year 2013 CFS, we identified several new internal control deficiencies in Treasury's and OMB's processes used to prepare the CFS. Specifically, we found that (1) 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, (2) Treasury does not have procedures to sufficiently document management's conclusions and the basis for such conclusions regarding accounting policies for the CFS, and (3) 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.<sup>9</sup> We also

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<sup>8</sup>GAO-14-319R.

<sup>9</sup>For fiscal year 2013, OMB and Treasury identified 35 federal entities that are significant to the U.S. government's consolidated financial statements, consisting of the 24 Chief Financial Officers Act agencies, several other federal executive branch agencies, and some government corporations.

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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.

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## Corrective Action Plans

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. Corrective action plans are the mechanism whereby management presents the procedures the agency will follow to resolve internal control deficiencies. Well-defined corrective action plans provide benefits such as consistency in addressing internal control deficiencies, concurrence on remediation activities, transparency in defining accountability and responsibility to ensure that results are achieved, and improved decision making on the status of remediation activities. An effective corrective action planning framework facilitates corrective action plan preparation, accountability, monitoring, and communication and helps ensure that the agency personnel responsible for completing the planned corrective actions and monitoring progress toward resolution have the information and resources they need to do so.

The Chief Financial Officers Council's *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control – Appendix A, Internal Control over Financial Reporting* (Implementation Guide) includes guidance for preparing well-defined corrective action plans.<sup>10</sup> Based on the guidance included in the Implementation Guide, well-defined corrective action plans include the following elements for each deficiency: (1) descriptions of the deficiency and the planned corrective actions in sufficient detail to facilitate a common understanding of the deficiency and the steps that must be performed to resolve it; (2) a clear delineation of agency personnel responsible for completing the planned corrective actions and monitoring progress toward resolution; (3) the year the deficiency was first identified; (4) the targeted resolution date; (5) interim targeted milestones and completion dates, including subordinate indicators, statistics, or metrics used to gauge resolution progress; and (6) planned validation activities and outcome measures used for assessing the effectiveness of the corrective actions taken.

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<sup>10</sup>Office of Management and Budget, *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control – Appendix A, Internal Control over Financial Reporting* (Washington, D.C.: July 2005).

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During our audit of the fiscal year 2013 CFS, we found that Treasury’s and OMB’s corrective action plans lacked certain key elements as recommended by the Implementation Guide. For example, these plans do not contain sufficiently detailed actions that must be performed to resolve each of the deficiencies, interim milestones so that interim actions and progress can be monitored and progress assessed, and outcome measures to assist in assessing the effectiveness of the corrective actions. In addition, we found that Treasury’s and OMB’s corrective action plans do not fully consider the interrelationships between deficiencies, such as designing a corrective action that will help resolve multiple deficiencies. *Standards for Internal Control in the Federal Government* provides that federal agencies should establish policies and procedures for promptly resolving findings of audits and other reviews.<sup>11</sup> In addition, OMB Circular No. A-123, *Management’s Responsibility for Internal Control*, requires management to develop corrective action plans for material weaknesses and periodically assess and report on the progress of those plans.<sup>12</sup> The Implementation Guide is widely viewed as a “best practices” methodology for executing the requirements of Appendix A of OMB Circular No. A-123. Without well-defined corrective action plans, Treasury’s and OMB’s efforts to address the numerous issues involving the processes used to prepare the CFS will be hampered.

Recommendation for Executive Action

To efficiently and effectively address internal control deficiencies involving the processes used to prepare the CFS, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to include all key elements recommended by the Implementation Guide and fully consider the interrelationships between deficiencies in the corrective action plans.

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Accounting Policies

Treasury does not have procedures to sufficiently document management’s conclusions and the basis for such conclusions regarding the accounting policies for the CFS. Accounting policies are the mechanism whereby management summarizes the accounting principles and methods of applying those principles that management has concluded are appropriate for presenting fairly the entity’s assets, liabilities, net cost of operations, and changes in net position. Such

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<sup>11</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

<sup>12</sup>Office of Management and Budget, *Management’s Responsibility for Internal Control*, OMB Circular No. A-123 (revised Dec. 21, 2004).

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policies should sufficiently document management's conclusions regarding fair presentation and the basis of such conclusions. When sufficiently documented, accounting policies help ensure the consistent application of accounting principles by management from period to period and over similar classes of transactions, account balances, and disclosures. A summary of the significant accounting policies for the CFS is disclosed in Note 1 to the CFS, as required by U.S. generally accepted accounting principles.

During our audit of the fiscal year 2013 CFS, we found that Treasury had not sufficiently documented management's conclusions and the basis of such conclusions regarding the accounting policies for the CFS.

*Standards for Internal Control in the Federal Government* provides that federal agencies should clearly document internal control activities—the policies, procedures, techniques, and mechanisms that enforce management's directives—and properly manage and maintain such documentation so that it will be readily available for examination. In addition, OMB Circular No. A-123 requires management to document the decisions made during its process for developing and maintaining effective internal control over financial reporting. Without sufficiently documented accounting policies that include management's conclusions regarding fair presentation and the basis of such conclusions, Treasury cannot be assured that accounting principles will be applied consistently from period to period and over similar classes of transactions, account balances, and disclosures.

**Recommendation for Executive Action**

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and implement procedures to sufficiently document management's conclusions and the basis of such conclusions regarding the accounting policies for the CFS.

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**Note Disclosure Narrative**

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. Accompanying notes are an integral part of financial statements and provide additional disclosures that are necessary to make the financial statements more informative. Such additional disclosures often take the form of narrative and amounts, presented both within the narrative and in tables.

During our audit of the fiscal year 2013 CFS, we found that Treasury's standard operating procedures for preparing the CFS, including its procedures for analyzing the financial information submitted by the significant component entities, provide that Treasury staff are to verify the

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narrative within the notes and make changes so that the narrative reflects the financial information submitted by the significant component entities. However, the procedures do not include specific steps to be performed to verify the accuracy of the staff's work, such as verifying the appropriateness of changes made by the staff and that all necessary changes were identified and made. We identified inconsistencies and errors in the narrative within the notes to the draft CFS that were not identified through the review of the staff's work but were subsequently corrected by Treasury. *Standards for Internal Control in the Federal Government* provides that control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. The standards also provide that agencies should accurately and timely record transactions and events. Without adequate procedures for verifying staff's preparation of the narrative within the notes to the CFS, Treasury cannot be assured that such narrative is reliable.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to improve and implement Treasury's procedures for verifying that staff's preparation of the narrative within the notes to the CFS is accurate and supported by the underlying financial information of the significant component entities.

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Intragovernmental Activity and Balances

During our fiscal year 2013 CFS audit, we found that the federal government continued to be unable to adequately account for and reconcile intragovernmental activity and balances between federal entities. Treasury has taken certain actions over the past few years to address control deficiencies in this area. Consequently, we have updated the description of the remaining control deficiencies related to this material weakness, as discussed below.

Consolidated financial statements are intended to present the results of operations and financial position of the components that make up the reporting entity as if the entity were a single enterprise. When preparing the consolidated financial statements, intragovernmental activity and balances between federal entities should be in agreement and must be subtracted out, or eliminated, from the financial statements. If the two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, resulting in errors in the consolidated financial statements.

Federal entities are responsible for properly accounting for and reporting their intragovernmental activity and balances in their entity financial statements and for effectively implementing related internal controls. This

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includes reconciling and resolving intragovernmental differences at the transaction level with their trading partners. To support this process, Treasury has established certain controls to monitor whether intragovernmental activity and balances reported to Treasury by federal entities are properly reconciled and balanced at the account and line item levels. For example, based on intragovernmental information provided by the significant component entities, Treasury provides quarterly scorecards that highlight intragovernmental differences at the account level requiring the entities' attention.<sup>13</sup> As part of this process, Treasury gathers information from the entities on such differences to identify causes of intragovernmental differences and monitors how the differences are addressed by federal entities. Treasury also reviews disputes between federal entities and their respective trading partners when the entities cannot resolve an intragovernmental difference. After reviewing a dispute, Treasury issues a decision on how to resolve the difference.

In fiscal year 2013, Treasury continued to actively work with federal entities, resulting in a significant number of intragovernmental differences being identified and resolved. While such progress was made, we continued to note that amounts reported by federal entity trading partners were not in agreement by significant amounts. Reasons for the differences cited by several chief financial officers included differing accounting methodologies, accounting errors, and timing differences. Treasury's process focuses on the cause and resolution of individual differences, not on systemic "root causes" of differences. As such, the root causes of the differences are not fully identified and reported, which affects (1) the entities' ability to resolve and prevent further differences and (2) Treasury's ability to monitor how the entities are addressing the root causes. Furthermore, Treasury's scorecard process generates scorecards for the significant component entities and focuses on the most significant reconciliation issues faced by each entity receiving a scorecard. However, Treasury has not demonstrated that differences not covered by the scorecard process are immaterial to the CFS.

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<sup>13</sup>For each quarter, Treasury produces a scorecard for each significant entity that reports various aspects of the entity's intragovernmental differences with its trading partners, including the composition of the differences by trading partner and category. Entities are expected to resolve, with the respective trading partners, the differences identified in their scorecards.

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While certain intragovernmental transactions and balances related to the General Fund of the U.S. government (General Fund)<sup>14</sup> are reported in Treasury's audited department-level financial statements, there are significant intragovernmental transactions and balances related to the General Fund that are not currently accounted for and reported in Treasury's audited department-level financial statements or in separate audited financial statements. Treasury is in the process of reviewing and developing accounting and reporting mechanisms for the General Fund. However, Treasury does not have policies and procedures for all significant intragovernmental activity and balances related to the General Fund to be accounted for and reported in financial statements, reconciled, and subjected to an appropriate level of assurance, including internal controls and audit. Consequently, there were unreconciled transactions between the records of the General Fund and federal entity trading partners related to appropriations and other intragovernmental transactions, which amounted to hundreds of billions of dollars.

Auditors for the significant component entities are responsible for providing opinions on the entities' overall department-level financial statements and on the entities' closing package financial statements taken as a whole, which include intragovernmental activity and balances between federal entities.<sup>15</sup> However, a formalized process has not been established to perform additional audit procedures specifically focused on intragovernmental activity and balances between federal entities. This process would include finalizing the procedures to be performed and establishing the criteria for determining which federal entities would be required to perform the procedures. Such a process would provide increased audit assurance over the reliability of such information and help address the above-noted significant unreconciled transactions at the government-wide level.

*Standards for Internal Control in the Federal Government* provides that control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. The standards also provide that agencies should accurately and timely record transactions.

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<sup>14</sup>The General Fund is a central reporting entity that tracks core activities fundamental to funding the federal government (e.g., issued budget authority, operating cash, and debt financing activities).

<sup>15</sup>The closing package methodology is intended to link federal entities' audited consolidated, department-level financial statements to certain statements of the CFS.

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Recommendations for  
Executive Action

Without adequate procedures to fully account for and reconcile intragovernmental activity and balances, the federal government is unable to determine the impact of unreconciled transactions on the amounts reported in the CFS and Treasury's ability to fully eliminate such amounts from the CFS is impaired.

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to

- continue to build on the procedures in place to effectively identify systemic root causes of intragovernmental differences and monitor how federal entities are addressing the root causes;
- expand the scorecard process to include intragovernmental activity and balances that are currently not covered by the process or demonstrate that such information is immaterial to the CFS;
- establish and implement policies and procedures for accounting for and reporting all significant General Fund activity and balances, obtaining assurance on the reliability of the amounts, and reconciling the activity and balances between the General Fund and federal entities; and
- establish a formalized process to require the performance of additional audit procedures specifically focused on intragovernmental activity and balances between federal entities to provide increased audit assurance over the reliability of such information.

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Status of  
Recommendations  
from Prior Reports

Of our 37 recommendations from our prior reports regarding control deficiencies in the processes used to prepare the CFS that were open at the end of the fiscal year 2012 audit, we closed 13 recommendations during our fiscal year 2013 audit. Of the 13 closed recommendations, we closed 7 as a result of corrective actions taken by Treasury and OMB. We closed the other 6 recommendations, which were related to intragovernmental activity and balances, by making 4 new recommendations in this report that are better aligned with the current status of the remaining internal control deficiencies associated with the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities and reflect certain actions taken by Treasury. Twenty-four recommendations from our prior reports remained open as of February 19, 2014, the date of our report on the audit of the fiscal year 2013 CFS.

Appendix I summarizes the status as of February 19, 2014, of the 37 open recommendations from our prior years' reports. Specifically, appendix I includes the status according to Treasury and OMB, as well as

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our own assessments where appropriate. The status of recommendations per GAO includes explanatory comments on Treasury's and OMB's information. We will continue to monitor Treasury's and OMB's progress in addressing our recommendations as part of our fiscal year 2014 CFS audit.

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## Agency Comments

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### OMB Comments

In oral comments on a draft of this report, OMB generally concurred with the findings and recommendations in this report.

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### Treasury Comments

In written comments on a draft of this report, which are reprinted in appendix II, Treasury concurred with our seven new recommendations. To address the long-standing material weakness related to intragovernmental transactions, Treasury stated that it will expand the scorecard program to include transactions with the General Fund using a phased approach during fiscal year 2014. As it relates to the material weakness related to the compilation process, Treasury stated that it will be implementing Phase II of an automated tool to streamline this process, expanding its analysis performed on third quarter reporting, and collaborating with key personnel at the federal entities. In addition, Treasury noted that it is continuing its efforts to fully implement the process to reconcile the budget deficit to federal entities' audited financial statements.

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This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and to the House Committee on Oversight and Government Reform not later than 60 days after the date of this report. A written statement must also be sent to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report. Please provide me with a copy of your responses.

We are sending copies of this report to interested congressional committees, the Fiscal Assistant Secretary of the Treasury, and the Interim Controller of the Office of Management and Budget's Office of

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Federal Financial Management. In addition, this report is available at no charge on the GAO website at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by Treasury and OMB during our audit. If you or your staff have any questions or wish to discuss this report, please contact me at (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.



Gary T. Engel  
Director  
Financial Management and Assurance

# Appendix I: Status of Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
<b>GAO-04-45 (results of the fiscal year 2002 audit)</b>				
1	02-4	As the Department of the Treasury (Treasury) is designing its new financial statement compilation process to begin with the fiscal year 2004 consolidated financial statements of the U.S. government (CFS), the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of the Office of Management and Budget (OMB), to develop reconciliation procedures that will aid in understanding and controlling the net position balance as well as eliminate the plugs previously associated with compiling the CFS.	Treasury has taken certain actions regarding accounting for and reconciling intragovernmental activity and balances to address GAO's past recommendations. Treasury is committed to continuing its efforts to address the remaining control deficiencies in this area.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to intragovernmental activity and balances. To provide recommendations that are better aligned with the remaining internal control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Intragovernmental Activity and Balances" new recommendations for corrective action.
2	02-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to design procedures that will account for the difference in intragovernmental assets and liabilities throughout the compilation process by means of formal consolidating and elimination accounting entries.	See the status of recommendation No. 02-4.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to intragovernmental activity and balances. To provide recommendations that are better aligned with the remaining internal control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Intragovernmental Activity and Balances" new recommendations for corrective action.

**Appendix I: Status of Treasury's and OMB's  
Progress in Addressing GAO's Prior Year  
Recommendations for Preparing the CFS**

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
3	02-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop solutions for intragovernmental activity and balance issues relating to federal agencies' accounting, reconciling, and reporting in areas other than those OMB now requires be reconciled, primarily areas relating to appropriations.	See the status of recommendation No. 02-4.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to intragovernmental activity and balances. To provide recommendations that are better aligned with the remaining internal control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Intragovernmental Activity and Balances" new recommendations for corrective action.
4	02-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to reconcile the change in intragovernmental assets and liabilities for the fiscal year, including the amount and nature of all changes in intragovernmental assets or liabilities not attributable to cost and revenue activity recognized during the fiscal year. Examples of these differences would include capitalized purchases, such as inventory or equipment, and deferred revenue.	See the status of recommendation No. 02-4.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to intragovernmental activity and balances. To provide recommendations that are better aligned with the remaining internal control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Intragovernmental Activity and Balances" new recommendations for corrective action.

**Appendix I: Status of Treasury's and OMB's  
Progress in Addressing GAO's Prior Year  
Recommendations for Preparing the CFS**

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
5	02-22	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to perform an assessment to define the reporting entity, including its specific components, in conformity with the criteria issued by the Federal Accounting Standards Advisory Board (FASAB). Key decisions made in this assessment should be documented, including the reason for including or excluding components and the basis for concluding on any issue. Particular emphasis should be placed on demonstrating that any financial information that should be included but is not included is immaterial.	Treasury will enhance its documentation of the assessment of the reporting entity to ensure compliance with the FASAB criteria, including documenting the reason as to whether entities are to be included or excluded and the basis for that conclusion. As part of this assessment, Treasury will also take into account FASAB's Reporting Entity standard, once it is issued. An analysis will be performed to demonstrate that the information that is not included but should be included is immaterial.	Open.
6	02-23	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to provide in the financial statements all the financial information relevant to the defined reporting entity, in all material respects. Such information would include, for example, the reporting entity's assets, liabilities, and revenues.	Treasury conducted an analysis of the entity's revenue and expenses on a cash basis that are not currently required by law to submit financial statements to verify the materiality of their data to the <i>Financial Report of the United States Government (Financial Report)</i> . This analysis demonstrated that the amounts not included in the journal voucher prepared at year-end are immaterial to the <i>Financial Report</i> . Treasury will finalize this analysis to cover assets and liabilities.	Open.
7	02-24	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to disclose in the financial statements all information that is necessary to inform users adequately about the reporting entity. Such disclosures should clearly describe the reporting entity and explain the reason for excluding any components that are not included in the defined reporting entity.	Pending the results of actions taken pursuant to recommendation Nos. 02-22 and 02-23, Treasury will enhance the current disclosure in the <i>Financial Report</i> related to the reporting entity.	Open.

**Appendix I: Status of Treasury's and OMB's  
Progress in Addressing GAO's Prior Year  
Recommendations for Preparing the CFS**

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
8	02-35	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to help ensure that federal agencies provide adequate information in their legal representation letters regarding the expected outcomes of the cases.	Treasury will work with the Department of Justice, OMB, GAO and the agencies to determine if further changes in policy and/or guidance (e.g., OMB Circular No. A-136) are needed for all agencies to provide the required information regarding the expected outcomes of legal cases in their legal representations.	Open.
9	02-37	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies develop a detailed schedule of all major treaties and other international agreements that obligate the U.S. government to provide cash, goods, or services, or that create other financial arrangements that are contingent on the occurrence or nonoccurrence of future events (a starting point for compiling these data could be the State Department's Treaties in Force).	Agencies are currently required to report contingencies in their financial statements and notes pursuant to generally accepted accounting principles (GAAP). In addition, OMB Circular No. A-136 specifically references the inclusion of treaties and international agreements within "Commitments and Contingencies." Further, agencies include specific representations with respect to material liabilities or contingencies in their management representations. In addition, the financial statements of most significant entities and many other federal entities received unqualified audit opinions. However, no additional analysis of treaties has been performed to reasonably ensure that all of the federal government's treaties are considered in agency analysis or that agencies are consistently analyzing treaties for recognition or disclosure. Treasury will annually review agency financial statements, audit reports, and management representation letters for any references to treaties and international agreements, and if deemed material will disclose in the CFS.	Open. Until a comprehensive analysis of major treaty and other international agreement information has been performed, Treasury and OMB are precluded from determining if additional disclosure is required by GAAP in the CFS, and we are precluded from determining whether the omitted information is material.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
10	02-38	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies classify all such scheduled major treaties and other international agreements as commitments or contingencies.	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.
11	02-39	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies disclose in the notes to the CFS amounts for major treaties and other international agreements that have a reasonably possible chance of resulting in a loss or claim as a contingency.	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.
12	02-40	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies disclose in the notes to the CFS amounts for major treaties and other international agreements that are classified as commitments and that may require measurable future financial obligations.	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.

**Appendix I: Status of Treasury's and OMB's  
Progress in Addressing GAO's Prior Year  
Recommendations for Preparing the CFS**

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
13	02-41	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies take steps to prevent major treaties and other international agreements that are classified as remote from being recorded or disclosed as probable or reasonably possible in the CFS.	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.
14	02-129	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stewardship responsibilities related to the risk assumed for federal insurance and guarantee programs meets the requirements of Statement of Federal Financial Accounting Standards No. 5, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 106, which requires that when financial information pursuant to Financial Accounting Standards Board standards on federal insurance and guarantee programs conducted by government corporations is incorporated in general purpose financial reports of a larger federal reporting entity, the entity should report as required supplementary information what amounts and periodic change in those amounts would be reported under the "risk assumed" approach.	Treasury requests this information from the agencies in the <i>Treasury Financial Manual</i> 2-4700. Treasury will include this subject matter as a key area for the third quarter reporting requirements to allow sufficient time to complete this analysis.	Open. Treasury's reporting in this area is not complete. The CFS should include all major federal insurance programs in the risk assumed reporting and analysis. Also, since future events are uncertain, risk assumed information should include indicators of the range of uncertainty around expected estimates, including indicators of the sensitivity of the estimate to changes in major assumptions.
<b>GAO-04-866 (results of the fiscal year 2003 audit)</b>				
15	03-8	The Director of OMB should direct the Controller of OMB, in coordination with Treasury's Fiscal Assistant Secretary, to work with the Department of Justice and certain other executive branch federal agencies to ensure that these federal agencies report or disclose relevant criminal debt information in conformity with GAAP in their financial statements and have such information subjected to audit.	Treasury and OMB will assess options as to what methodologies or approaches to use for obtaining the additional information needed from the agencies.	Open.
16	03-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to include relevant criminal debt information in the CFS or document the specific rationale for excluding such information.	See the status of recommendation No. 03-8.	Open.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
17	03-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to modify Treasury's plans for the new closing package to (1) require federal agencies to directly link their audited financial statement notes to the CFS notes and (2) provide the necessary information to demonstrate that all of the five principal consolidated financial statements are consistent with the underlying information in federal agencies' audited financial statements and other financial data.	Treasury has demonstrated that the three principal accrual-based consolidated financial statements are consistent with the significant federal entities' financial statements prior to eliminating intragovernmental activity and balances. Treasury has taken certain actions regarding the two CFS budget statements to address GAO's past recommendations. Treasury is committed to continuing its efforts to address the remaining control deficiencies in the area.	Closed. Treasury's process for compiling the CFS generally demonstrated that amounts in the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts were consistent with the underlying federal entities' audited financial statements and that the Balance Sheet, Statement of Net Cost, and Statement of Operations and Changes in Net Position were also consistent with the significant federal entities' financial statements prior to eliminating intragovernmental activity and balances. With regard to directly linking the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities to federal entities' audited financial statements and other financial data, we incorporated this issue along with other control deficiencies related to the two CFS budget statements into recommendations 12-04 and 12-05 below.
<b>GAO-05-407 (results of the fiscal year 2004 audit)</b>				
18	04-3	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require that Treasury employees contact and document communications with federal agencies before recording journal vouchers to change agency audited closing package data.	Treasury attempted to contact agencies before recording journal vouchers and made management decisions on making journal vouchers that affect agency audited closing package data. In fiscal year 2014, Treasury will ensure that this agency communication along with the Treasury decision-making process will be fully documented in the support for the journal vouchers.	Open.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
19	04-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to assess the infrastructure associated with the compilation process and modify it as necessary to achieve a sound internal control environment.	Treasury continues to make improvements to its internal control infrastructure, by updating and revising its standard operating procedures (SOP), ensuring key controls are in place at all critical areas of the CFS preparation process. Treasury will continue to monitor and assess its internal control during fiscal year 2014 toward achieving a sound internal control environment.	Open.
<b>GAO-07-805 (results of the fiscal year 2006 audit)</b>				
20	06-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to establish effective processes and procedures to ensure that appropriate information regarding litigation and claims is included in the government-wide legal representation letter.	Treasury, in coordination with OMB, will continue to work with the Department of Justice to include appropriate information regarding litigation and claims in the government-wide legal representation letter. In the interim, Treasury will use the information from the federal agencies' legal representation letters for cases less than \$500 million to analyze the materiality impact on the CFS.	Open.
21	06-7	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to develop a process for obtaining sufficient information from federal agencies to enable Treasury and OMB to adequately monitor federal agencies' efforts to reconcile intragovernmental activity and balances with their trading partners. This information should include (1) the nature and a detailed description of the significant differences that exist between trading partners' records of intragovernmental activity and balances, (2) detailed reasons why such differences exist, (3) details of steps taken or being taken to work with federal agencies' trading partners to resolve the differences, and (4) the potential outcome of such steps.	See the status of recommendation No. 02-4.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to intragovernmental activity and balances. To provide recommendations that are better aligned with the remaining internal control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Intragovernmental Activity and Balances" new recommendations for corrective action.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
<b>GAO-08-748 (results of the fiscal year 2007 audit)</b>				
22	07-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB's Office of Federal Financial Management, to develop and implement effective processes for monitoring and assessing the effectiveness of internal control over the processes used to prepare the CFS.	See the status of recommendation No. 04-6.	Open.
23	07-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to develop and implement alternative solutions to performing almost all of the compilation effort at the end of the year, including obtaining and utilizing interim financial information from federal agencies.	Treasury has obtained and utilized third quarter financial information from agencies, focusing on key topics and issues to compile a major part of the CFS for fiscal years 2012 and 2013. In fiscal year 2014, Treasury will increase the number of key topics and will identify subject matters that can be completed before fiscal year-end.	Open.
<b>GAO-09-387 (results of the fiscal year 2008 audit)</b>				
24	08-01	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to design, document, and implement policies and procedures to identify and eliminate intragovernmental payroll tax amounts at the government-wide level when compiling the CFS.	Treasury implemented a quarterly process to identify and eliminate intragovernmental payroll tax amounts at the government-wide level.	Closed.
<b>GAO-10-757 (results of the fiscal year 2009 audit)</b>				
25	09-06	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the SOP entitled "Statement of Social Insurance, Social Insurance Note, and Required Supplementary Information" to implement and document procedures for assuring the accuracy of staff's work related to preparing the social insurance information for the CFS.	Treasury enhanced the SOP entitled "Statement of Social Insurance, Social Insurance Note, and Required Supplementary Information" to ensure proper internal controls were followed in preparing the social insurance information.	Closed.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
<b>GAO-12-529 (results from the fiscal year 2011 audit)</b>				
26	11-01	The Acting Director of OMB should direct the Controller of OMB to develop and implement written procedures specifying the steps required for effectively reviewing and approving the drafts of the <i>Financial Report</i> before they are provided to GAO, to include clear delineation of the review and approval roles and responsibilities of designated appropriate higher-level officials in OMB's Office of Federal Financial Management, including the Controller of OMB.	OMB developed and implemented written procedures specifying the steps for reviewing and approving the drafts of the <i>Financial Report</i> .	Closed.
27	11-03	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to develop and implement procedures to provide for the active involvement of key federal entity personnel with technical expertise in relatively new areas and more complex areas in the preparation and review process of the <i>Financial Report</i> .	Treasury has involved key federal entity personnel with technical expertise during the interim and year-end review and preparation of the <i>Financial Report</i> . As Treasury increases the key topics for the third quarter analysis in fiscal year 2014, the key federal entity personnel and the Treasury employees will work collaboratively from third quarter analysis until the <i>Financial Report</i> publication on these key topics.	Open.
28	11-05	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to revise the SOP to include requirements for using the CFS disclosure checklist to prepare the format draft of the CFS and to update the CFS disclosure checklist as necessary when subsequent drafts of the CFS are prepared.	Treasury prepared the CFS disclosure checklist for the generation of the format draft of the CFS and ensured that all necessary updates were made to the checklist.	Closed.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
29	11-08	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a mechanism for ensuring that all steps in the required validation process are completed, documented, and reviewed prior to the distribution of Intragovernmental Reporting and Analysis System (IRAS) reports.	See the status of recommendation No. 02-4.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to intragovernmental activity and balances. To provide recommendations that are better aligned with the remaining internal control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Intragovernmental Activity and Balances" new recommendations for corrective action.
30	11-09	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" to include procedures for identifying any entities that become significant to the <i>Financial Report</i> during the fiscal year but were not identified as significant in the prior fiscal year.	Treasury will implement a new approach in fiscal year 2014 for identifying new entities that become significant to the <i>Financial Report</i> during the fiscal year. This approach will include an analysis performed using data from the Central Accounting Reporting system (CARS), Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS), and Governmentwide Financial Report System (GFRS) throughout the fiscal year.	Open.
31	11-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" to include procedures for obtaining audited closing packages from newly identified significant entities in the year they become significant, including timely written notification to newly identified significant entities.	Treasury will update the SOP entitled "Significant Federal Entities Identification" to include procedures as determined in the approach as a result of recommendation No. 11-09.	Open.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
<b>GAO-13-540 (results from the fiscal year 2012 audit)</b>				
32	12-01	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" to include procedures for identifying any material line items for significant calendar year-end entities that become material to the CFS during the current fiscal year but were not identified as material in the analysis using prior year financial information.	Treasury will implement a new approach in fiscal year 2014 for identifying new material line items for significant calendar year entities that become significant to the <i>Financial Report</i> during the fiscal year.	Open.
33	12-02	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" to include procedures for obtaining audit assurance over identified material line items for significant calendar year-end entities in the year they become material.	Treasury will update the SOP entitled "Significant Federal Entities Identification" to include procedures as determined in the approach as a result of recommendation No. 12-01.	Open.
34	12-03	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the SOP entitled "Prior Period Adjustments" to include procedures for analyzing and assessing the effects of significant federal entities' restatements and reclassifications on related line items and notes presented in the CFS.	Treasury updated the SOP entitled "Prior Period Adjustments" to include procedures for analyzing and assessing restatements and reclassifications of significant federal entities.	Closed.
35	12-04	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to establish and implement effective procedures for reporting amounts in the CFS budget statements that are fully consistent with the underlying information in significant federal entities' audited financial statements and other financial data.	Treasury has started to improve the documentation to show the consistency of budget statement information in the CFS with the federal entities' audited financial statements. Treasury will leverage the reconciliation information requested from and provided by the agencies in 2013 to improve the analysis in 2014 by supplementing that information with additional crosswalks and support to be provided by the agencies and verified by Treasury.	Open.

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			Per Treasury and OMB	Per GAO
36	12-05	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to establish and implement effective procedures for identifying and reporting all items needed to prepare the CFS budget statements.	Treasury will develop a crosswalk to ensure that all data is included in the preparation of the budget statements. The implementation of the budget deficit reconciliation in fiscal year 2013 will be leveraged as support for the financial statement lines on the budget statements.	Open.
37	12-06	The Director of OMB should ensure that OMB continues its efforts to remove the requirement for reporting "overall substantial compliance" from OMB Circular No. A-136, <i>Financial Reporting Requirements</i> .	OMB revised OMB Circular No. A-136.	Closed.

Sources: GAO, Treasury, and OMB.

<sup>a</sup>The status of the recommendations listed in app. I is as of February 19, 2014, the date of our report on the audit of the fiscal year 2013 CFS.

# Appendix II: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

June 10, 2014

Mr. Gary T. Engel  
Director, Financial Management and Assurance  
Governmental Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Engel:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft Management Report (Report) on the Fiscal Year (FY) 2013 audit, GAO-14-543, MANAGEMENT REPORT, *Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*.

The draft Report identifies seven new recommendations concerning the *Financial Report of the U. S. Government (Financial Report)* preparation process. As stated in the draft report, four of these new recommendations replace six prior recommendations on intragovernmental activity and balances. The four new recommendations better align with the current status of the remaining internal control deficiencies associated with the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities and reflect actions taken by Treasury. We concur with these four new recommendations and are hopeful that this realignment will help facilitate resolution of these issues. We also concur with the three new recommendations specific to Treasury's corrective action plans, accounting policies, and note disclosure narratives.

We are pleased with our progress, notably the closing of 13 of the 37 outstanding recommendations from prior years' reports in the past year, including the six aforementioned internal control deficiency recommendations. The remaining recommendations place greater emphasis on reconciling the intragovernmental elimination differences that occur with the General Fund as a trading partner, fully implementing an automated tool for the compilation of the *Financial Report*, and identifying and reporting all items needed to prepare the *Financial Report's* budget statements.

In FY 2014, Treasury will continue to devote significant management attention and staff resources to resolving material intragovernmental differences along with developing or improving process controls within Fiscal Service and the Federal agencies. For example, Treasury will expand the Intragovernmental Metrics Scorecard program to include transactions with the General Fund using a phased approach during FY 2014. Identification and resolution of the intragovernmental elimination differences with the General Fund is critical to our efforts to resolve this long-standing material weakness.

With respect to the compilation material weakness, in FY 2013, Treasury implemented Phase I of an automated tool to streamline the compilation process improving accuracy and control. Phase II will be rolled out in FY 2014 fully automating the compilation process; reducing inherent risk attributed to manual processes, and providing an audit trail from the agency's Closing Package data to the published *Financial Report*. Through the implementation phase, the process and controls will be fully documented. Treasury will expand analysis performed on third quarter reporting and will collaborate with the key personnel at the Federal agencies to obtain their involvement in ensuring completeness of the *Financial Report*.

Finally, Treasury will work to fully implement the Budget Deficit Validation process. In FY 2013, Treasury expanded the information requested from agencies regarding the receipts and outlays underlying the balances reported in the Federal agency financial statements. The agencies were also responsible for providing explanations of, and support for, any differences. Treasury will develop crosswalks mapping the information coming from the agencies to the U.S. Central Summary General Ledger (CSGL) account balances and ultimately, to financial statement lines on the Reconciliation of Net Operating Cost and Unified Budget Deficit. The crosswalks will reference evidential support required and provide explanatory notes. This crosswalk will aid in identifying and explaining the reporting differences between the accrual-based financial statements and the budget deficit calculation. Tying this information to the agencies' audited information is a critical part of the long-term resolution of the reconciliation and compilation challenges.

In conclusion, we are appreciative of GAO's recommendations and continued support. Thank you again, for the opportunity to review and comment on the Report. We look forward to working with you and your staff as we fulfill our commitment to improve Federal financial reporting.

Sincerely,



Richard L. Gregg  
Fiscal Assistant Secretary

cc: Mark Reger, Acting Deputy Controller, OMB

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