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 2019 consolidated financial statements of the U.S. government (CFS), GAO reported control deficiencies in the Department of 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 2019 CFS, GAO identified three new internal control deficiencies.

- Treasury implemented a new process for obtaining significant component entity information for inclusion in the CFS, but did not sufficiently consider the aggregate impact of information not obtained from audited significant component entity financial statements on the reliability of the CFS.
- Treasury’s process for revising its accounting and reporting policies did not reasonably assure that the Statement of Operations and Changes in Net Position, Funds from Dedicated Collections note, and Other Liabilities note were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).
- Treasury did not have sufficient procedures to reasonably assure that disclosures for financial information incorporated using accounting standards issued by the Financial Accounting Standards Board were prepared in accordance with U.S. GAAP.

In addition, GAO determined whether 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 four of the 16 recommendations open as of the completion of GAO’s fiscal year 2018 CFS audit, and as a result, GAO closed these four recommendations. While progress was made, 12 of the 16 recommendations remained open as of February 19, 2020, the date of GAO’s report on its audit of the fiscal year 2019 CFS. GAO will continue to monitor the status of corrective actions to address the three new recommendations made in this report as well as the 12 open recommendations from prior years as part of its fiscal year 2020 CFS audit.

What GAO Recommends

GAO is making three new recommendations to Treasury to address the control deficiencies identified during the fiscal year 2019 CFS audit. In commenting on GAO’s draft report, Treasury concurred with the three new recommendations, identified actions to address them, 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-20-586. For more information, contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov.

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 2019 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 2018 CFS.

Management Report August 2020

Highlights of GAO-20-586, a report to agency officials

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