MANAGEMENT REPORT

Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements
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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 consolidated financial statements. As part of the fiscal year 2016 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 provide (1) details on new control deficiencies GAO identified related to the processes used to prepare the CFS, along with related recommendations, and (2) the status of corrective actions Treasury and OMB have taken to address GAO’s prior recommendations relating to the processes used to prepare the CFS that remained open at the beginning of the fiscal year 2016 audit.

What GAO Recommends

GAO is making three new recommendations—two to Treasury and one to both Treasury and OMB—to address the control deficiencies identified during the fiscal year 2016 CFS audit. In commenting on GAO’s draft report, although Treasury neither agreed nor disagreed with GAO’s recommendations, Treasury provided information on actions that it plans to take to address two recommendations, but stated that its current corrective action plans were effective for the third recommendation. GAO continues to believe that actions for this recommendation are needed as discussed in the report. OMB generally agreed with the findings in the report. View GAO-17-524. For more information, contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov.

What GAO Found

During its audit of the fiscal year 2016 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 that involve the federal government’s inability to

- adequately account for and reconcile intragovernmental activity and balances between federal entities;
- reasonably assure that the consolidated financial statements are (1) consistent with the underlying audited entities’ financial statements, (2) properly balanced, and (3) in accordance with U.S. generally accepted accounting principles; and
- reasonably assure that the information in the (1) Reconciliation of Net Operating Cost and Unified Budget Deficit and (2) Statements of Changes in Cash Balance from Unified Budget and Other Activities is complete and consistent with the underlying information in the audited entities’ financial statements and other financial data.

During its audit of the fiscal year 2016 CFS, GAO identified three new internal control deficiencies.

- Treasury did not have sufficient procedures and metrics for monitoring the federal government’s year-to-year progress in resolving intragovernmental differences at the federal entity level.
- Treasury did not have a sufficient process for working with federal entities to reduce or resolve the need for significant adjustments to federal entity data submitted for the CFS.
- Three of Treasury and OMB’s corrective action plans did not include sufficient information to effectively address related control deficiencies involving processes used to prepare the CFS.

In addition, GAO found that various other control deficiencies identified in previous years’ audits with respect to the processes used to prepare the CFS were resolved or continued to exist. For 7 of the 24 recommendations from GAO’s prior reports regarding control deficiencies in the processes used to prepare the CFS, Treasury implemented corrective actions during fiscal year 2016 that resolved the related control deficiencies, and as a result, these recommendations were closed. GAO closed 1 additional recommendation that related to corrective action plans, by making a new recommendation that is better aligned with the remaining internal control deficiency in this area. While progress was made, 16 of the 24 recommendations remained open as of January 4, 2017, the date of GAO’s report on its audit of the fiscal year 2016 CFS. GAO will continue to monitor the status of corrective actions taken to address the 3 new recommendations made in this report as well as the 16 open recommendations from prior years as part of its fiscal year 2017 CFS audit.
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Abbreviations

CFS    consolidated financial statements of the U.S. government
FASAB  Federal Accounting Standards Advisory Board
General Fund General Fund of the U.S. Government
OMB    Office of Management and Budget
SCSIA   Statements of Changes in Social Insurance Amounts
SLTFP  Statements of Long-Term Fiscal Projections
SOP    standard operating procedure
SOSI   Statements of Social Insurance
TFM    Treasury Financial Manual
Treasury Department of the Treasury
U.S. GAAP U.S. generally accepted accounting principles

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July 12, 2017

The Honorable Steven T. Mnuchin
Secretary of the Treasury

The Honorable Mick Mulvaney
Director
Office of Management and Budget

In our January 2017 report on the results of our audit of the consolidated financial statements of the U.S. government (CFS) as of and for the fiscal years ended September 30, 2016, and 2015, we disclaimed an opinion on the CFS. Since GAO’s first audit of the CFS, for fiscal year 1997, certain material weaknesses 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. These include material weaknesses in internal control over financial reporting.
weaknesses that relate to the federal government’s processes used to prepare the CFS.⁴

Such material weaknesses involve the federal government’s inability to

• adequately account for and reconcile intragovernmental activity and balances between federal entities;

• reasonably assure that the consolidated financial statements are (1) consistent with the underlying audited entities’ financial statements, (2) properly balanced, and (3) in accordance with U.S. generally accepted accounting principles; and

• reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Unified Budget Deficit and (2) Statements of Changes in Cash Balance from Unified Budget and Other Activities is complete and consistent with the underlying information in the audited entities’ financial statements and other financial data.

The Department of the Treasury (Treasury), in coordination with the Office of Management and Budget (OMB), prepares the CFS on behalf of the federal government.⁵ 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 made 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 three new control deficiencies identified during our fiscal year 2016 audit that relate to the processes used by Treasury to prepare the CFS, along with related recommendations, and (2) the status of corrective actions Treasury and OMB have taken to address the 24 recommendations relating to the processes used to prepare the CFS, detailed in our previous reports, that remained open at the beginning of our fiscal year

⁴Our January 2017 report also discussed material weaknesses and scope limitations that did not relate to the processes used to prepare the CFS but prevented us from expressing an opinion on the federal government’s accrual-based consolidated financial statements.

⁵The 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. See 31 U.S.C. § 331(e). Treasury and OMB have elected to include certain financial information on the legislative and judicial branches in the consolidated financial statements as well.
Appendix I provides a summary of the status of actions taken as of January 4, 2017, the date of our report on the audit of the fiscal year 2016 CFS, to address the open recommendations from our previous reports.

Scope and Methodology

As part of our audit of the fiscal years 2016 and 2015 CFS, we considered the federal government’s financial reporting procedures and related internal control. Also, we determined the status of corrective actions Treasury and OMB have taken to address open recommendations relating to their processes to prepare the CFS, detailed in our previous reports, that remained open at the beginning of our fiscal year 2016 audit. A full discussion of our scope and methodology is included in our January 2017 report on our audit of the fiscal years 2016 and 2015 CFS. We have communicated each of the control deficiencies discussed in this report to your staff. We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe that our audit provides a reasonable basis for our findings and recommendations in this report.

Control Deficiencies Identified during Our Fiscal Year 2016 Audit

During our audit of the fiscal year 2016 CFS, we identified three new internal control deficiencies in Treasury’s processes used to prepare the CFS. Specifically, we found that (1) Treasury did not have sufficient procedures and metrics for monitoring the federal government’s year-to-year progress in resolving intragovernmental differences at the federal entity level, (2) Treasury did not have a sufficient process for working with federal entities to reduce or resolve the need for significant adjustments to federal entity data submitted for the CFS, and (3) three of Treasury and OMB’s corrective action plans did not include sufficient information to effectively address related control deficiencies involving processes used to prepare the CFS.


7GAO-17-283R.
During our fiscal year 2016 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 significant action over the past few years to address control deficiencies in this area, including actions to improve reporting of intragovernmental differences to federal entities and to work actively with federal entities to encourage resolution of reported differences. However, Treasury did not have sufficient procedures and metrics for monitoring the federal government’s year-to-year progress in resolving intragovernmental differences at the federal entity level.

When preparing the CFS, intragovernmental activity and balances between federal entities should be in agreement and must be subtracted out, or eliminated. 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 CFS. 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 includes reconciling and resolving intragovernmental differences at the transaction level with their trading partners.

To support this process, Treasury has established procedures for identifying whether intragovernmental activity and balances reported to Treasury by federal entities are properly reconciled and balanced. For example, Treasury calculates intragovernmental differences by reciprocal category and trading partner for each federal entity. Through these calculations, Treasury has identified certain recurring issues, such as significant differences related to specific entities, reciprocal categories, and trading partners. Treasury provides quarterly scorecards to the individual federal entities that are significant to the CFS to highlight

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Monitor Intragovernmental Differences

During our fiscal year 2016 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 significant action over the past few years to address control deficiencies in this area, including actions to improve reporting of intragovernmental differences to federal entities and to work actively with federal entities to encourage resolution of reported differences. However, Treasury did not have sufficient procedures and metrics for monitoring the federal government’s year-to-year progress in resolving intragovernmental differences at the federal entity level.

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8 Treasury established reciprocal categories to aid in calculating intragovernmental differences. A reciprocal category represents a set of U.S. Standard General Ledger accounts that are reciprocal of each other with respect to intragovernmental transactions (for example, accounts payable/accounts receivable).
intragovernmental differences requiring these entities’ attention. Treasury also prepares a quarterly government-wide scorecard to communicate the total differences on a government-wide basis. The government-wide scorecard also identifies the 10 largest federal entity contributors to the total government-wide difference.

While Treasury’s scorecard process and other initiatives focus on identifying and communicating differences to federal entities, they do not include procedures for monitoring the federal government’s year-to-year progress in resolving intragovernmental differences at the federal entity level. For example, the entity-level scorecards do not include metrics that could be used to gauge the federal government’s year-to-year progress in resolving intragovernmental differences at the entity level by reciprocal category and trading partner. Although Treasury produces a government-wide scorecard, the chart included on the scorecard shows changes in the total intragovernmental differences for recent quarters but does not identify increases or decreases at the individual entity level by reciprocal category and trading partner. While the total of intragovernmental differences has declined in recent years as a result of the scorecard process and other Treasury initiatives, we continued to note that amounts reported by federal entities were not in agreement by hundreds of billions of dollars for fiscal year 2016.

_Standards for Internal Control in the Federal Government_- states that management should (1) design control activities to achieve objectives and respond to risks, such as establishing and reviewing performance measures and indicators, and (2) implement control activities, such as documenting responsibilities through policies and procedures. The standard also states that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results and should remediate any identified internal control deficiencies on a timely basis.10

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9For 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 reciprocal category. Entities are expected to resolve, with the respective trading partners, the differences identified in their scorecards.

Without adequate procedures and metrics for effectively monitoring federal government progress in resolving intragovernmental differences at the entity level, Treasury cannot effectively identify areas where specific federal entities need further improvement and attention from year to year to resolve intragovernmental differences that result in errors in the CFS.

**Recommendation for Executive Action**

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and implement procedures and metrics for monitoring the federal government’s year-to-year progress in resolving intragovernmental differences for significant federal entities at the reciprocal category and trading partner levels.

**Adjustments to Federal Entity Financial Information Submitted for the CFS**

During our fiscal year 2016 CFS audit, we found that Treasury continued to record significant adjustments to data reported by federal entities for inclusion in the CFS. Treasury collects financial statement information from federal entities through its Governmentwide Treasury Account Symbol Adjusted Trial Balance System and Governmentwide Financial Report System. Auditors for entities significant to the CFS\(^\text{11}\) are responsible for providing opinions on these entities’ closing package submissions to Treasury.\(^\text{12}\) Once federal entities have submitted data for inclusion in the CFS, Treasury performs procedures to determine the consistency of the submitted data to (1) federal entity audited financial statements and (2) government-wide financial reporting standards. Treasury also performs procedures to determine if adjustments are needed to resolve certain unreconciled differences in intragovernmental activity and balances. Through these processes, Treasury identified the need for tens of billions of dollars of adjustments to federal entity-submitted data and recorded these adjustments to the CFS. Treasury identified many of the adjustments needed as recurring because they related to the same line items and federal entities as in prior years. The adjustments were necessary often because of inaccurate or incomplete information that federal entities submitted for the CFS. Though Treasury

\(^{11}\text{OMB and Treasury identified 39 federal entities that are significant to the U.S. government’s fiscal year 2016 consolidated financial statements, including the 24 Chief Financial Officers Act of 1990 agencies. See Appendix A of the 2016 Financial Report of the United States Government for a listing of the 39 entities. See GAO-17-283R.}\)

\(^{12}\text{Closing packages contain audited consolidated, department-level financial statements and other information used to prepare the CFS, as specified in the Treasury Financial Manual. The closing package methodology is intended to link federal entities’ audited consolidated, department-level financial statements to certain statements of the CFS.}\)
had procedures for identifying adjustments needed to data that federal entities submitted at fiscal year-end as well as procedures for reviewing recurring intragovernmental adjustments, Treasury did not have a sufficient process for reviewing recurring non-intragovernmental adjustments. Specifically, Treasury did not have a process to work with federal entities to correctly report non-intragovernmental information in federal entities’ closing packages prior to submission to Treasury, thereby reducing or resolving the need for Treasury to make significant adjustments to federal entity data. For adjustments related to intragovernmental differences, we found that Treasury’s procedures did include steps for reviewing recurring intragovernmental adjustments and for working with federal entities to reduce or resolve the need for these intragovernmental adjustments.

Statement of Federal Financial Accounting Concepts No. 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states that the consolidated financial report should be a general purpose report that is aggregated from federal entity reports. The *Treasury Financial Manual* (TFM) provides guidance on how federal entities are to provide their financial data to Treasury for consolidation. In accordance with the TFM, significant component entities are required to submit their financial data to Treasury using a closing package. A significant component entity’s chief financial officer must certify the accuracy of the data in the closing package and have it audited. Because the closing package process requires that significant component entities verify and validate the information in their closing packages compared with their audited department-level financial statements and receive audit opinions, Treasury is provided a level of assurance that it is compiling the CFS with reliable financial information. In addition, OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements*, establishes requirements for audits of federal financial statements, including audits of the closing packages.\(^{13}\) Also, *Standards for Internal Control in the Federal Government* states that management should design and implement control activities, such as procedures to help ensure that financial information is completely and accurately reported.

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Without a sufficient process aimed at reducing or resolving the need for significant adjustments to federal entity data submitted for the CFS, Treasury is unable to reasonably assure that it has reliable financial information for all federal entities, which is needed to achieve auditability of the CFS.

**Recommendation for Executive Action**

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and implement a sufficient process for working with federal entities to reduce or resolve the need for significant adjustments to federal entity data submitted for the CFS.

**Corrective Action Plans for Certain Areas**

Three of Treasury and OMB’s corrective action plans did not include sufficient information to effectively address related control deficiencies involving processes used to prepare the CFS. Corrective action plans are the mechanism whereby management presents the actions the entity will take to resolve identified internal control deficiencies. Treasury, in coordination with OMB, compiled a collection of corrective action plans in a remediation plan focused on resolving material weaknesses related to the processes used to prepare the CFS.\(^\text{14}\) The corrective action plans contained in the remediation plan—which are intended to address control deficiencies related to (1) treaties and international agreements, (2) additional audit procedures for intragovernmental activity and balances, and (3) the Reconciliations of Net Operating Cost and Unified Budget Deficit and Statements of Changes in Cash Balance from Unified Budget and Other Activities (Reconciliation Statements)—did not include sufficient information to demonstrate that the plans, if properly implemented, will effectively resolve such deficiencies.

Treaties and International Agreements

Treasury and OMB did not include sufficient information in their corrective action plan to help ensure that major treaty and international agreement information is properly identified and reported in the CFS. We found that

\(^{14}\text{Treasury and OMB’s remediation plan focuses specifically on the material weaknesses related to the federal government’s inability to (1) adequately account for and reconcile intragovernmental activity and balances between federal entities; (2) reasonably assure that the consolidated financial statements are consistent with underlying audited entities’ financial statements, properly balanced, and in accordance with U.S. generally accepted accounting principles; and (3) reasonably assure that the information in the (a) Reconciliations of Net Operating Cost and Unified Budget Deficit and (b) Statements of Changes in Cash Balance from Unified Budget and Other Activities is complete and consistent with underlying information in the audited entities’ financial statements and other financial data.\)
the corrective actions included steps and milestones for meeting with the Department of State, a key entity with respect to treaties and international agreements, but did not include specific actions and outcomes planned to analyze all treaties and international agreements to obtain reasonable assurance whether they are appropriately recognized and disclosed in the CFS. As a result of not having specific actions to analyze all treaties and international agreements, any treaties and international agreements that had been omitted from entity reporting would not be identified. Not having procedures for reasonably assuring that information on major treaties and other international agreements is reported in the CFS could result in incomplete recognition and disclosure of probable and reasonably possible losses of the U.S. government.

Additional Audit Procedures for Intragovernmental Activity and Balances

Treasury and OMB’s corrective action plan to make intragovernmental scorecards available directly to federal entity auditors was not sufficient to address the control deficiency related to not having a formalized process to require the performance of additional audit procedures focused on intragovernmental activity and balances. Billions of dollars of unreconciled intragovernmental differences continued to be reported in the fiscal year 2016 CFS based on the financial data submitted in federal entities’ audited closing packages. Although making the scorecard information available to auditors is helpful, that action in and of itself does not establish a process requiring federal entity auditors to perform additional audit procedures specifically focused on intragovernmental activity and balances. A formalized process to require the performance of additional audit procedures would provide increased audit assurance over the reliability of the intragovernmental information and help address the significant unreconciled transactions at the government-wide level.

Reconciliation Statements

Treasury and OMB’s corrective action plans related to the Reconciliation Statements did not clearly demonstrate how, once implemented, the corrective actions will remediate the related control deficiencies. For example, the corrective actions did not include sufficient information to explain how they would achieve Treasury’s objectives to (1) identify and report all necessary items in the Reconciliation Statements and (2) reasonably assure that the amounts are consistent with underlying audited financial data. Also, some outcome measures did not describe what and how progress related to specific actions taken would be measured. Not including sufficient information on actions and outcomes in the corrective action plan impairs management’s ability to assess the progress made toward resolution.

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. interim targeted milestones and completion dates, including subordinate indicators, statistics, or metrics used to gauge resolution progress; and

3. planned validation activities and outcome measures used for assessing the effectiveness of the corrective actions taken.

Also, *Standards for Internal Control in the Federal Government* states that management should (1) remediate identified internal control deficiencies on a timely basis and (2) design control activities to achieve objectives and respond to risks. In addition, OMB Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, requires management to develop corrective action plans for material weaknesses and periodically assess and report on the progress of those plans.\(^\text{16}\) The Implementation Guide is widely viewed as a “best practices” methodology for executing the requirements of Appendix A of OMB Circular No. A-123. Corrective actions need to be designed and implemented effectively to allow timely remediation of the deficiencies. An effective corrective action plan facilitates accountability, monitoring, and communication and helps ensure that entity personnel responsible for completing the planned corrective actions and monitoring progress toward resolution have the information and resources they need to do so.

Without well-defined, sufficiently descriptive corrective action plans in these three areas, it will be difficult for Treasury and OMB to reasonably


Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to improve corrective action plans for (1) treaties and international agreements, (2) additional audit procedures for intragovernmental activity and balances, and (3) the Reconciliation Statements so that they include sufficient information to address the control deficiencies in these areas effectively.

Status of Recommendations from Prior Reports

At the beginning of our fiscal year 2016 audit, 24 recommendations from our prior reports regarding control deficiencies in the processes used to prepare the CFS were open. Treasury implemented corrective actions during fiscal year 2016 that resolved certain of the control deficiencies addressed by our recommendations. For 7 recommendations, the corrective actions resolved the related control deficiencies, and we closed the recommendations. We also closed 1 additional recommendation, related to corrective action plans, by making a new recommendation that is better aligned with the remaining internal control deficiency in this area. While progress was made, 16 recommendations from our prior reports remained open as of January 4, 2017, the date of our report on the audit of the fiscal year 2016 CFS. Consequently, a total of 19 recommendations need to be addressed—16 remaining from prior reports and the 3 new recommendations we are making in this report.

Appendix I summarizes the status as of January 4, 2017, of the 24 open recommendations from our prior years’ reports according to Treasury and OMB as well as our own assessment and additional comments, where appropriate. Various efforts are under way to address these recommendations. We will continue to monitor Treasury’s and OMB’s progress in addressing our recommendations as part of our fiscal year 2017 CFS audit.
### Agency Comments and Our Evaluation

#### Treasury Comments

In written comments, reprinted in appendix II, Treasury stated that it appreciates our perspective and will continue to focus its efforts on cost-beneficial solutions to sufficiently resolve the material conditions that preclude having an opinion rendered on the CFS. Although in its comments Treasury neither agreed nor disagreed with our recommendations, Treasury provided information on actions that it plans to take to address two of the recommendations and stated with regard to the third recommendation that its current corrective action plans were effective.

For our first two recommendations related to monitoring intragovernmental differences and reducing significant adjustments to federal entity data submitted for the CFS, Treasury stated that it will continue to (1) evolve its processes as necessary to ensure that appropriate and effective metrics are deployed to measure and monitor agency performance and (2) work with agencies to facilitate improvement of processes, minimizing the need for Treasury adjustments to agency reporting.

For our third recommendation aimed at improving corrective action plans for (1) treaties and international agreements, (2) additional audit procedures for intragovernmental activity and balances, and (3) the Reconciliation Statements, Treasury stated that its current remediation plan, including its various corrective action plans, is comprehensive, appropriate, and effective, with robust ongoing monitoring processes in place. Treasury also stated that corrective actions aimed at increasing the quality of intragovernmental data are proving effective and that it does not support encumbering agencies with the cost and burden associated with requiring additional audit procedures. In addition, Treasury stated that it will continue to collaborate with OMB and federal entities on existing corrective actions. However, we continue to believe that the corrective action plans in these three areas do not include sufficient information to effectively address related control deficiencies involving processes used to prepare the CFS. For example, as discussed in our report, Treasury and OMB did not have specific actions in their corrective action plan to analyze all treaties and international agreements to help ensure that major treaty and international agreement information is properly identified.
and reported in the CFS. Further, we believe that a formalized process for Treasury to require the performance of additional audit procedures focused on intragovernmental activity and balances would provide increased audit assurance over the reliability of intragovernmental information and help address the hundreds of billions of dollars of unreconciled intragovernmental differences at the government-wide level.

Treasury also described various actions taken and planned to address long-standing material weaknesses, including improvements in accounting for and reporting on the General Fund of the U.S. Government\textsuperscript{17} activity and balances, strengthening internal controls in the preparation of the CFS, and validating material completeness of budgetary information included in the \textit{Financial Report of the United States Government}.\textsuperscript{18} Treasury also indicated that it plans to work with GAO as it fulfills its commitment to improving federal financial reporting.

\begin{center}
\textbf{OMB Comments}
\end{center}

OMB staff in the Office of Federal Financial Management stated in an e-mail that OMB generally agreed with the findings in the report and with Treasury’s written response to the draft. The e-mail noted that the current administration is committed to continuing to work with Treasury and federal agencies to achieve sound financial management across the federal government.

We are sending copies of this report to interested congressional committees, the Fiscal Assistant Secretary of the Treasury, and the Controller of the Office of Management and Budget’s Office of Federal Financial Management. In addition, the report is available at no charge on the GAO website at \url{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 simpsondb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this

\textsuperscript{17}The General Fund of the U.S. Government is a central reporting entity that tracks core activities fundamental to funding the federal government, such as issued budget authority, operating cash, and debt financing activities.

report include Carolyn M. Voltz (Assistant Director), Latasha L. Freeman, Maria M. Morton, Sean R. Willey, and J. Mark Yoder.

Dawn B. Simpson
Director
Financial Management and Assurance
Table 1 shows the status of GAO’s prior year recommendations for preparing the CFS. The abbreviations used are defined in the legend at the end of the table.

### Table 1: Treasury’s and OMB’s Progress in Addressing GAO’s Prior Year Recommendations for Preparing the CFS

<table>
<thead>
<tr>
<th>Count</th>
<th>No.</th>
<th>Recommendation</th>
<th>Per Treasury and OMB</th>
<th>Per GAO</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAO-04-45 (results of the fiscal year 2002 audit)</td>
<td>1</td>
<td>02-23</td>
<td>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. (Preparation material weakness)</td>
<td>Treasury provided all material financial information relevant to the reporting entity in the fiscal year 2016 Financial Report of the U.S. Government.</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>02-35</td>
<td>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. (Preparation material weakness)</td>
<td>Treasury has documented the processes that federal entities are following when using the “unable to determine” expected outcome of legal cases. Treasury and OMB will continue to work with GAO to close remaining gaps.</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>02-37</td>
<td>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). (Preparation material weakness)</td>
<td>Treasury and OMB will leverage the existing process and oversight followed by the Department of State to enhance the guidance issued to federal entities to ensure the proper reporting and accounting on treaties and international agreements.</td>
</tr>
</tbody>
</table>
## Status of recommendation

<table>
<thead>
<tr>
<th>Count</th>
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<th>Per GAO</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>02-38</td>
<td>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. (Preparation material weakness)</td>
<td>See the status of recommendation No. 02-37.</td>
<td>Open. See the status of recommendation No. 02-37.</td>
</tr>
<tr>
<td>5</td>
<td>02-39</td>
<td>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. (Preparation material weakness)</td>
<td>See the status of recommendation No. 02-37.</td>
<td>Open. See the status of recommendation No. 02-37.</td>
</tr>
<tr>
<td>6</td>
<td>02-40</td>
<td>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. (Preparation material weakness)</td>
<td>See the status of recommendation No. 02-37.</td>
<td>Open. See the status of recommendation No. 02-37.</td>
</tr>
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## Status of recommendation

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<tr>
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<tr>
<td>7</td>
<td>02-41</td>
<td>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. (Preparation material weakness)</td>
<td>See the status of recommendation No. 02-37.</td>
<td>Open. See the status of recommendation No. 02-37.</td>
</tr>
<tr>
<td>8</td>
<td>02-129</td>
<td>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, <em>Accounting for Liabilities of the Federal Government</em>, 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 &quot;risk assumed&quot; approach. (Preparation material weakness)</td>
<td>Treasury will continue to request this information from agencies in accordance with both interim and year-end reporting requirements in Treasury Financial Manual 2-4700. In addition, Treasury will continue to participate on the Federal Accounting Standards Advisory Board (FASAB) Risk Assumed Task Force and implement any related changes based on the issuance of revised or new federal accounting standards.</td>
<td>Open.</td>
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**GAO-04-866** (results of the fiscal year 2003 audit)

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<tr>
<td>9</td>
<td>03-8</td>
<td>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 U.S. GAAP in their financial statements and have such information subjected to audit. (Preparation material weakness)</td>
<td>Treasury will provide guidance in the fiscal year 2017 Treasury Financial Manual 2-4700 on the process to be followed by federal agencies to report and disclose relevant criminal debt information.</td>
<td>Open.</td>
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</table>
### Appendix I: Status of Treasury’s and OMB’s Progress in Addressing GAO’s Prior Year Recommendations for Preparing the CFS

#### Status of recommendation

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<tr>
<td>10</td>
<td>03-9</td>
<td>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. (Preparation material weakness)</td>
<td>See the status of recommendation No. 03-8.</td>
<td>Open.</td>
</tr>
</tbody>
</table>

**GAO-05-407 (results of the fiscal year 2004 audit)**

| 11    | 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. (Preparation material weakness) | Treasury has established an effective infrastructure associated with the compilation process to achieve a sound internal control environment. | Closed. |

**GAO-07-805 (results of the fiscal year 2006 audit)**

| 12    | 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. (Preparation material weakness) | Treasury and OMB will leverage the existing schedules to the legal representation letters to perform analytics on the items below the materiality threshold to determine the effect at the aggregate level. | Open. |

**GAO-08-748 (results of the fiscal year 2007 audit)**

| 13    | 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. (Preparation material weakness) | Treasury designed and began to implement an OMB Circular No. A-123 internal control review for the CFS compilation processes. In fiscal year 2017, Treasury and OMB plan to use the internal control review to support their assertion on the effectiveness of internal controls over the processes used to prepare the CFS. | Open. |
### Status of recommendation

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<tr>
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<tr>
<td>GAO-12-529 (results from the fiscal year 2011 audit)</td>
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<tr>
<td>14</td>
<td>11-10</td>
<td>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. (Preparation material weakness)</td>
<td>Treasury and OMB developed a process to obtain audited closing packages from newly identified significant entities in the year they become significant.</td>
<td>Closed.</td>
</tr>
<tr>
<td>GAO-13-540 (results from the fiscal year 2012 audit)</td>
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<tr>
<td>15</td>
<td>12-02</td>
<td>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. (Preparation material weakness)</td>
<td>Treasury and OMB developed a process to obtain audit assurance over newly identified material line items for significant calendar year-end entities in the year they become material.</td>
<td>Closed.</td>
</tr>
<tr>
<td>16</td>
<td>12-04</td>
<td>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. (Budget statements material weakness)</td>
<td>Treasury partnered with FASAB to develop a Statement of Federal Financial Accounting Standards exposure draft that identifies items needed to reconcile net cost to outlays at the entity level, with a focus on demonstrating consistency with significant entities’ audited financial statements. The upcoming audit of the General Fund of the U.S. Government (General Fund) is intended to validate the budget deficit number on both CFS budget statements.</td>
<td>Open.</td>
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### Status of recommendation

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<tr>
<td>17</td>
<td>12-05</td>
<td>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. (Budget statements material weakness)</td>
<td>Treasury has improved its process for preparing the CFS budget statements over the past 3 years and will continue this effort. Treasury has developed a reconciliation process to reasonably assure that all cash-related amounts reconcile on a monthly basis. The upcoming audit of the General Fund is intended to validate the budget deficit number on both CFS budget statements.</td>
<td>Open.</td>
</tr>
<tr>
<td>18</td>
<td>13-01</td>
<td>The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to include all key elements recommended by the Implementation Guide for OMB Circular A-123, Management’s Responsibility for Internal Control – Appendix A, Internal Control over Financial Reporting and fully consider the interrelationships between deficiencies in the corrective action plans. (Preparation material weakness)</td>
<td>Treasury and OMB developed a significantly more robust remediation plan in fiscal year 2015. In fiscal year 2016, the plan was enhanced to highlight key milestones and identify outcome measures to help track and maintain progress.</td>
<td>Closed.</td>
</tr>
<tr>
<td>19</td>
<td>13-04</td>
<td>The Secretary of the Treasury should 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. (Intragovernmental material weakness)</td>
<td>Treasury required agencies to provide corrective action plans to identify and resolve the associated root causes of recurring differences and monitored the entities’ implementation of the corrective action plans.</td>
<td>Closed.</td>
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## Status of recommendation⁵

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<tr>
<td>20</td>
<td>13-05</td>
<td>The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to 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. (Intragovernmental material weakness)</td>
<td>Treasury has a process to monitor the intragovernmental activity and balances that are currently not covered by an intragovernmental transaction control and takes the proper steps if they become material to the CFS. In addition, Treasury demonstrated that the intragovernmental activity and balances not covered by the scorecard process are immaterial to the CFS.</td>
<td>Closed.</td>
</tr>
<tr>
<td>21</td>
<td>13-06</td>
<td>The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to 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. (Intragovernmental material weakness)</td>
<td>Treasury has established the General Fund as a federal reporting entity. In fiscal year 2017, Treasury will focus on preparing for the first financial audit of the General Fund.</td>
<td>Open.</td>
</tr>
<tr>
<td>22</td>
<td>13-07</td>
<td>The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to 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. (Intragovernmental material weakness)</td>
<td>As a result of multiple initiatives over the past few years, Treasury and OMB have seen a significant decrease in intragovernmental differences related to unreconciled transactions submitted by federal entities. Therefore, Treasury and OMB have determined that at this time there is not a justified need for the additional cost and burden on federal entities of implementing additional audit procedures specifically focused on intragovernmental activity and balances.</td>
<td>Open. There were hundreds of billions of dollars of unreconciled intragovernmental differences in fiscal year 2016. A formalized process to require the performance of additional audit procedures focused on intragovernmental activity and balances would help to address these unreconciled transactions.</td>
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Appendix I: Status of Treasury’s and OMB’s Progress in Addressing GAO’s Prior Year Recommendations for Preparing the CFS

Status of recommendation^a

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<tr>
<th>Count</th>
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<tr>
<td>23</td>
<td>15-01</td>
<td>The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement sufficiently detailed procedures, including ensuring the independence of information used in data reconciliations, to verify the accuracy of data transfers of federal entity-reported financial data used in the CFS preparation process. (Preparation material weakness)</td>
<td>Treasury expanded the reconciliations and added logic tests to verify the accuracy of the data transfers from the federal entity-reported financial data to the data used in the CFS preparation process.</td>
<td>Closed.</td>
</tr>
<tr>
<td>24</td>
<td>15-02</td>
<td>The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement procedures to determine whether user accounts already exist before establishing or recertifying user accounts in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) or the Governmentwide Financial Report System (GFRS). (Preparation material weakness)</td>
<td>Treasury will implement processes to validate new users who do not already have existing accounts in GTAS or GFRS and to ensure that users do not have conflicting roles or privileges.</td>
<td>Open.</td>
</tr>
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</table>

Legend:

CFS = consolidated financial statements of the U.S. government
OMB = Office of Management and Budget
SOP = standard operating procedure
Treasury = Department of the Treasury

Sources: GAO, Treasury, and OMB. | GAO 17-524

^aThe status of the recommendations listed in app. I is as of January 4, 2017, the date of our report on the audit of the fiscal year 2016 CFS.

^bThe recommendations in our prior reports related to material weaknesses in the following areas:

**Preparation:** The material weakness relates to the federal government’s inability to reasonably assure that the consolidated financial statements are (1) consistent with the underlying audited entities’ financial statements, (2) properly balanced, and (3) in accordance with U.S. GAAP.

**Budget statements:** The material weakness relates to the federal government’s inability to reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Unified Budget Deficit and (2) Statements of Changes in Cash Balance from Unified Budget and Other Activities is complete and consistent with the underlying information in the audited entities’ financial statements and other financial data.

**Intragovernmental:** The material weakness relates to the federal government’s inability to adequately account for and reconcile intragovernmental activity and balances between federal entities.

^cThe title of this SOP changed to “Significant Entities” in fiscal year 2013.
Appendix II: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 21, 2017

Ms. Dawn B. Simpson
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Simpson:

Thank you for the opportunity to comment on the Government Accountability Office’s (GAO) draft Management Report (Report) on the Fiscal Year (FY) 2016 audit, GAO-17-524, MANAGEMENT REPORT, Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements (CFS).

We appreciate GAO’s perspective and look forward to building on our significant progress to date in pursuing resolution of the remaining substantial barriers to auditability of the Financial Report of the U.S. Government (Financial Report). Treasury’s efforts in recent years have yielded closure of more than 50 percent of the 37 outstanding prior year recommendations since FY 2013, including closure of 8 findings in just the past year. Going forward and reflecting management’s accountability to the reliable reporting of the Government’s financial position, Treasury will continue to focus its efforts on cost-beneficial solutions that we believe will yield the desired outcome – to sufficiently resolve the material conditions that have precluded the full audit of the Financial Report since its inception in FY 1997.

The draft Report identifies three new recommendations concerning the Financial Report. Specifically, GAO reported on deficiencies pertaining to: (1) procedures and metrics for monitoring the federal government’s year-to-year progress in resolving intragovernmental differences at the federal entity level; (2) processes for working with federal entities to reduce or resolve the need for significant adjustments to federal entity data submitted for the CFS; and (3) corrective action plans in certain areas.

With respect to the first recommendation, Treasury will continue to evolve its processes as deemed necessary to ensure that appropriate and effective metrics are deployed to measure and monitor agency performance. Similarly, with respect to the second recommendation, Treasury will continue to work with agencies to facilitate improvement of processes, minimizing the need for Treasury adjustments to agency reporting. However, with respect to both recommendations, the correlation between Treasury efforts and reduced reporting adjustments is incomplete. Ultimate responsibility for the desired outcome of minimizing the occurrence of intragovernmental differences and the need for Treasury adjustments rests with the agency community and their auditors, and is dependent on the quality and completeness of agency data provided to Treasury.

With respect to the third recommendation pertaining to improving certain corrective action plans, Treasury believes that our current remediation plan including its various corrective action plans is comprehensive, appropriate, and effective, with robust ongoing monitoring processes in place. This
is evidenced, in part, by the successful closure of all audit recommendations targeted for resolution in FY 2016. With respect to this recommendation’s reference to a need for additional agency audit procedures for intragovernmental activity and balances, Treasury’s plan already contains multiple corrective actions aimed at increasing the quality of intragovernmental data. These actions are proving effective, as reflected by a reduction of over 80 percent in elimination differences of intragovernmental data submitted by federal entities from FY 2015 to FY 2016. Moreover, in alignment with the current administration’s efforts to reduce agency burden, we do not support encumbering agencies with the cost and burden of the additional audit procedures being recommended. However, Treasury will continue to work collaboratively with the Office of Management and Budget (OMB) and the federal agency community on existing corrective actions.

Overall, we are pleased with our progress, notably the closing of 8 of the 24 outstanding recommendations from prior years’ reports in the past year. The remaining 16 recommendations continue to emphasize the three critical material weaknesses identified in the audit: (1) accounting for and reconciliation of intragovernmental activity and balances, (2) preparation of the CFS, and (3) reconciliations of budget deficit to net operating cost and changes in cash balance.

Treasury continued to make significant improvements in accounting for and reporting on all significant General Fund activity and balances, and reconciling that activity with federal entity trading partners during FY 2016. This is a significant milestone as the lack of distinct and detailed accounting for the General Fund has been a long-standing issue contributing to all three of the aforementioned material weaknesses. We look forward to working together with GAO to ensure sufficient audit coverage of the General Fund.

With respect to the preparation material weakness, Treasury efforts in recent years have significantly strengthened internal controls in this area. With continued work planned in FY 2017, this material weakness should be reevaluated during the FY 2017 audit to ensure clarity concerning any remaining impediments.

Finally, Treasury also made great strides in validating material completeness of budgetary information included in the Financial Report, as well as the consistency of that information with agency reports. Treasury continues to perform a monthly reconciliation of various cash reporting amounts presented in Treasury publications, which has aided in producing the Cash Statement on a monthly basis. This demonstrates the completeness of Treasury’s reconciliation efforts in this key area. In addition, the reconciling items on a reformatted Reconciliation Statement will be easily traceable to agency reports after the implementation of the amended Statement of Federal Financial Accounting Standards No. 7, pending its issuance.

In conclusion, we appreciate GAO’s partnership 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 ongoing commitment to improve federal financial reporting.

Sincerely,

Christina Ho
Deputy Assistant Secretary
Accounting Policy and Financial Transparency

cc: Mark Reger
The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO’s commitment to good government is reflected in its core values of accountability, integrity, and reliability.

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