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Report to Agency Officials

August 2022

MANAGEMENT REPORT

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

Accessible Version

GAO-22-105851

GAO Highlights

Highlights of GAO-22-105851, 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 includes 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 2021 CFS audit, GAO identified continuing material weaknesses and other control deficiencies in the processes used to prepare the CFS.

The objective of this report is to provide (1) details on new control deficiencies GAO identified related to the processes Treasury used to prepare the CFS, along with related recommendations, and (2) the status of corrective actions that Treasury, in coordination with OMB, has 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 2020 CFS.

What GAO Recommends

GAO is making five new recommendations to Treasury to address the control deficiencies identified during the fiscal year 2021 CFS audit. In commenting on GAO's draft report, Treasury concurred with the five 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-22-105851. For more information, contact Dawn B. Simpson, (202) 512-3406 or simpsondb@gao.gov.

August 2022

MANAGEMENT REPORT

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

What GAO Found

GAO's audit of the fiscal year 2021 consolidated financial statements of the U.S. government (CFS) identified control deficiencies in the processes the Department of the Treasury, in coordination with the Office of Management and Budget (OMB), 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.

GAO identified four new control deficiencies during the fiscal year 2021 audit in the processes Treasury used to prepare the CFS.

1. Treasury did not sufficiently design and implement procedures to reasonably assure appropriate accounting and reporting for significant, unusual transactions and events, such as changes in legislation, affecting the CFS.
2. Treasury did not have sufficient procedures to identify and consider the effect of all known uncorrected misstatements on each affected line item and financial statement in its analysis for determining whether the uncorrected misstatements have a material effect on the current and prior year CFS.
3. Treasury did not have sufficient procedures to reasonably assure that significant accounting policies are appropriately disclosed in the CFS and, as applicable, are consistent with significant component entity audited financial statements.
4. Treasury did not have sufficient policies and procedures to support disclosure decisions for the CFS related to explaining significant fluctuations or disaggregating line item components in note tables.

For control deficiencies identified in prior years, Treasury, in coordination with OMB, implemented corrective actions that resolved two of the 12 recommendations open as of the beginning of GAO's fiscal year 2021 CFS audit. As part of its fiscal year 2022 CFS audit, GAO will continue to monitor the status of corrective actions to address the five new recommendations made in this report as well as the 10 open recommendations from prior years.

Contents

Abbreviations

ARPA	American Rescue Plan Act of 2021
CFS	consolidated financial statements of the U.S. government
DOD	Department of Defense
FASAB	Financial Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
PP&E	property, plant, and equipment
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SFA Program	Special Financial Assistance Program for Financially Troubled Multiemployer Plans
SOP	standard operating procedure

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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August 16, 2022

The Honorable Janet Yellen
Secretary of the Treasury

The Honorable Shalanda Young
Director of the Office of Management and Budget

In our February 2022 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, 2021, and 2020,[1] we disclaimed an opinion on the federal government's accrual-based consolidated financial statements and on the sustainability financial statements. Since our first audit of the CFS, for fiscal year 1997, certain material weaknesses[2] 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] We describe these material weaknesses in our

[1]The CFS as of and for the fiscal years ended September 30, 2021, and 2020, consist of the accrual-based consolidated financial statements (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; and Balance Sheets, including the related notes to these financial statements) and the sustainability financial statements (2021 and 2020 Statements of Long-Term Fiscal Projections; 2021, 2020, 2019, 2018, and 2017 Statements of Social Insurance; and 2021 and 2020 Statements of Changes in Social Insurance Amounts, including the related notes to these financial statements). See GAO, *Financial Audit: FY 2021 and FY 2020 Consolidated Financial Statements of the U.S. Government*, GAO-22-105122 (Washington, D.C.: Feb. 17, 2022).

[2]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.

[3]We have reported that significant uncertainties prevented us from expressing an opinion on the sustainability financial statements (Statements of Social Insurance for fiscal years 2010 through 2020 and Statements of Long-Term Fiscal Projections for fiscal years 2015 through 2020). The Statements of Social Insurance were first presented for fiscal year 2006, and the Statements of Long-Term Fiscal Projections were first presented for fiscal year 2015.

report on the audit of the fiscal year 2021 CFS.[4] Other auditors also reported, in their audit reports on individual federal entities' financial statements, internal control deficiencies related to several of these material weaknesses along with related recommendations.

Several of the material weaknesses we described in our audit report related 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 (GAAP); 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, on behalf of the federal government, the *Financial Report of the United States Government*, which includes the CFS.[6] The objective of this management report is to provide

- detailed information on new control deficiencies identified during our fiscal year 2021 audit that relate to the processes used to prepare the CFS, along with related recommendations, and

[4]See GAO-22-105122, app. II.

[5]Our February 2022 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 (see GAO-22-105122, app. II).

[6]The Government Management Reform Act of 1994 has required the preparation of the government-wide financial statements, 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 also include the legislative and judicial branches.

- the status of corrective actions that the Department of the Treasury and OMB have taken to address the 12 recommendations relating to the processes used to prepare the CFS that were detailed in our previous reports and remained open as of the completion of our fiscal year 2020 audit.[7]

Scope and Methodology

As part of our fiscal year 2021 CFS audit, we considered the federal government's financial reporting procedures and related internal control. We determined the status of corrective actions Treasury and OMB have taken to address recommendations relating to their processes to prepare the CFS that remained open as of the completion of our fiscal year 2020 audit (see app. I). A full discussion of our scope and methodology is included in our February 2022 report on the audit of the fiscal year 2021 CFS.[8] 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 our findings and recommendations in this report.

Control Deficiencies Identified during Our Fiscal Year 2021 Audit

During our audit of the fiscal year 2021 CFS, we identified four new internal control deficiencies in Treasury's processes used to prepare the CFS. Specifically, we found the following:

1. Treasury did not sufficiently design and implement procedures to reasonably assure appropriate accounting and reporting for significant, unusual transactions and events, such as changes in legislation, affecting the CFS.
2. Treasury did not have sufficient procedures to identify and consider the effect of all known uncorrected misstatements on each affected

[7]GAO, *Management Report: Continued Improvements Needed in the Processes Used to Prepare the U.S. Consolidated Financial Statements*, GAO-21-587 (Washington, D.C.: Aug. 12, 2021).

[8]GAO-22-105122.

line item and financial statement in its analysis for determining whether the uncorrected misstatements have a material effect on the current and prior year CFS.

3. Treasury did not have sufficient procedures to reasonably assure that significant accounting policies are appropriately disclosed in the CFS and, as applicable, are consistent with significant component entity audited financial statements.
4. Treasury did not have sufficient policies and procedures to support disclosure decisions for the CFS related to explaining significant fluctuations or disaggregating line item components in note tables.

Significant, Unusual Transactions and Events

During our fiscal year 2021 audit, we found that Treasury did not sufficiently design and implement procedures to reasonably assure appropriate accounting and reporting for significant, unusual transactions or events, such as changes in legislation, affecting the CFS. Specifically, Treasury did not adequately account for and report on the Special Financial Assistance Program for Financially Troubled Multiemployer Plans (SFA program) that the American Rescue Plan Act of 2021 (ARPA) established.[9]

ARPA established the SFA program to provide payments to eligible multiemployer pension plans to enable the plans to pay benefits at plan levels through 2051. Plans are not required to repay amounts received from the SFA program, which is funded by appropriations from the General Fund of the U.S. Government. As of the end of our audit, total cost of payments to eligible multiemployer pension plans under the SFA program was estimated to range from $66 billion to $147 billion, with an estimated mean of $97 billion.[10] Fiscal year 2021 liabilities and net costs were reduced by about $60 billion, representing the Pension Benefit Guaranty Corporation's (PBGC) previously recorded multiemployer plan

[9]ARPA, Pub. L. No. 117-2, § 9704, 135 Stat. 4, 190-99 (Mar. 11, 2021), *classified at* 29 U.S.C. §§ 1305(i), 1432.

[10]See Pension Benefit Guaranty Corporation (PBGC), *FY 2020 Projections Report* (Sept. 2021), accessed on June 29, 2022, https://www.pbgc.gov/documents/fy-2020-projections-report. As discussed therein, these estimates are based on provisions of PBGC's interim final rule (86 Fed. Reg. 36,598) published in July 2021. The final rule, containing updated estimates, was published in July 2022 (87 Fed. Reg. 40,968) with an effective date of August 8, 2022.

liability related to those plans expected to be eligible to receive SFA program payments.

While the cost and liability reduction assumed that the SFA program would make the payments, the federal government did not recognize the increase in liabilities and costs related to the estimated SFA program payments to those plans. However, Treasury disclosed an explanation for the decrease in the PBGC multiemployer plan liability from fiscal year 2020 to fiscal year 2021 in CFS Note 17, *Insurance and Guarantee Program Liabilities.*

Treasury's standard operating procedure (SOP), *Subject Matter Analysis*, includes procedures for accountants to review third-quarter and fiscal year-end information significant component entities provided to update CFS note disclosures and identify any new note disclosures needed for the current fiscal year.[11] Also, Treasury requested that each significant component entity provide a list of its five most significant disclosures through June 30 of the current fiscal year for subject matter areas that Treasury identified as key, such as Note 17. In addition, Treasury's SOP, *Position Papers*, notes that staff are responsible for routinely researching applicable accounting issues, legislation, and guidance and that through these routine reviews, changes to documented CFS policies may be needed to address specific and high-profile accounting concerns.

In PBGC's response to Treasury's request for significant disclosures, PBGC identified ARPA and the SFA program that it created. PBGC, which said it first received SFA program funding in early fiscal year 2022, noted that ARPA established a new separate appropriation for PBGC. PBGC further noted that under ARPA this new appropriation, which is to be funded by periodic transfers from the General Fund, shall be available for both SFA program benefit and administration costs. However, though Treasury reviewed PBGC's responses, third-quarter submissions, and audited financial statements and held discussions with PBGC officials, it did not analyze the effect of this legislation on the CFS to determine the appropriate accounting and reporting of the liabilities and costs related to the SFA program.

[11]Significant component entities consist of the 24 Chief Financial Officers Act agencies and 16 additional entities, including PBGC, Treasury identified that are material to the CFS. A federal entity is generally deemed material to the CFS if it contributes more than $1 billion to a CFS line item or note disclosure.

Treasury did not have sufficient procedures for reviewing significant, unusual transactions and events, such as the establishment of the SFA program. For example, the SOPs did not include detailed steps for how staff (1) research and document all key information, including discussions with component entity officials and Treasury and OMB management, about significant, unusual transactions or events and (2) identify and consider the effect of the significant, unusual transactions or events on the CFS. The SOPs also did not include procedures for obtaining information prior to the third-quarter submissions, which would provide Treasury with timely information needed to perform these steps. Treasury was unable to provide us sufficient documentation supporting its review process and decisions about how the SFA program affected the accrual-based CFS.

Standards for Internal Control in the Federal Government states that internal control is a dynamic process and that monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks.[12] Management should identify, analyze, and respond to risks related to achieving the defined objectives and design control activities to achieve objectives and respond to risks, such as designing procedures to help reasonably assure that financial information is completely and accurately reported. Management should also implement control activities such as documenting responsibilities through policies and procedures. Management should include in these communications information relating to the entity's events and activities that affect the internal control system.

Statement of Federal Financial Accounting Standard (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, states that a liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. Accordingly, general purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date.

[12] GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 2014).

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

Recommendation for Executive Action

We recommend that the Fiscal Assistant Secretary of the Treasury enhance existing policies and procedures to reasonably assure appropriate accounting and reporting for significant, unusual transactions or events, such as changes in legislation, affecting the CFS. (Recommendation 1)

Identification and Consideration of Uncorrected Misstatements

During our fiscal year 2021 CFS audit, we found that Treasury did not have sufficient procedures to identify and consider the effect of all known uncorrected misstatements on each affected line item and financial statement in its analysis for determining whether the uncorrected misstatements have a material effect on the current and prior year CFS.

Treasury prepares an annual summary of uncorrected misstatements to determine whether uncorrected misstatements are material, individually or in the aggregate, to the CFS. Treasury's SOP, *Consolidated Summary of Uncorrected Misstatements*, includes steps for identifying and considering current year known misstatements. Treasury's procedures include aggregating uncorrected misstatements that the significant component entities' auditors identified, as well as other uncorrected misstatements Treasury accountants identified during the CFS preparation process. Treasury then documents its consideration of the aggregate effect of the uncorrected misstatements on the financial statements.

In our review of Treasury's summary of uncorrected misstatements, we found instances of uncorrected misstatements not considered in the analysis. For example:

- Treasury analyzes restatements of significant component entity prior year financial statements to determine if they are significant at the

CFS level.[13] If Treasury does not deem them material to the CFS, it does not restate the prior year CFS. To balance the current year CFS, it records the prior year entity restatements in the current year CFS net cost of operations. These prior year entity restatements represent uncorrected misstatements in the CFS.

- Treasury identifies differences between intragovernmental activity and balances that federal entities submit and reports these unmatched amounts in the CFS. The unmatched amounts represent uncorrected misstatements in the CFS.

In addition, Treasury's SOP does not include procedures for considering (1) the effect of uncorrected misstatements on individual line items in the financial statements and (2) the interrelationship of uncorrected misstatements on multiple financial statements. For example, in assessing Department of Defense (DOD) reported restatements, Treasury told us that decisions on whether to restate the prior year CFS were based on Balance Sheet thresholds and provided documentation of this analysis. However, the DOD restatements also affected the prior year Statement of Net Cost, Statement of Operations and Changes in Net Position, and Reconciliation of Net Operating Cost and Budget Deficit, and Treasury did not include consideration of these relationships in the documentation provided.

As it relates to prior year amounts, Treasury's SOP also does not include procedures for it to update the summary of uncorrected misstatements prepared in the prior year for uncorrected misstatements identified in the current year that relate to prior year amounts. Specifically, the *Consolidated Summary of Uncorrected Misstatements* SOP states that prior year amounts should not be included in the documentation, and thus Treasury did not update the prior year summary of uncorrected misstatements.

Statement of Federal Financial Accounting Concepts (SFFAC) 9, *Materiality: Amending SFFAC 1, Objectives of Federal Financial Reporting, And SFFAC 3, Management's Discussion and Analysis,* provides guidance indicating that misstatements, including omissions of information, are material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgement of a reasonable user relying on the information would change or be influenced

[13]A restatement is a revision of a previously issued financial statement to correct an error. Restatements are required when it is determined that a previous statement contains material inaccuracy.

by the correction or inclusion of the information. It also states that individual misstatements, when aggregated with other misstatements, may be materially misleading and should be considered both individually and in the aggregate.

Further, *Standards for Internal Control in the Federal Government* states that one of the key objectives of an organization's internal control is to provide reasonable assurance as to the reliability of its financial reporting. The standards provide that management should design control activities to achieve objectives, such as financial reporting objectives of gathering and communicating information management needs to support decision-making.

Without sufficient procedures to consider the effect of all known uncorrected misstatements on each affected line item and on all financial statements, Treasury will be unable to determine whether the uncorrected misstatements have a material effect on the CFS.

Recommendations for Executive Action

We recommend that the Fiscal Assistant Secretary of the Treasury enhance Treasury's procedures for analyzing uncorrected misstatements to identify all known uncorrected misstatements, by line item and on all of the affected current year and prior year financial statements, during the CFS preparation process. (Recommendation 2)

We recommend that the Fiscal Assistant Secretary of the Treasury enhance Treasury's procedures for analyzing uncorrected misstatements to consider the effect of uncorrected misstatements by line item and on all of the affected current year and prior year financial statements. (Recommendation 3)

Disclosures for Significant Accounting Policies

During our fiscal year 2021 CFS audit, we found that Treasury did not have sufficient procedures to reasonably assure that significant accounting policies are disclosed in Note 1, *Summary of Significant Accounting Policies*, and, as applicable, are consistent with significant component entity audited financial statements.

Treasury did not clearly disclose in the draft CFS which accounting policies it applied, consistent with Federal Accounting Standards Advisory

Board (FASAB) standards, in Note 1, sections 1A, *Reporting Entity*, and 1R, *Contingencies*. Specifically, for the reporting entity, Treasury stated that consolidation entities are organizations that “should be” consolidated into the CFS, instead of stating that these federal entities are consolidated in the CFS. For contingencies, Treasury stated that a contingent liability “should be” disclosed if the conditions for a contingency are met, instead of stating that contingencies are disclosed in the CFS if these conditions are met. Treasury clarified this information in the final CFS in response to our comments.

In the case where U.S. GAAP standards allow multiple methodologies to record and measure amounts reported in the CFS, Treasury did not clearly indicate which methodologies were applied, consistent with significant component entity financial statements. For example, in section 1F, *Inventory and Related Property (Net)*, Treasury disclosed historical cost valuation methods for inventory and related property “may” reflect three options, first-in-first-out, weighted average, and moving average cost. However, Treasury only provided documentation that one of these methods, moving average cost, substantially applied.

Also, in section 1G, *General Property, Plant, and Equipment* (Net), Treasury disclosed that SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35,* allows alternative methods for establishing an opening balance. However, Treasury did not disclose that DOD, the largest contributor, generally records property, plant, and equipment (PP&E) at estimated historical cost, but that some of its consolidating entities used the alternative valuation methods from SFFAS 50 based on historical records, such as expenditure data, contracts, budget information, and engineering documentation.

In addition, Treasury did not reasonably assure that information disclosed in Note 1 of the draft CFS was consistent with significant component entity audited financial statements, where applicable. For example, in Note 1G, Treasury did not disclose that general PP&E includes internal use software consistent with disclosures in significant component entity financial statements, such as those of DOD and the Social Security Administration. Further, in Note 1L, *Federal Employee and Veteran Benefits Payable*, Treasury did not include a description that Department of Veterans Affairs–supplied medical care is not included in this liability; rather these expenses are recognized in the period the medical care services are provided. The Department of Veterans Affairs disclosed this policy in the notes to its entity-level financial statements.

Treasury performs subject-matter reviews of each significant line item and accompanying note to determine consistency with significant component entity audited financial statements. Specifically, Treasury staff complete a disclosure checklist, which documents that the financial information reported in the CFS complies with U.S. GAAP. The disclosure checklist specifically contains a question asking whether there are any instances of noncompliance with U.S. GAAP; if so, staff need to describe the noncompliance.

In addition, the disclosure checklist includes a question that asks staff if Note 1 includes a disclosure of the significant accounting principles, and methods of applying those principles, that management has concluded are appropriate. Treasury supervisors or designees are required to review subject-matter analysis binders, including the disclosure checklist and other supporting documentation, for completeness, accuracy, issue resolution, and compliance with subject-matter SOPs, and to determine that Treasury staff performed all procedures with appropriate evidence. This annual analysis process includes reviewing significant component entity accounting policy disclosures.

However, we found that Treasury did not have sufficient procedures to reasonably assure that significant accounting policies are disclosed in Note 1, *Summary of Significant Accounting Policies*, and, as applicable, are consistent with significant component entity audited financial statements. Treasury did not document its analyses of the significant component entity accounting policy disclosures, such as in the subject-matter binders, for the items discussed above. Also, Treasury does not have sufficient procedures to obtain and review support from the significant component entities for the significant accounting policy disclosures the significant component entities made.

SFFAS 32*, Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*", states that the consolidated financial report should disclose the accounting principles, and methods of applying those principles, that management has concluded are appropriate for presenting fairly the entity's assets, liabilities, net cost of operations, and changes in net position. SFFAS 32 states that, in general, the disclosure should encompass important judgments as to the valuation, recognition, and allocation of assets, liabilities, expenses, revenues, and other financing sources. Disclosures of accounting policies should not duplicate details presented elsewhere as part of the notes to the financial statements.

Standards for Internal Control in the Federal Government states that one of the key objectives of an organization's internal control is to provide reasonable assurance as to the reliability of its financial reporting. SFFAC 2, Entity and Display, states that accompanying notes are an integral part of financial statements and provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

Without sufficient procedures for disclosing CFS-level accounting policies and documenting subject-matter accountants' reviews of significant component entity accounting policy disclosures, Treasury cannot reasonably assure that it prepares accounting policy disclosures in the CFS in accordance with U.S. GAAP.

Recommendation for Executive Action

We recommend that the Fiscal Assistant Secretary of the Treasury enhance existing procedures to reasonably assure that significant accounting policies are appropriately disclosed in CFS Note 1 and, as applicable, are consistent with significant component entity audited financial statements. (Recommendation 4)

Disclosure Decisions for CFS Notes

During our fiscal year 2021 CFS audit, we found that Treasury did not have sufficient policies and procedures to support disclosure decisions related to explaining significant fluctuations or disaggregating line item components in note tables. For example, Treasury did not provide documentation supporting decisions not to include in the draft CFS

- a description in Note 8, *Investments in Special Purpose Vehicles*, of the significant decrease in investments in special purpose vehicles attributed to the Federal Reserve selling its remaining investments in two special purpose vehicles and returning an additional $23.9 billion in equity investments to Treasury;
- explanations in Note 14, *Federal Employee and Veteran Benefits Payable*, for a (1) $147.7 billion increase in the civilian actuarial accrued pension liability and (2) $30.6 billion increase in actuarial

gains from experience for the Military Retirement Health Benefits and Medicare-Eligible Retiree Health Care Fund programs; and

- (1) a separate line item in the Undelivered Orders and Other Commitments table in Note 21, *Commitments*, for Treasury as Treasury's amount of undelivered orders, which was included in the "all other" line, was $120.5 billion as of September 30, 2020, and (2) an explanation for this amount decreasing to $5.9 billion as of September 30, 2021.

Treasury established materiality thresholds with the primary objective of providing guidance for decisions related to disclosures of balances, transactions, and related information in the CFS. Treasury's SOP, 2021 *Materiality Policy*, defines disclosure materiality as the threshold amount for determining what significant line items, accounts, or classes of transactions in aggregate need to be disclosed in the CFS. The SOP notes that management determined, for decisions about omissions and uncorrected misstatements in the accrual-based CFS, to use a $20 billion threshold in the aggregate. The SOP specifies that management apply both quantitative and qualitative considerations in its disclosure decisions. Policies for specific decisions, such as those related to year-to-year fluctuations and tables in the accompanying notes to the financial statements, include the following:

- Subject-matter accountants review variances in the CFS line items for the current year compared with the prior year. The accountants perform the analysis on each line of the accrual-based financial statements and each line in the note disclosure tables that present comparative financial information. The *2021 Materiality Policy* SOP states that identified variances that are greater than the aggregate disclosure materiality ($20 billion) and 10 percent of each financial statement line item total must be explained and resolved, if necessary.
- Subject-matter accountants determine whether to aggregate or disaggregate amounts in tables in the note disclosures. Specifically, if the "all other" line item in a table, as a percentage of the total, is greater than the preferred range of 10-15 percent of the total, Treasury's subject-matter accountants are to consider identifying additional line items to add to the table to decrease the "all other" line item amount until it falls within the preferred percentage range. Subject-matter accountants are also to determine that the "all other" line does not exceed the maximum percentage threshold of 25 percent.

Treasury's subject-matter accountants complete a disclosure checklist that contains a question asking whether the CFS discloses explanations for significant changes, if any, in line item balances from the prior year. However, Treasury does not have policies and procedures to document its decision-making process when determining whether (1) fluctuations identified between current and prior year amounts need to be described in the CFS or (2) current or prior year "all other" line items need to be disaggregated in the tables in the note disclosures. Treasury also does not have policies and procedures for documenting disclosure decisions about the effect of fluctuations in line item balances against the aggregate disclosure materiality of $20 billion.

According to SFFAC 9, misstatements, including omissions of information, are material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. It also states that individual misstatements when aggregated with other misstatements may be materially misleading and should be considered both individually and in the aggregate.

Standards for Internal Control in the Federal Government states that a key objective of an organization's internal control is to provide reasonable assurance as to the reliability of its financial reporting. Further, management should design control activities to achieve objectives and respond to risks, such as designing procedures to reasonably assure that financial information is completely and accurately reported. SFFAC 2, *Entity and Display*, states that accompanying notes are an integral part of financial statements and typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

Without sufficient policies and procedures for documenting decisions reached regarding the appropriate level of detail for reporting information in note disclosures, Treasury cannot reasonably assure that note disclosures included in the CFS provide sufficient information for a reasonable financial report user.

Recommendation for Executive Action

We recommend that the Fiscal Assistant Secretary of the Treasury enhance existing policies and procedures to support CFS disclosure decisions related to explaining significant fluctuations and disaggregating line item components in note tables. (Recommendation 5)

Status of Recommendations from Prior Reports

At the completion of our fiscal year 2020 audit, 12 recommendations were open from our prior reports regarding control deficiencies in the processes used to prepare the CFS. During our fiscal year 2021 CFS audit, we found that Treasury, in coordination with OMB, implemented corrective actions that resolved two control deficiencies and associated recommendations from our prior reports, and we closed the recommendations. As described in appendix I of this report, these corrective actions included

- improving processes for revising accounting and reporting policies and
- enhancing existing procedures for disclosures for financial information incorporated using accounting standards issued by the Financial Accounting Standards Board.

We also found that Treasury, in coordination with OMB, continued to make significant progress in resolving the remaining control deficiencies and associated recommendations from our prior reports. For example, while five recommendations related to treaties and other international agreements have been outstanding since the fiscal year 2004 CFS audit, Treasury, in coordination with the Department of State, continues to implement corrective action plans that have a planned date of completion during fiscal year 2022. However, additional work is needed, and 10 recommendations remained open as of February 9, 2022, the date of our report on the audit of the fiscal year 2021 CFS. Therefore, 15 recommendations need to be addressed—10 remaining from prior reports and five new recommendations we are making in this report. These control deficiencies contributed to the three material weaknesses that relate to the processes Treasury, in coordination with OMB, used to prepare the CFS.

Appendix I summarizes the status of the 12 open recommendations from our prior years' reports according to Treasury and OMB, as well as our own assessment and additional comments, where appropriate. Treasury, in coordination with OMB, has various efforts under way to address these recommendations. As part of our fiscal year 2022 CFS audit, we will continue to monitor Treasury's and OMB's progress in addressing our recommendations.

Agency Comments

We provided a draft of this report to Treasury and OMB for comment. In 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 five new recommendations. Treasury agreed that these recommended process improvements would increase its internal controls over the processes used to prepare the CFS. In its response, Treasury described actions it will take, and has taken, to address certain open recommendations from our prior reports that are summarized in appendix I of this report. Treasury indicated its ongoing commitment to improving federal financial reporting.

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.

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 Simpson

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 our prior recommendations related to the processes the Department of the Treasury, in coordination with the Office of Management and Budget, 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

			Status of recommendation[b]	
Count	**No.**	**Recommendation[a]**	**Per Treasury and OMB**	**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)	The Department of State, Treasury, and OMB completed the first phase of their review of treaties and international agreements (TIA) and identified four categories of TIAs that need further review to determine if there are any potential financial implications. For phase two, State has been using a decision matrix to clearly document this analysis, which includes a summary of the TIA reviewed, TIA language indicating potential contingencies (if any) which require additional consideration, and a determination as to if a contingency existed at the time the agreement was signed into force. Along with the completion of this onetime review of outstanding TIAs, Treasury updated related guidance for agencies to follow and updated the annual legal letter monitoring process to consider TIAs.	Open. Treasury and OMB continued to implement corrective actions in coordination with State. Additional work is needed for the phase two review, documentation of conclusions, and implementation of additional monitoring processes to provide reasonable assurance that liabilities, commitments, and contingencies for treaties and other international agreements of the federal government are properly identified and reported in the CFS.
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. See the status of recommendation no. 02-37.

			Status of recommendation[b]	
Count	**No.**	**Recommendation[a]**	**Per Treasury and OMB**	**Per GAO**
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. See the status of recommendation no. 02-37.
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. See the status of recommendation no. 02-37.
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. See the status of recommendation no. 02-37.
GAO-13-540 (results from the fiscal year 2012 audit)				

			Status of recommendation[b]	
Count	**No.**	**Recommendation[a]**	**Per Treasury and OMB**	**Per GAO**
6	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 has two focus areas to ensure that the Reconciliation Statements are fully consistent with federal entities' audited data. First, Treasury will review the audit of the General Fund to obtain audit assurance over the budget deficit amount. Second, Treasury continued to provide federal entities with additional guidance to supplement SFFAS 53, *Budget and Accrual Reconciliation*, to ensure that they are implementing the reconciliation consistently. Once federal entities achieve consistent reporting, then Treasury will trace it to the Reconciliation Statements.	Open. Treasury continued to develop its processes. For example, Treasury is implementing new transaction codes to improve the accounting for and reporting of General Fund transactions and balances that Treasury uses to compute the budget deficit reported in the Reconciliation Statements. However, additional work is needed to reconcile line items to audited federal entity financial statements and other financial data.
7	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 has effective procedures for identifying and reporting all items needed to prepare the Reconciliation Statements. In fiscal year 2022, Treasury will continue to focus on identifying the best financial statement presentation for the reconciling items.	Open. Treasury continued to identify items needed to prepare the Reconciliation Statements and to educate federal entities on how to properly use newly developed transaction codes. In addition, Treasury has plans to propose additional transaction codes in fiscal year 2023. However, additional work is needed to determine the appropriate presentation for the reconciling items, which could affect the line items included. For example, improvements are needed for reporting credit program activities as federal entities gain experience in using the newly developed transaction codes.
GAO-14-543 (results from the fiscal year 2013 audit)				

			Status of recommendation[b]	
Count	No.	Recommendation[a]	Per Treasury and OMB	Per GAO
8	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 a reporting format for the General Fund. Treasury also created a method for federal entities to identify and report their activity with the General Fund that has shown great results in reconciling intragovernmental activity with the General Fund. Treasury continues to work on obtaining audit assurance on the activity and balances.	Open. Treasury continued to make progress by (1) improving the accounting for and reporting of General Fund transactions and balances and (2) working to resolve significant differences between the General Fund and federal entity trading partners. However, intragovernmental differences remain and further improvements are needed to adequately reconcile and resolve differences related to intragovernmental activity and balances that the General Fund and federal entity trading partners reported.
9	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 ongoing initiatives established over the past few years, Treasury and OMB have seen a significant decrease in intragovernmental elimination differences submitted by federal entities. Treasury and OMB will continue to monitor the raw intragovernmental data from the entities. In the past couple years, Treasury has seen the need to obtain the proper assurance over the intragovernmental processes and controls from federal entity management and auditors. Treasury will work to determine a path forward to update guidance and requirements to obtain the proper intragovernmental assurances from the federal entities.	Open. Progress was made, but we continued to note that amounts reported by federal entity trading partners to Treasury were not in agreement by significant 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-20-586 (results from the fiscal year 2019 audit)				

			Status of recommendation[b]	
Count	**No.**	**Recommendation[a]**	**Per Treasury and OMB**	**Per GAO**
10	19-01	The Secretary of the Treasury should 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. (Preparation material weakness)	In fiscal year 2020, Treasury began developing additional aggregate analysis procedures and working with OMB to require federal entities, per OMB Circular No. A-136, to report information in their audited financial statements to provide the necessary audit coverage for the *Financial Report*. For fiscal year 2022, Treasury will focus on the remaining narrative in the *Financial Report* that does not have audit coverage and determine the appropriate action.	Open. Treasury implemented certain corrective actions, including preparing tracing spreadsheets, to quantify unaudited amounts included in the CFS note tables. However, additional work is needed to (1) consider unaudited amounts in the narrative portions of the note disclosures and (2) develop sufficient procedures for using the note tracing results to determine if additional audit coverage is needed.
11	19-02	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary enhances Treasury's process for revising accounting and reporting policies to reasonably assure that financial information—including the Statement of Operations and Changes in Net Position, 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. (Preparation material weakness)	Treasury updated and documented accounting and reporting procedures to reasonably assure that financial information is prepared in accordance with U.S. GAAP.	Closed. During the fiscal year 2021 audit, we determined that Treasury enhanced the process for revising accounting and reporting policies and sufficiently addressed this recommendation.
12	19-03	The Secretary of the Treasury should 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. (Preparation material weakness)	Treasury improved the existing procedures and questionnaires related to the information in the *Financial Report* that is disclosed using accounting standards issued by FASB. In addition, the policy used in these procedures for FASB-related information was formally documented.	Closed. During the fiscal year 2021 audit, we determined that Treasury enhanced existing procedures and implemented new procedures and sufficiently addressed this recommendation.

Legend:

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

FASB = Financial Accounting Standards Board

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

GAAP = generally accepted accounting principles

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

OMB = Office of Management and Budget

SFFAS = Statement of Federal Financial Accounting Standards

Sources: GAO, Treasury, and OMB. | GAO-22-105851

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

[b]The status of the recommendations listed in this table is as of February 9, 2022, the date of our report on the audit of the fiscal year 2021 CFS.

Appendix II: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 1, 2022

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) 2021 audit, GAO-22-105851, MANAGEMENT REPORT, *Improvements Needed in Controls over the Processes Treasury and OMB 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*). The Department of the Treasury's (Treasury) efforts in recent years have yielded closure of over 44 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 Treasury believes 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 five new audit recommendations concerning control deficiencies in the preparation of the FY 2021 *Financial Report.* Specifically, GAO found that: (1) Treasury did not have sufficient procedures for reviewing significant, unusual transactions and events, such as changes in legislation, affecting the CFS; (2) Treasury did not analyze the summary of uncorrected misstatements to identify all known uncorrected misstatements of the affected prior year financial statements; (3) Treasury did not consider the effect of the prior year uncorrected misstatements from the summary of uncorrected misstatements; (4) Treasury did not have it as part of their procedures to identify which significant accounting policies in Note 1 that the significant component entities are following in their audited financial statements; and (5) Treasury did not have sufficient policies and procedures to support disclosure decisions related to explaining significant fluctuations or disaggregating line item components in note tables. Treasury agrees these five new audit recommendations are process improvements that would increase the controls in the preparation of the *Financial Report,* but Treasury does not believe any of these are scope limitations, meaning there is not a situation where the completeness of the data used for preparation and reconciliation is questionable.

Additionally, we are pleased with the closure of two outstanding recommendations from prior years' report. 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 continues to improve the reliability of the amounts in the Schedules of the General Fund of the U.S. Government. The General Fund has undergone two audits for FY 2018 and FY 2020 and both resulted in a disclaimer of opinion; although Treasury continues 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 $16 billion in FY 2021, which is a decrease of 88 percent in just the last three fiscal years. This decrease is consistent with the overall intra-governmental eliminations differences that have had a significant decrease of 97 percent in the past four years ($1.37 trillion in FY 2016 to $48 billion in FY 2021). 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 of material weakness. Notably, the U.S. Chief Financial Officers (CFO) Council has provided essential support towards Treasury's efforts, in coordination with the Department of State, to implement corrective action plans that have a planned date of completion during FY 2022 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. In FY 2021 and FY 2020, the focus has been 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, federal entities have started to report this detailed level of data starting in FY 2021; however, Treasury continues to work with entities on completeness. 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/ Marisa F. Anthony

Marisa F. Anthony
Acting Deputy Assistant Secretary
Accounting Policy and Financial Transparency

cc: Deidre A. Harrison

2

Agency Comment Letter

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

August 1, 2022

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

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(5) Treasury did not have sufficient policies and procedures to support disclosure decisions related to explaining significant fluctuations or disaggregating line item components in note tables. Treasury agrees these five new audit recommendations are process improvements that would increase the controls in the preparation of the Financial Report, but Treasury does not believe any of these are scope limitations, meaning there is not a situation where the completeness of the data used for preparation and reconciliation is questionable.

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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,

Marisa F. Anthony
Acting Deputy Assistant Secretary
Accounting Policy and Financial Transparency

Cc: Deidre A. Harrison

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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

Staff Acknowledgments

In addition to the contact named above, the following individuals made major contributions to this report: Carolyn M. Voltz (Assistant Director), Taya R. Tasse (Auditor-in-Charge), Cory A. Mazer, Carrie J. Morrison, Adrienne N. Walker, and Shaundell A. Williams.

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