

GAO Highlights

Highlights of [GAO-13-540](#), a report to agency officials

Why GAO Did This Study

Treasury, in coordination with 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 CFS, exclusive of the Statements of Social Insurance (SOSI). Also, GAO was unable to express opinions on the 2012, 2011, and 2010 SOSI and 2012 and 2011 Statements of Changes in Social Insurance Amounts because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, reflected in these statements. As part of the fiscal year 2012 CFS audit, GAO identified material weaknesses and other control deficiencies in the processes used to prepare the CFS. The purpose of this report is to (1) provide details on new control deficiencies GAO identified related to the preparation of the CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken by Treasury and OMB to address GAO's prior recommendations relating to the preparation of the CFS that remained open at the end of the fiscal year 2011 audit.

What GAO Recommends

GAO is making six recommendations—five to Treasury and one to OMB—to address the new control deficiencies identified by GAO during the fiscal year 2012 CFS audit. In commenting on GAO's draft, OMB and Treasury generally concurred on 5 of the 6 recommendations, and Treasury will consider implementation of the other recommendation.

View [GAO-13-540](#). For more information, contact Gary Engel at (202) 512-3406 or engelg@gao.gov.

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MANAGEMENT REPORT

Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements

What GAO Found

During its audit of the fiscal year 2012 consolidated financial statements of the U.S. government (CFS), GAO identified new and continuing control deficiencies in the Department of the Treasury's (Treasury) and the Office of Management and Budget's (OMB) processes used to prepare the CFS. These control deficiencies contributed to material weaknesses in internal control over the federal government's ability to

- adequately account for and reconcile intragovernmental activity and balances between federal entities;
- ensure that the federal government's accrual-based consolidated financial statements were (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in conformity with U.S. generally accepted accounting principles; and
- identify and either resolve or explain material differences between (1) components of the budget deficit that are used to prepare certain information in the CFS and (2) related amounts reported in federal entities' financial statements and underlying financial information and records.

Specifically, for fiscal year 2012, GAO found that Treasury's procedures were not effectively designed to

- reasonably assure the timely submission of audited material line items for significant calendar year-end federal entities,
- determine the effect of restatements and reclassifications submitted by significant federal entities on related line items and notes presented in the CFS, and
- ensure that the budget statements included in the CFS were prepared in a reliable manner.

GAO also notified OMB of a reporting requirement in OMB Circular No. A-136, *Financial Reporting Requirements*, that may result in inconsistent and inaccurate reporting of compliance with the Federal Financial Management Improvement Act of 1996.

In addition, GAO found that various other control deficiencies identified in previous years' audits with respect to the CFS preparation continued to exist. Specifically, 31 of the 48 recommendations from GAO's prior reports regarding control deficiencies in the CFS preparation process remained open as of January 9, 2013, the date of GAO's report on its audit of the fiscal year 2012 CFS. GAO will continue to monitor the status of corrective actions taken to address the 6 new recommendations as well as the 31 open recommendations from prior years as part of its fiscal year 2013 CFS audit.