



August 2020

MANAGEMENT REPORT

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

Accessible Version

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.

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.

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 2019 consolidated financial statements of the U.S. government (CFS), GAO reported 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 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.

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Abbreviations

CAP	corrective action plan
CFS	consolidated financial statements of the U.S. government
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FCSIC	Farm Credit System Insurance Corporation
<i>Financial Report</i>	<i>Financial Report of the United States Government</i>
FRAD	Financial Reports and Analysis Division
General Fund	General Fund of the U.S. Government
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
SCSIA	Statements of Changes in Social Insurance Amounts
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

SLTFP	Statements of Long-Term Fiscal Projections
SOCNP	Statement of Operations and Changes in Net Position
SOSI	Statements of Social Insurance
SSA	Social Security Administration
Treasury	Department of the Treasury
TVA	Tennessee Valley Authority
U.S. GAAP	U.S. generally accepted accounting principles

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August 25, 2020

The Honorable Steven T. Mnuchin
Secretary of the Treasury

The Honorable Russell Vought
Director
Office of Management and Budget

In our February 2020 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, 2019, and 2018,¹ we disclaimed an opinion on the CFS. Since GAO's first audit of the CFS, for fiscal year 1997, certain material weaknesses² 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.³ See appendix II of our audit report for the fiscal years 2019 and 2018 CFS for details on these reported material weaknesses. Internal control deficiencies related to

¹The CFS as of and for the fiscal years ended September 30, 2019, and 2018, 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; 2019 and 2018 Statements of Long-Term Fiscal Projections (SLTFP); 2019, 2018, 2017, 2016, and 2015 Statements of Social Insurance (SOSI); and 2019 and 2018 Statements of Changes in Social Insurance Amounts (SCSIA), including the related notes to these financial statements. For the CFS and GAO's report thereon, see GAO, *Financial Audit: Fiscal Years 2019 and 2018 Consolidated Financial Statements of the U.S. Government*, [GAO-20-315R](#) (Washington, D.C.: Feb. 27, 2020).

²A 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.

³As 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 2019, 2018, 2017, 2016, and 2015 SOSI and the 2019 and 2018 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 2019 and 2018 SLTFP.

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.⁴

Several of these material weaknesses relate to the federal government's processes used to prepare the CFS.⁵ Such material weaknesses 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.

The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), prepares the *Financial Report of the United States Government*, which contains the CFS, on behalf of the federal government.⁶ The purpose of our management report is to provide (1) detailed information on new control deficiencies identified during our fiscal year 2019 audit that relate to the processes used to prepare the CFS, along with related recommendations, and (2) the status of corrective actions that the Department of the Treasury (Treasury) and OMB have taken to address the 16 recommendations relating to the processes used to prepare the CFS that were detailed in our previous

⁴[GAO-20-315R](#).

⁵Our February 2020 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.

⁶The 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). The consolidated financial statements include the legislative and judicial branches.

reports and remained open as of March 20, 2019, the date of our report on the audit of the fiscal year 2018 CFS.⁷

Scope and Methodology

As part of our audit of the fiscal years 2019 and 2018 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 as of the completion of our fiscal year 2018 audit. A full discussion of our scope and methodology is included in our February 2020 report on our audit of the fiscal years 2019 and 2018 CFS.⁸ 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 2019 Audit

During our audit of the fiscal year 2019 CFS, we identified three new internal control deficiencies in Treasury's processes used to prepare the CFS. Specifically, we found the following:

1. 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.
2. Treasury's process for revising its accounting and reporting policies did not reasonably assure that the Statement of Operations and Changes in Net Position (SOCNP), Funds from Dedicated Collections

⁷GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-19-624](#) (Washington, D.C.: Sept. 4, 2019).

⁸[GAO-20-315R](#).

note, and Other Liabilities note were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

3. 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 (FASB) were prepared in accordance with U.S. GAAP.

Consideration of Unaudited Significant Component Entity Information

During our fiscal year 2019 CFS audit, we found that Treasury implemented a new process for obtaining significant component entity information for inclusion in the CFS, but did not sufficiently update its procedures to consider the aggregate impact of all information not obtained from significant component entities' audited financial statements on the reliability of the CFS.⁹ Prior to fiscal year 2019, Treasury required significant component entities to prepare audited closing packages to show the link between information they reported to Treasury for the CFS and their audited financial statements. The closing packages included significant component entity reporting of note disclosures, required supplementary information, and other information in the Governmentwide Financial Report System and financial statement information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS). In an effort to reduce the financial reporting and audit burden for agencies and to make annual reporting more efficient, beginning with the fiscal year 2019 CFS, significant component entities were no longer required to submit audited closing packages. Instead, Treasury's Financial Reports and Analysis Division (FRAD) implemented a new process to compile the CFS using information from the significant component entities' audited financial statements. As part of this new process, FRAD found that certain information previously included in the audited closing packages was not contained in the significant component entities' audited financial statements. As such, FRAD had to use other, unaudited sources—such as data calls to entity accountants—to obtain the information needed for the fiscal year 2019 CFS.

⁹Significant component entities consist of the 24 Chief Financial Officers Act agencies and additional entities identified by Treasury that are material to the CFS. A federal entity is deemed material to the CFS if it contributes more than \$1 billion to a CFS line item or note disclosure.

For fiscal year 2019, FRAD performed its annual analysis to consider information included in the CFS not linked to audited information and determine the aggregate impact of such information on the CFS. FRAD's analysis considered some unaudited amounts included in the CFS, such as those reported by entities receiving disclaimers of opinion on their financial statements; journal vouchers that FRAD processed for consolidation and other purposes that were not based on audited financial data; and uncorrected misstatements identified at the consolidation level. However, FRAD did not consider all unaudited amounts and information included in the CFS in its analysis for fiscal year 2019. Specifically, Treasury did not have sufficient procedures to consider information obtained from data calls and other unaudited sources rather than from audited closing packages as in prior years in its fiscal year 2019 aggregate analysis. Examples of such unaudited information included in the fiscal year 2019 CFS but not considered in FRAD's aggregate analysis include the following:

- In Note 7: Debt and Equity Securities, categorizations of investments, such as \$2.2 billion in common stocks held by the Tennessee Valley Authority (TVA) and other investment information for Treasury and the Pension Benefit Guaranty Corporation (PBGC);
- In Note 12: Federal Employee and Veteran Benefits Payable, \$0.8 billion in liabilities for other benefits for the Department of State;
- In Note 19: Commitments, long-term operating leases of \$1.1 billion for the Department of Health and Human Services; and
- In the Required Supplementary Information section, \$117.8 billion estimated for the present value of resources needed to sustain the Railroad Retirement Program and \$87.7 billion for the difference between total assets and total liabilities projected for Unemployment Trust Fund benefit payments.

Statement of Federal Financial Accounting Concepts (SFFAC) 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 agency reports and that it should tell users where to find information in other formats, both aggregated and disaggregated, such as in individual agency reports, on agency websites, and in the President's Budget. In addition, *Standards for Internal Control in the Federal Government* states that one of the key objectives of an organization's internal control over financial reporting is to provide reasonable assurance as to the reliability of its financial reporting, including its

financial statements and note disclosures. Accompanying notes are an integral part of financial statements and provide additional disclosures that are necessary to make the financial statements more informative.

Without sufficient procedures for determining whether amounts for which Treasury does not have audit assurance are significant to the CFS in the aggregate, there is an increased risk of material misstatements in the financial statements. In addition, by not identifying all unaudited amounts, Treasury is unable to effectively determine if any information needed for the CFS should be audited through inclusion in significant entities' audited financial statements.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury ensure that the Fiscal Assistant Secretary enhances Treasury's procedures for the aggregate analysis to consider the impact of all amounts not obtained from significant entity audited financial statements on the reliability of the CFS and use the results to determine if audit coverage is needed for any information. (Recommendation 1)

Significant Changes in Accounting and Reporting Policies

During our fiscal year 2019 CFS audit, we found that Treasury's process for revising its accounting and reporting policies did not reasonably assure that the SOCNP, Note 20: Funds from Dedicated Collections, and Note 16: Other Liabilities were prepared in accordance with U.S. GAAP.¹⁰

The Federal Accounting Standards Advisory Board's (FASAB) standards require separate reporting of funds from dedicated collections in the SOCNP and in Note 20. The standards define funds from dedicated collections as specifically identified revenues provided to the U.S. government by nonfederal sources, often supplemented by other financing sources that are required by statute to be used for designated activities, benefits, or purposes. Prior to fiscal year 2019, Treasury's presentation of funds from dedicated collections was consistent with FASAB standards. However, in fiscal year 2019, as part of Treasury's new process for compiling the CFS (as discussed above), the information

¹⁰The Federal Accounting Standards Advisory Board is recognized by the American Institute of Certified Public Accountants as the standard setter for generally accepted accounting principles for federal government entities.

needed for the SOCNP and Note 20 was not contained in the significant component entities' audited financial statements. Instead, FRAD used unaudited information provided by component entities. In connection with this change, FRAD incorrectly eliminated activity between (1) funds from dedicated collections and (2) funds other than those from dedicated collections before presenting the amounts on the draft fiscal year 2019 CFS SOCNP. However, because FASAB standards require separate reporting of funds from dedicated collections, this elimination resulted in Treasury understating revenue in the draft CFS for funds from dedicated collections by \$1.3 trillion.¹¹ For example, the Social Security Administration (SSA) reported \$1.0 trillion in revenue for funds from dedicated collections, while Treasury reported \$0.1 trillion in the first draft of the fiscal year 2019 SOCNP because of FRAD's incorrect elimination of fund revenues. However, the SSA fund revenues are dedicated to a specific purpose and must be reported as dedicated collections. In response to our comments, Treasury corrected the SOCNP and Note 20 to be consistent with FASAB standards in the final CFS.

Treasury also changed its accounting and reporting for Note 16 to use GTAS data rather than data from significant component entities' audited financial statements. However, this change resulted in information being included in Note 16 that did not link to audited entity financial statements. For example, Treasury identified \$64 billion as "other liabilities without related budgetary obligations" and disclosed that it represented unfunded liabilities for which congressional action is needed before budgetary resources can be provided. However, this description did not sufficiently describe that over half of this amount related to liabilities that the Department of Energy reported and that additional information could be found in the department's financial statements. We provided comments to FRAD for improving the Other Liabilities note disclosure; however, FRAD did not correct the disclosures in Note 16 in the final CFS. We determined that not correcting the disclosures did not have a material effect on the CFS.

Furthermore, Treasury did not have an adequate process for documenting sufficient information in its revised policies to enable management to effectively review whether the new accounting and reporting policies were designed and implemented appropriately. Specifically, FRAD's revised accounting and reporting policies for the

¹¹In the draft 2019 CFS SOCNP, Treasury reported the \$1.3 trillion as revenue for funds other than those from dedicated collections and included the revenue in the consolidated total.

SOCNP, Funds from Dedicated Collections note, and Other Liabilities note did not include sufficient descriptions of

- relevant FASAB standards, such as those related to reporting Funds from Dedicated Collections and Other Liabilities;
- data sources used, including whether the data sources could be linked to significant component entities' audited financial statements; and
- key internal controls, including manual and information system procedures, designed to reasonably assure that FRAD's preparation of the SOCNP, Funds from Dedicated Collection note, and Other Liabilities note is in accordance with U.S. GAAP.

Standards for Internal Control in the Federal Government provides that entities should document policies in the appropriate level of detail to allow for effective management review. Management should periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving an entity's objectives or addressing related risks. If there is a significant change in an entity's process, management should review this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately.

Statement of Federal Financial Accounting Standards (SFFAS) 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, provides that Funds from Dedicated Collections should be shown separately on the U.S. Government Statement of Operations and Changes in Net Position, that specific information should be disclosed for selected Funds from Dedicated Collections, and that entity-level information must be in sufficient detail to support reporting requirements for the U.S. government-wide financial statements.

SFFAC 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 agency reports and that it should tell users where to find information in other formats, both aggregated and disaggregated, such as in individual agency reports, on agency websites, and in the President's Budget. SFFAC 2, *Entity and Display*, states that financial information is also conveyed with accompanying footnotes, which are an integral part of the financial statements, and that footnotes typically

provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

Without effectively designed and implemented accounting and reporting policies, Treasury is at increased risk that amounts and disclosures in the CFS may not be presented in accordance with U.S. GAAP.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury ensure that the Fiscal Assistant Secretary enhances Treasury's process for revising accounting and reporting policies to reasonably assure that financial information—including the SOCNP, Funds from Dedicated Collections note, and Other Liabilities note—is prepared in accordance with U.S. GAAP and sufficiently documented to allow effective management review. (Recommendation 2)

Disclosures of FASB Information

During our fiscal year 2019 CFS audit, we found that Treasury did not have sufficient procedures to reasonably assure that disclosures for financial information incorporated using accounting standards issued by FASB (referred to as FASB information) were prepared in accordance with U.S. GAAP. SFFAS 47, *Reporting Entity*, permits the consolidation of amounts determined in accordance with FASAB and FASB standards into a single line item without conversion for differences in accounting policies. SFFAS 47 also emphasizes the need for disclosures of the different accounting policies and the related amounts to aid financial statement users' understanding of the information provided.

Treasury has identified eight significant component entities that prepare financial statements in accordance with FASB standards (referred to as FASB reporting entities) and performs procedures to determine if additional disclosures are needed in the CFS for these entities.¹² Consistent with its procedures for tracing information for all other significant entities, Treasury traces information that FASB reporting entities provide for consolidation to those entities' audited financial

¹²The *Treasury Financial Manual* 2-4705.25 lists the (1) Federal Deposit Insurance Corporation, (2) National Credit Union Administration, (3) National Railroad Retirement Investment Trust, (4) PBGC, (5) Smithsonian Institution, (6) TVA, (7) U.S. Postal Service, and (8) Farm Credit System Insurance Corporation as entities that report on a FASB basis.

statements. In addition, Treasury sends a questionnaire to the eight entities to determine, among other items, (1) whether any of the entities elected to convert its financial information to FASAB standards before providing it to Treasury for consolidation and (2) whether the entities performed an analysis to identify differences that arise when the financial statement line items are presented in accordance with FASAB standards compared to FASB standards. Treasury also routinely reviews new FASB standards and adds questions to its disclosure checklist to facilitate consistent review of disclosures in the draft CFS by FRAD subject matter accountants. Treasury's procedures include performing a quantitative analysis of the amounts provided by FASB reporting entities to identify financial statement line items and disclosures material to the CFS. Specifically, Treasury identifies CFS line items and disclosures that include significant amounts from FASB reporting entities to determine whether disclosures are needed to explain the FASB information included in the CFS.

Although Treasury has procedures in place, these procedures were not sufficient to reasonably assure that appropriate disclosures for FASB information were prepared in accordance with U.S. GAAP in the fiscal year 2019 CFS. For example:

- FRAD's quantitative analysis did not clearly identify all amounts incorporated in the CFS on a FASB basis. The quantitative analysis (1) did not include subcomponents of significant entities that are incorporated into the significant entities' financial statements using FASB standards and (2) included a subcomponent of the National Credit Union Administration that prepared financial statements on a FASAB basis.
- FRAD's identification of CFS line items and disclosures with material FASB amounts was not clearly linked to its review of FASB reporting entity questionnaire responses and identification of applicable FASB standards for its disclosure checklist. For example, the questionnaire focused on financial statement line items and did not consider certain disclosures, such as contingencies. Furthermore, Treasury only sent the questionnaire to the eight FASB reporting entities and not to the other significant component entities, some of which have subcomponents that use FASB standards.
- FRAD did not develop processes to document its analysis of questionnaire responses. For example, FRAD identified that FASB reporting entities contributed significantly to the Federal Employee and Veteran Benefits Payable line item. However, FRAD did not

clearly document decisions about whether additional disclosures for that line item were needed in the CFS.

- FRAD did not provide sufficient documentation to support disclosures related to FASB information included in Note 7: Debt and Equity Securities. Though FRAD identified in its quantitative analysis that FASB reporting entities materially contributed to the CFS debt and equity securities line item, the subject matter documentation did not include adequate support for information included in the draft CFS for PBGC and TVA. For example, the fair value measurement information included in Note 7 in the draft CFS for PBGC and TVA did not agree with the fair value measurement information reported in the entity financial statements. FRAD did not include the cause of the differences in the subject matter documentation, which we determined related to other data, such as U.S. Treasury securities and liabilities that are eliminated for correct presentation of the CFS.
- For Note 18: Contingencies, we identified additional disclosures needed in the draft CFS. For example, Treasury did not disclose in Note 18 that PBGC, the Farm Credit System Insurance Corporation (FCSIC), and the Federal Deposit Insurance Corporation, which contributed over 93 percent to the insurance and guarantee program liabilities, are consolidation entities with significant insurance or guarantee programs that use FASB standards. Also, Treasury's supporting documentation did not include its analysis of why the amount of system-wide debt securities insured by FCSIC was not disclosed in the draft fiscal year 2019 CFS. We inquired about the disclosure, and FRAD determined that the amount was \$282.9 billion as of the CFS fiscal year-end of September 30, 2019. Treasury added disclosures to the final CFS to address our comments on this note.

SFFAS 47 permits the consolidation of amounts determined in accordance with FASAB and FASB standards into a single line item without conversion for differences in accounting policies. SFFAS 47 also emphasizes the need for disclosures of the different accounting policies and the related amounts to aid financial statement users' understanding of the information provided. In addition, *Standards for Internal Control in the Federal Government* states that a key objective of an organization's internal control over financial reporting is to provide reasonable assurance as to the reliability of its financial reporting, including its financial statements and note disclosures. Accompanying notes are an integral part of financial statements and provide additional disclosures that are necessary to make the financial statements more informative. Management should design control activities to achieve objectives and

respond to risks, such as procedures to reasonably assure that financial information is completely and accurately reported.

Without adequate procedures for determining the appropriate disclosures for FASB information, Treasury cannot reasonably assure that the CFS is prepared in accordance with U.S. GAAP.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury ensure that the Fiscal Assistant Secretary enhances existing procedures to reasonably assure that disclosures for financial information incorporated using accounting standards issued by FASB are prepared in accordance with U.S. GAAP, such as improving (1) the quantitative analysis to consider all FASB information included in the CFS, (2) the FASB questionnaire to consider all relevant disclosures and obtain responses from all significant component entities, and (3) procedures for sufficiently documenting analyses and conclusions related to FASB information in the CFS. (Recommendation 3)

Status of Recommendations from Prior Reports

At the completion of our fiscal year 2018 audit, 16 recommendations were open from our prior reports regarding control deficiencies in the processes used to prepare the CFS. During our fiscal year 2019 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 four recommendations, the corrective actions resolved the related control deficiencies, and we closed the recommendations.

While progress was made, 12 recommendations from our prior reports remained open as of February 19, 2020, the date of our report on the audit of the fiscal year 2019 CFS. These continuing control deficiencies contributed to the three material weaknesses that relate to the federal government's processes used to prepare the CFS. Consequently, a total of 15 recommendations need to be addressed—12 remaining from prior reports and the three new recommendations we are making in this report.

Appendix I summarizes the status as of February 19, 2020, of the 16 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. As part of our fiscal year 2020 CFS audit, we will continue to monitor Treasury's and OMB's progress in addressing our recommendations.

Agency Comments

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 preclude having an opinion rendered on the CFS. Treasury concurred with our three new recommendations and provided information on actions it has taken, and will take, to address these recommendations.

For our first two recommendations related to Treasury's processes for considering the impact of unaudited significant component entity information on the reliability of CFS and for revising accounting and reporting policies, Treasury stated that it updated guidance to federal entities for the preparation of their fiscal year 2020 agency financial reports or performance and accountability reports. For our third recommendation related to disclosures of FASB information, Treasury stated that it plans to seek clarification from FASAB on existing guidance pertaining to the reporting differences for federal entities that prepare financial reports in accordance with FASB standards.

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 activity and balances,¹³ strengthening internal controls in the preparation of the CFS, and validating material completeness of budgetary information included in the *Financial Report*. Treasury also indicated that it plans to work with us as it fulfills its ongoing commitment to improving federal financial reporting.

¹³The 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.

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.

This report contains recommendations to the Secretary of the Treasury. The head of a federal entity is required by 31 U.S.C. § 720, to submit a written statement on actions taken or planned on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and to the House Committee on Oversight and Reform, the congressional committees with jurisdiction over the programs and activities that are the subject of our recommendations, and GAO not later than 180 days after the date of this report. A written statement must also be sent to the Senate and House Committees on Appropriations with the entity's first request for appropriations made more than 180 days after the date of this report. Please send your statement of actions to me at simpsondb@gao.gov.

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 <https://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance that Treasury and OMB staff members provided during our audit. If you or your staffs 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 report are listed in appendix III.



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

Count	No.	Recommendation ^a	Status of recommendation ^b Per Treasury and OMB	Status of recommendation ^b Per GAO
GAO-04-45 (results of the fiscal year 2002 audit)				
1	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 established three broad categories (Contingent Obligation, Present Obligation, and No Present or Contingent Obligation) for treaties and other international agreements with respect to their potential financial implications. In fiscal year 2020, the Department of State, Treasury, and OMB will establish subcategories within the Treaties in Force database that will be reviewed to identify which treaties and other international agreements need to be read and analyzed to determine any financial implications. Treasury is also requesting that entities identify within their Legal Representation Letter management schedules which claims are related to treaties and other international agreements.	Open.

**Appendix I: Status of GAO's Prior
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2	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.
3	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.
4	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.

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5	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.
6	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 (SFFAS) No. 5, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 106, which requires that when financial information pursuant to Financial Accounting Standards Board standards on federal insurance and guarantee programs conducted by government corporations is incorporated in general purpose financial reports of a larger federal reporting entity, the entity should report as required supplementary information what amounts and periodic change in those amounts would be reported under the "risk assumed" approach. (Preparation material weakness)	Treasury and OMB worked with entity subject matter experts on a task force with the Federal Accounting Standards Advisory Board, which subsequently resulted in the issuance of SFFAS 51, <i>Insurance Programs</i> , in fiscal year 2017. The standard rescinded the Insurance and Guarantees section in SFFAS 5 (paras. 97-121), including the requirement for "risk assumed" information. The standard was effective for fiscal year 2019 reporting.	Closed.
GAO-07-805 (results of the fiscal year 2006 audit)				
7	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 implemented a process for reviewing entity legal representation letters to reasonably assure that material legal cases were appropriately reported for fiscal year 2019.	Closed.
GAO-13-540 (results from the fiscal year 2012 audit)				

**Appendix I: Status of GAO's Prior
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8	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)	Throughout fiscal year 2019, Treasury made significant progress to address this audit recommendation. Treasury continued to establish and implement effective procedures for reporting amounts in the Reconciliation Statements that were fully consistent with the underlying information in the audited financial statements and other financial data of significant federal entities.	Open. Treasury continued to develop its process for preparing the Reconciliation Statements, such as implementing procedures and developing new transaction codes to improve accounting for transactions and balances that Treasury uses to compute the budget deficit reported in the CFS. However, additional work is needed to reconcile line items to audited federal entity financial statements.
9	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. (Reconciliations statements material weakness)	Treasury has effective procedures for identifying and reporting all items needed to prepare the Reconciliation Statements. In fiscal year 2020, Treasury will focus on identifying the best financial statement presentation for the reconciling items.	Open. Treasury continued to identify items needed to prepare the Reconciliation Statements. However, additional work is needed to determine the appropriate presentation for the reconciling items, which could affect the line items included.
GAO-14-543 (results from the fiscal year 2013 audit)				
10	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 worked previously to develop the infrastructure to support the Schedules of the General Fund. In addition, Treasury developed an accounting model as well as reporting format for the General Fund. Treasury has also created a method for federal entities to identify and report their activity with the General Fund that would, subsequently, facilitate entity reconciliation of intragovernmental activity with the General Fund. Treasury continues to work on obtaining audit assurance on the activity and balances.	Open.

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11	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 intragovernmental 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 to implement additional audit procedures specifically focused on intragovernmental activity and balances.	Open. While progress was made, we continued to note that amounts reported by federal entity trading partners to Treasury were not in agreement by material amounts. A formalized process requiring that auditors perform additional audit procedures focused on intragovernmental activity and balances would help to address these unreconciled transactions.
GAO-17-524 (results from the fiscal year 2016 audit)				
12	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 intragovernmental data, and (3) enhance the controls and analysis supporting the Reconciliation Statements. Treasury will continue to work with OMB and the federal entity community to effectively implement existing corrective actions, while being mindful of the potential burden placed on entities commensurate with additional processes.	Open. The CAPs in these three areas did not include sufficient steps to effectively address related control deficiencies involving the processes used to prepare the CFS.
GAO-19-624 (results from the fiscal year 2018 audit)				
13	18-01	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary develops and implements procedures to enhance Treasury's processes for reasonably assuring that the <i>Financial Report</i> includes disclosures required by new federal accounting standards, such as conducting an appropriate level of analysis to determine whether disclosures are needed, consulting with technical experts, and including additional details on these requirements in its financial reporting disclosure checklists. (Preparation material weakness)	Treasury expanded the process of implementing new federal accounting standards to ensure that the proper disclosures are reported in the <i>Financial Report</i> .	Closed.

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14	18-02	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary enhances existing procedures for Treasury management to perform additional reviews for restatements, reclassifications, and adjustments to beginning net position to reasonably assure that they are properly supported and accurately reported. (Preparation material weakness)	Treasury expanded the review process for restatements, reclassifications, and adjustments to beginning net position. In fiscal year 2020, Treasury will continue to work on documenting the definitions of each category in its procedures.	Open. Although Treasury enhanced its procedures, the additional review did not prevent the draft CFS from including descriptions that were not supported by entity financial statements or from excluding some information relevant to restatements from the CFS. Further steps are needed to ensure consistent and accurate treatment of restatements, reclassifications, and adjustments to beginning net position.
15	18-03	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary develops and implements steps to reasonably assure that restatements, reclassifications, and adjustments to beginning net position are consistently reported in the Financial Report, such as developing a tool that identifies all affected financial statement line items and note disclosures. (Preparation material weakness)	Treasury expanded the process of restatements, reclassifications, and adjustments to beginning net position. It also created a tool to track all of these changes by financial statement line and note disclosure in order to properly report their impact.	Closed.
16	18-04	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, establishes effective processes and procedures to reasonably assure that appropriate information regarding legal contingency losses is reported in the CFS. (Preparation material weakness)	Treasury expanded the information requested in the management schedules from entities to capture differences between three entity-prepared documents related to outstanding legal contingency losses. In fiscal year 2020, Treasury will continue to work with entities to ensure that the appropriate information is reported accurately in the CFS.	Open.

Legend:

CFS = consolidated financial statements of the U.S. government

Financial Report = *Financial Report of the U.S. Government*

General Fund = General Fund of the U.S. Government

OMB = Office of Management and Budget

Treasury = Department of the Treasury

Sources: GAO, Treasury, and OMB. | GAO-20-586

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

Intragovernmental: The material weakness relates to the federal government's inability to adequately account for 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. generally accepted accounting principles.

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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, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

^bThe status of the recommendations listed in app. I is as of February 19, 2020, the date of our report on the audit of the fiscal year 2019 CFS.

Appendix II: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 11, 2020

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) 2019 audit, GAO-20-586, *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 50 percent of outstanding prior year recommendations since FY 2015. 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 - sufficiently resolving 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 audit recommendations concerning three new internal control deficiencies in the preparation of the FY 2019 *Financial Report*. Specifically, GAO found that: (1) 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; (2) Treasury's process for revising its accounting and reporting policies did not reasonably assure that the Statement of Operations and Changes in Net Position (SOCNP), Funds from Dedicated Collections note, and Other Liabilities note were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP); and (3) 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 (FASB) were prepared in accordance with U.S. GAAP. Treasury has already taken steps to implement improvements to address the second recommendation and the majority of the first recommendation by updating guidance to federal entities for preparation of their FY 2020 Agency Financial Reports (AFR) or Performance and Accountability Reports (PAR). For the third recommendation and the part of the first recommendation related to Debt and Equity Securities, Treasury has already drafted a memo for the Federal Accounting Standards Advisory Board (FASAB) to seek clarification of existing guidance pertaining to the reporting differences for federal entities that prepare financial reports according to FASB standards.

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of the Treasury**

Additionally, we are pleased with the closure of four outstanding recommendations from prior years' report, including a long-outstanding item dating back as far as FY 2002. The remaining recommendations emphasize and articulate the three critical material weaknesses identified in the audit: (1) intra-governmental activity and balances; (2) preparation of the CFS; and (3) reconciliations of budget deficit to net operating cost and changes in cash balance.

Treasury undertook the first audit of the Schedules of the General Fund of the U.S. Government for FY 2018, worked to remediate scope limitations during FY 2019, and intends to subject the General Fund Schedules to a second audit for FY 2020. Although the inaugural General Fund audit (GAO-19-185) resulted in a disclaimer of opinion, Treasury has continued to make significant improvements in: (1) improving the accounting for and reporting of General Fund activity and balances and (2) reducing the intra-governmental elimination differences between the General Fund and its trading partners. These differences totaled \$31 billion in FY 2019, a decrease of \$95.7 billion from FY 2018. This decrease is consistent with the overall intra-governmental eliminations differences that have had a significant decrease of 93% in the past 3 years (\$1.37 trillion in FY 2016 to \$94 billion in FY 2019). Reporting on and audit of the General Fund represents 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.

In addition, Treasury's efforts in recent years have significantly strengthened internal controls intended to address the preparation material weakness. Notably, the U.S. Chief Financial Officers (CFO) Council has provided essential support towards Treasury's efforts to develop a consensus plan to address several long-standing audit recommendations concerning the financial reporting of treaties and other international agreements.

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 federal entity reports. FY 2019 focused on identifying the transaction-level data needed to improve its traceability to federal entity financial statement lines and its use in calculating the U.S. government's budget deficit. Treasury is currently working with federal entities to help them report this data in FY 2021. The additional entity data will support the General Fund audit and, in so doing, provide assurance over the budget deficit amounts reported in the CFS.

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

cc: Timothy F. Soltis

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the Treasury

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WASHINGTON, D.C. 20220
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cc: Timothy F. Soltis

Sincerely,

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

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Dawn B. Simpson, (202) 512-3406 or simpsondb@gao.gov

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In addition to the contact named above, the following individuals made major contributions to this report: Carolyn M. Voltz (Assistant Director), LaTasha L. Freeman (Auditor-in-Charge), Nina E. Crocker, Paul F. Foderaro, Cory A. Mazer, Carrie J. Morrison, Maria M. Morton, Joseph P. O'Neill, and Bethany E. Smith.

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