



July 2018

# MANAGEMENT REPORT

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

Accessible Version

# GAO Highlights

Highlights of [GAO-18-540](#), a report to agency officials

## Why GAO Did This Study

The Secretary of the Treasury, in coordination with the Director of 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 2017 CFS audit, GAO identified material weaknesses and other continuing control deficiencies in the processes used to prepare the CFS. The purpose of this report is to provide the status of corrective actions that Treasury and OMB have taken to address GAO's prior recommendations related to the processes used to prepare the CFS that remained open as of January 4, 2017, the date of GAO's report on its audit of the fiscal year 2016 CFS.

## What GAO Recommends

GAO is not making any new recommendations in this report. Treasury, in coordination with OMB, should continue to take action to address the remaining 14 open recommendations. In commenting on GAO's draft report, Treasury noted (1) that Treasury and OMB have improved processes and strengthened internal controls over the processes used to prepare the CFS and (2) its ongoing commitment to improving federal financial reporting. OMB generally agreed with the draft report and noted its continuing commitment to achieving sound financial management across the federal government.

View [GAO-18-540](#). For more information, contact Dawn B. Simpson at (202) 512-3406 or [simpsondb@gao.gov](mailto:simpsondb@gao.gov).

July 2018

## MANAGEMENT REPORT

### Continued 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 2017 consolidated financial statements of the U.S. government (CFS), GAO identified continuing control deficiencies in the Department of the Treasury's (Treasury) and the Office of Management and Budget's (OMB) processes used to prepare the CFS. These control deficiencies contributed to material weaknesses in internal control 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) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete and consistent with the underlying information in the audited entities' financial statements and other financial data.

As of the completion of GAO's fiscal year 2016 CFS audit, 19 recommendations were open from GAO's prior reports related to control deficiencies in the processes used to prepare the CFS. Treasury, in coordination with OMB, implemented corrective actions that resolved the control deficiencies related to 5 of the 19 recommendations, and as a result, GAO closed these 5 recommendations. While progress was made, 14 of the 19 recommendations remained open as of February 7, 2018, the date of GAO's report on its audit of the fiscal year 2017 CFS. GAO will continue to monitor the status of corrective actions taken to address the remaining 14 open recommendations from prior years as part of its fiscal year 2018 CFS audit.



Source: GAO. | GAO-18-540

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July 16, 2018

The Honorable Steven T. Mnuchin  
Secretary of the Treasury

The Honorable Mick Mulvaney  
Director  
Office of Management and Budget

In our February 2018 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, 2017, and 2016,<sup>1</sup> we disclaimed an opinion on the CFS. Since GAO's first audit of the CFS, for fiscal year 1997, certain material weaknesses<sup>2</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>3</sup> See appendix II of our report on our audit of the fiscal years 2017 and 2016 CFS for details on

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<sup>1</sup>The CFS as of and for the fiscal years ended September 30, 2017, and 2016, consist of the Statements of Net Cost; Statements of Operations and Changes in Net Position; Reconciliations of Net Operating Cost and Budget Deficit; Statements of Changes in Cash Balance from Budget and Other Activities; Balance Sheets; 2017 and 2016 Statements of Long-Term Fiscal Projections (SLTFP); 2017, 2016, 2015, 2014, and 2013 Statements of Social Insurance (SOSI); and 2017 and 2016 Statements of Changes in Social Insurance Amounts (SCSIA), including the related notes to these financial statements. See GAO, *Financial Audit: Fiscal Years 2017 and 2016 Consolidated Financial Statements of the U.S. Government*, [GAO-18-316R](#) (Washington, D.C.: Feb. 15, 2018).

<sup>2</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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>3</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 SLTFP, SOSI, and SCSIA. Because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, we were unable to, and did not, express opinions on the 2017, 2016, 2015, 2014, and 2013 SOSI and the 2017 and 2016 SCSIA. Because of these significant uncertainties and a material weakness in internal control over financial reporting, we were unable to, and did not, express an opinion on the 2017 and 2016 SLTFP.

these reported material weaknesses. Internal control deficiencies related to several of these material weaknesses were also reported along with related recommendations by other auditors in their audit reports on individual federal entities' financial statements.<sup>4</sup>

Several of these material weaknesses relate to the federal government's 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;
- 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 Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete and consistent with the underlying information in the audited entities' financial statements and other financial data.

The Secretary of the U.S. Department of the Treasury (Treasury), in coordination with the Director of the Office of Management and Budget (OMB), prepares the CFS on behalf of the federal government.<sup>6</sup> The purpose of this report is to provide the status of corrective actions Treasury and OMB have taken to address the 19 recommendations relating to the processes used to prepare the CFS that were detailed in our previous reports and remained open as of January 4, 2017, the date

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<sup>4</sup>[GAO-18-316R](#).

<sup>5</sup>Our February 2018 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.

<sup>6</sup>The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of the government, beginning with financial statements prepared for fiscal year 1997. See 31 U.S.C. § 331(e). Treasury and OMB included the legislative and judicial branches in the consolidated financial statements as well.

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of our report on the audit of the fiscal year 2016 CFS.<sup>7</sup> We are not making any new recommendations in this report.

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## Scope and Methodology

As part of our audit of the fiscal years 2017 and 2016 CFS, we considered the federal government's financial reporting procedures and related internal control. A full discussion of our scope and methodology is included in our February 2018 report on our audit of the fiscal years 2017 and 2016 CFS.<sup>8</sup> We have communicated the status of each of the recommendations discussed in this report with 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 this report.

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## Status of Recommendations from Prior Reports

As of the completion of our fiscal year 2016 CFS audit, 19 recommendations were open from our prior reports related to control deficiencies in the processes used to prepare the CFS. During our fiscal year 2017 CFS audit, we found that Treasury, in coordination with OMB, implemented corrective actions that resulted in significant progress in resolving certain of the control deficiencies addressed by our prior recommendations. For 5 recommendations, the corrective actions resolved the related control deficiencies, and we closed the recommendations.

While progress was made, 14 recommendations from our prior reports remained open as of February 7, 2018, the date of our report on the audit of the fiscal year 2017 CFS. These continuing control deficiencies contributed to the three material weaknesses that relate to the federal government's processes used to prepare the CFS. Treasury, in coordination with OMB, should continue to take action to address the remaining 14 open recommendations.

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<sup>7</sup>GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-17-524](#) (Washington, D.C.: July 12, 2017).

<sup>8</sup>[GAO-18-316R](#).

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Appendix I summarizes the status as of February 7, 2018, of the 19 open recommendations from our prior years' reports according to Treasury and OMB and includes our own assessment and additional comments, where appropriate. Various efforts are under way to address these recommendations, as noted by Treasury and OMB. As part of our fiscal year 2018 CFS audit, we will continue to monitor Treasury's and OMB's progress in addressing our recommendations.

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## Agency Comments and Our Evaluation

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### Treasury Comments

We provided a draft of this report to Treasury for comment. In its written comments, reproduced in appendix II, Treasury stated that it appreciates our perspective and will continue to focus its efforts on cost-beneficial solutions to resolve the material conditions that have precluded an opinion on the CFS. Treasury noted that the draft report contained no new recommendations and that this demonstrates the improved processes and strengthened internal controls that Treasury and OMB have established over the processes used to prepare the CFS. Treasury also noted that it continued to (1) improve its accounting for and reporting on the General Fund of the U.S. Government<sup>9</sup> activity and balances and (2) make great strides in validating the material completeness of budgetary information included in the *Financial Report of the United States Government*. Treasury indicated that it plans to work with GAO as it fulfills its commitment to improving federal financial reporting.

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### OMB Comments

We provided a draft of this report to OMB for comment. In oral comments, OMB staff in the Office of Federal Financial Management stated that OMB generally agreed with the draft report and Treasury's written response. OMB 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.

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<sup>9</sup>The General Fund is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

We are sending copies of this report to appropriate congressional committees, the Fiscal Assistant Secretary of the Treasury, the Controller of the Office of Management and Budget's Office of Federal Financial Management, and other interested parties. In addition, the 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 [simpsondb@gao.gov](mailto: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 report include Carolyn M. Voltz (Assistant Director), W. Stephen Lowrey, and Fabiola Torres.



Dawn B. Simpson  
Director  
Financial Management and Assurance

# Appendix I: Status of GAO's Prior Recommendations Related to the Processes Used to Prepare the CFS

Table 1 shows the status of GAO's prior year recommendations related to the processes used to prepare the consolidated financial statements of the U.S. government. The abbreviations used are defined in the legend at the end of the table.

**Table 1: Status of GAO's Prior Recommendations Related to the Processes Used to Prepare the CFS**

Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-04-45 (results of the fiscal year 2002 audit)	1	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. (Preparation material weakness)	Treasury documented and reviewed the processes at the federal agencies to ensure adequate information in the legal representation letters on the expected outcomes of the cases.	Closed.

**Appendix I: Status of GAO's Prior  
Recommendations Related to the Processes  
Used to Prepare the CFS**

Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-04-45 (results of the fiscal year 2002 audit)	2	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). (Preparation material weakness)	Treasury and OMB have established three broad categories for treaties and other international agreements with respect to their potential financial implications. In fiscal year 2017, Treasury confirmed that the relevant financial obligations were included in the <i>Financial Report</i> for two of the three categories. In fiscal year 2018, Treasury and OMB will continue to analyze the remaining category to ensure that all material financial obligations or possible material loss exposures are properly reported in the <i>Financial Report</i> .	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 in the CFS is required by U.S. generally accepted accounting principles (U.S. GAAP), and we are precluded from determining whether the omitted information is material.
GAO-04-45 (results of the fiscal year 2002 audit)	3	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. (Preparation material weakness)	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.

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Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-04-45 (results of the fiscal year 2002 audit)	4	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. (Preparation material weakness)	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.
GAO-04-45 (results of the fiscal year 2002 audit)	5	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. (Preparation material weakness)	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.

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Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-04-45 (results of the fiscal year 2002 audit)	6	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. (Preparation material weakness)	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.

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Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-04-45 (results of the fiscal year 2002 audit)	7	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, Accounting for Liabilities of the Federal Government, 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. (Preparation material weakness)	Treasury and OMB worked with subject matter expert agencies on a task force of the Federal Accounting Standards Advisory Board, which ultimately resulted in the issuance of Statement of Federal Financial Accounting Standards (SFFAS) No. 51, Insurance Programs. The standard rescinds the Insurance and Guarantees section in SFFAS No. 5 (paras. 97-121). SFFAS 51 was issued in fiscal year 2017, effective for fiscal year 2019 reporting.	Open.
GAO-04-866 (results of the fiscal year 2003 audit)	8	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 U.S. GAAP in their financial statements and have such information subjected to audit. (Preparation material weakness)	Treasury disclosed the material criminal debt information in the fiscal year 2017 <i>Financial Report</i> , which was obtained from the federal agencies' reporting.	Closed.

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Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-04-866 (results of the fiscal year 2003 audit)	9	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. (Preparation material weakness)	See the status of recommendation No. 03-8.	Closed.
GAO-07-805 (results of the fiscal year 2006 audit)	10	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 performed analysis on the existing schedules to the legal representation letters and determined that material items were reported appropriately in the <i>Financial Report</i> . Additionally, Treasury and OMB will work with the Department of Justice to include the appropriate language in the government-wide legal representation letter.	Open.
GAO-08-748 (results of the fiscal year 2007 audit)	11	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 implemented an internal control review for the CFS compilation processes. A complete cycle of the internal control review is expected to be completed during 2018.	Open.

**Appendix I: Status of GAO's Prior  
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Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-13-540 (results from the fiscal year 2012 audit)	12	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. (Reconciliation statements material weakness)	Treasury will fully reconcile the CFS budget statements to federal entities' audited financial statements. Additionally, the audit of the General Fund of the U.S. Government (General Fund) will provide audit assurance over the budget deficit amount reported on both CFS budget statements.	Open.
GAO-13-540 (results from the fiscal year 2012 audit)	13	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. (Reconciliation statements material weakness)	Treasury will finalize the documentation for identifying and reporting each reconciling line item on the CFS budget statements. In addition, a complete analysis will be performed on the "Other" line items as well as the loan related notes to document the detailed explanations of each reconciling line on the CFS budget statements.	Open.
GAO-14-543 (results from the fiscal year 2013 audit)	14	13-06	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)	Treasury has established the General Fund as a federal reporting entity with strong processes and controls. In fiscal year 2018, Treasury will prepare and GAO will audit the fiscal year 2018 Schedules of the General Fund.	Open.

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Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-14-543 (results from the fiscal year 2013 audit)	15	13-07	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 intra-governmental activity and balances between federal entities to provide increased audit assurance over the reliability of such information. (Intragovernmental material weakness)	As a result of multiple initiatives over the past few years, Treasury and OMB have observed 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.	Open. In fiscal year 2017, there were hundreds of billions of dollars of unreconciled intragovernmental differences. A formalized process requiring that auditors perform additional audit procedures focused on intra-governmental activity and balances would help to address these unreconciled transactions.
GAO-16-621 (results from the fiscal year 2015 audit)	16	15-02	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 Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) or the Governmentwide Financial Report System (GFRS). (Preparation material weakness)	Treasury implemented 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.	Closed.
GAO-17-524 (results from the fiscal year 2016 audit)	17	16-01	The Secretary of the Treasury should 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. (Intragovernmental material weakness)	Treasury enhanced its processes to ensure that appropriate and effective metrics were deployed to measure and monitor agency performance.	Closed.

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Product code	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
n/a	n/a	n/a	n/a		
GAO-17-524 (results from the fiscal year 2016 audit)	18	16-02	The Secretary of the Treasury should 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. (Preparation material weakness)	Treasury will continue to work with federal entities to facilitate process improvement and reduce federal entity reporting errors, minimizing the need for Treasury to adjust federal entity reporting for CFS preparation. The ultimate responsibility for minimizing the need for Treasury adjustments to federal entity-reported information rests with the federal entity community, and is dependent on the quality and completeness of entity data provided to Treasury.	Open.
GAO-17-524 (results from the fiscal year 2016 audit)	19	16-03	The Secretary of the Treasury should 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. (Preparation material weakness)	Treasury believes that its current remediation plan, including its various corrective action plans (CAP), is comprehensive, appropriate, and effective, with robust and ongoing monitoring processes in place. In addition, Treasury's plan already contains multiple CAPs intended to (1) more precisely assess and monitor treaty and international agreement activity, (2) increase the quality of intra-governmental data, and (3) enhance the controls and analysis supporting the Reconciliation Statements. Treasury will continue to work with OMB and the federal agency community to effectively implement existing corrective actions, while being mindful of the potential burden placed on agencies commensurate with additional processes.	Open. The CAPs in these three areas did not include sufficient information to effectively address related control deficiencies involving the processes used to prepare the CFS.

**Legend:**

CFS = consolidated financial statements of the United States government

*Financial Report* = *Financial Report of the United States Government*

OMB = Office of Management and Budget

Treasury = Department of the Treasury

Sources: GAO, Treasury, and OMB. | GAO-18-540

<sup>a</sup>The recommendations in our prior reports related to material weaknesses in the following areas:

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**Appendix I: Status of GAO's Prior  
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**Intragovernmental:** The material weakness relates to the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities.

**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.

**Reconciliation 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 Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete and consistent with the underlying information in the audited entities' financial statements and other financial data.

<sup>b</sup>The status of the recommendations listed in app. I is as of February 7, 2018, the date of our report on the audit of the fiscal year 2017 CFS.

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# Appendix II: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 26, 2018

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) 2017 audit, GA0-18-540, *MANAGEMENT REPORT, Continued 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 resulted in the closure of nearly 70 percent of outstanding prior year recommendations since FY 2013. Going forward, 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—sufficiently resolving the material conditions that have precluded the full audit of the *Financial Report* since its inception in FY 1997.

We are pleased to note that, for the first time in the 21-year history of the *Financial Report*, GAO's draft Report does not identify any new recommendations. We believe that this demonstrates the improved processes and strengthened internal controls Treasury and OMB have established and reflects the overall progress that has been achieved through collaborative efforts with the federal financial management community.

Additionally, we are pleased with the closure of four outstanding recommendations from prior years' reports, including a number of long-outstanding items dating back to FY 2002. The remaining recommendations emphasize and articulate 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: (a) accounting for and reporting on all significant General Fund activity and balances, and (b) reconciling that activity with federal entity trading partners during FY 2017. This is a significant milestone as the lack of distinct and

**Appendix II: Comments from the Department  
of the Treasury**

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 the first audit of the Schedules of the General Fund of the U.S. Government for FY 2018.

In addition, Treasury's efforts in recent years have significantly strengthened internal controls intended to address the preparation material weakness. Consequently, with continued work planned in FY 2018, the preparation material weakness should be reevaluated during the FY 2018 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 monthly reconciliations of key Treasury-reported cash data, which has aided in monthly production of the *Cash Statement* and demonstrates the completeness of Treasury's reconciliation efforts in this key area. Further, during FY 2018, Treasury intends to fully document the traceability of the *Reconciliation Statement* line items to the source data in audited agency reports, establishing another critical link between budgetary and proprietary information and between the component and government-wide entities within the *Financial Report*.

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,



DAVID COPENHAVEN FOR

Amy B. Edwards  
Deputy Assistant Secretary  
Accounting Policy and Financial  
Transparency

cc: Timothy F. Soltis

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# Appendix III: Accessible Data

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## Agency Comment Letter

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Accessible Text for Appendix II: Comments from the Department of the Treasury

Page 1

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 26, 2018

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) 2017 audit, GAO-18-540, MANAGEMENT REPORT, *Continued Improvements Needed in Controls over the Processes Used to Prepare the US. 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 resulted in the closure of nearly 70 percent of outstanding prior year recommendations since FY 2013. Going forward, 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-sufficiently resolving the material conditions that have precluded the full audit of the Financial Report since its inception in FY 1997.

We are pleased to note that, for the first time in the 21-year history of the *Financial Report*, GAO's draft Report does not identify any new recommendations. We believe that this demonstrates the improved processes and strengthened internal controls Treasury and OMB have established and reflects the overall progress that has been achieved through collaborative efforts with the federal financial management community.

Additionally, we are pleased with the closure of four outstanding recommendations from prior years' reports, including a number of long-outstanding items dating back to FY 2002. The remaining recommendations emphasize and articulate 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.

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## Page 2

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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,

Amy B. Edwards

Deputy Assistant Secretary

Accounting Policy and Financial Transparency

cc: Timothy F. Soltis

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