

GAO Highlights

Highlights of [GAO-19-624](#), 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 2018 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 (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 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 the completion of GAO's audit of the fiscal year 2017 CFS.

What GAO Recommends

GAO is making four new recommendations—three to Treasury and one to both Treasury and OMB—to address the control deficiencies identified during the fiscal year 2018 CFS audit. In commenting on GAO's draft report, Treasury concurred with the four new recommendations and noted 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-19-624](#). For more information, contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov.

September 2019

MANAGEMENT REPORT

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

What GAO Found

During its audit of the fiscal year 2018 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 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, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

During its audit of the fiscal year 2018 CFS, GAO identified three new internal control deficiencies.

- Treasury did not have sufficient procedures to analyze and determine whether appropriate disclosures related to new federal accounting standards were included in the draft fiscal year 2018 *Financial Report of the United States Government*.
- Treasury did not have sufficient procedures to properly support and consistently report restatements, reclassifications, and adjustments to beginning net position in the draft fiscal year 2018 *Financial Report of the United States Government*.
- Treasury and OMB did not have adequate processes and procedures for reporting appropriate information regarding legal contingency losses in the fiscal year 2018 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 either were resolved or continued to exist. Specifically, Treasury, in coordination with OMB, implemented corrective actions that resolved the control deficiencies related to two of the 14 recommendations open as of the completion of GAO's fiscal year 2017 CFS audit, and as a result, GAO closed these recommendations. While progress was made, 12 of the 14 recommendations remained open as of March 20, 2019, the date of GAO's report on its audit of the fiscal year 2018 CFS. GAO will continue to monitor the status of corrective actions to address the four new recommendations made in this report as well as the 12 open recommendations from prior years as part of its fiscal year 2019 CFS audit.