



GAO

Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

---

May 20, 2008

Mr. Gregory Spencer  
Chairman, Financial Statement Audit Network

Subject: *Governmentwide Accounts Payable*

Dear Mr. Spencer:

The Government Accountability Office (GAO) is required by the Government Management Reform Act of 1994 to audit the Consolidated Financial Statements of the U.S. Government (CFS).<sup>1</sup> Certain material weaknesses in financial reporting and other limitations on the scope of our work have continued to result in conditions that have prevented us from expressing an opinion on the federal government's accrual basis consolidated financial statements.<sup>2,3</sup> To assist us in planning future audits, when we anticipate being able to eventually issue an opinion on the accrual basis consolidated financial statements, we have performed and plan to continue performing selected procedures on certain line items and other areas of interest. The purpose of these procedures is to obtain an understanding of selected federal agencies' accounting and reporting and the audit work being performed in these areas. This letter relates to the fiscal year 2006 accounts payable (A/P) line item. The federal government reported about \$58 billion of A/P as of September 30, 2006. Certain federal agencies' auditors reported internal control deficiencies related to A/P. These weaknesses contributed to the CFS material weakness for "Liabilities and Commitments and Contingencies" reported in our fiscal years 2007 and 2006 CFS audit reports.

Our procedures regarding A/P focused on 15 federal agencies whose A/P balances were reported in Note 9, Accounts Payable, of the fiscal year 2006 CFS. We reviewed those agencies' relevant written policies for A/P accounting and reporting, fiscal year

---

<sup>1</sup>31 U.S.C. 331(e). The act states that not later than March 31, 1998, and each year thereafter, the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, shall annually prepare and submit to the President and the Congress an audited financial statement for the preceding fiscal year, covering all accounts and associated activities of the executive branch of the United States Government. The federal government has elected to include certain financial information on the legislative and judicial branches in the consolidated financial statements as well.

<sup>2</sup>Accrual basis consolidated financial statements refers to all of the consolidated financial statements and notes except for those related to the Statement of Social Insurance.

<sup>3</sup>The CFS and our audit report on them are included in the fiscal year 2007 *Financial Report of the United States Government* and are available through GAO's website at <http://www.gao.gov/financial.html>.

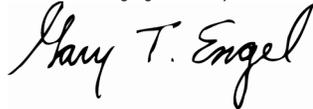
2006 financial statements and closing packages submitted to the Department of the Treasury (Treasury), and the A/P audit documentation prepared by the agencies' offices of the inspectors general and/or the contracted independent public accountants. We discussed our results with the auditors and management officials at the selected federal agencies. We also discussed our results with Office of Management and Budget and Treasury representatives. We considered their comments and incorporated them as appropriate.

We provided a briefing of the results of our work at the April 15, 2008, Financial Statement Audit Network meeting. The purpose of this letter is to transmit that briefing to you as chairman of the Financial Statement Audit Network to distribute as you deem appropriate. The enclosed briefing slides summarize our observations related to

- federal agencies' written A/P policies,
- federal agencies' financial statement disclosure/reporting of A/P,
- federal agencies' A/P reporting to Treasury (closing package),
- A/P reporting guidance, and
- federal agency auditors' A/P cycle memos.

We appreciate the courtesy and cooperation extended to us by agency and auditor staff throughout our work. We look forward to continuing to work with you and other members of the Financial Statement Audit Network to help improve financial management in the federal government. If you have any questions about this letter, please contact me at (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov).

Sincerely yours,



Gary T. Engel  
Director  
Financial Management and Assurance

Enclosure



---

# Governmentwide Accounts Payable

---

Financial Statement Audit Network  
April 15, 2008

---

1



---

## Briefing Topics

---

- Background & Objectives
- Scope
- Methodology
- Observations
- A/P Follow-up

---

2



---

## Background & Objectives

---

- **Background:**  
Internal control deficiencies in certain federal agencies' reporting of accounts payable (A/P) contributed to a material weakness for "Liabilities and Commitments and Contingencies" reported in GAO's fiscal year 2007 Consolidated Financial Statement (CFS) audit report.
- **Objectives:**  
To obtain a better understanding of agencies' accounting and reporting for A/P and the audit work performed by agencies' auditors – in connection with our requirements for auditing the CFS

---

3



---

## Scope: Selected Agencies

---

• DOD - \$27.4 billion	• NASA - \$1.7 billion
• USDA - \$4.2 billion	• Energy - \$1.3 billion
• DHS - \$2.8 billion	• State - \$1.3 billion
• AID - \$2.3 billion	• Interior - \$1.1 billion
• Justice - \$2.3 billion	• TVA - \$1.1 billion
• PBGC - \$2.2 billion	• Labor - \$.9 billion
• USPS - \$2.0 billion	• Education \$.9 billion
• GSA - \$2.0 billion	

---

4



---

## Methodology

---

To obtain an understanding of agency A/P policies and auditor procedures, we

- identified relevant criteria,
- sent questionnaires to the auditors of the 15 selected agencies,
- reviewed the selected agencies' financial statements, written policies, and closing packages, and
- reviewed the selected auditors' cycle memos, audit programs, specific control evaluations (SCE), account risk analyses (ARA), summaries of tests, notices of findings, and other relevant documents regarding A/P.

---

5



---

## Observations

---

- ❖ Agency Written Policies
- ❖ Agency Financial Statement Disclosure/Reporting
- ❖ Agency Reporting to Treasury (Closing Package)
- ❖ A/P Reporting Guidance
- ❖ Auditor Cycle Memos

---

6



---

## Observations

### Agency Written Policies - Criteria

---

Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1, Nov 1999):

- “Control activities, including policies and procedures, help ensure that management’s directives are carried out”
- “ internal controls and all transactions and other significant events need to be clearly documented and the documentation should be readily available for examination”

---

7



---

## Observations

### Agency Written Policies

---

For most of the 15 selected agencies, we noted that their written policies regarding A/P did not include one or more of the following key elements:

- **A/P accounting recognition criteria**
- **Significant A/P transactions/events**
- **Estimation policies (for those agencies that were estimating their A/P balances)**
- **Policies for identifying unrecorded A/P at fiscal year-end**

Also, one of the selected agencies did not provide any written policies for A/P accounting and reporting.

---

8



---

## Observations

### Agency Financial Statement Disclosure/Reporting - Criteria

---

- The definition of A/P per Statement of Federal Financial Accounting Standard (SFFAS) #1 is “amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities”. A/P is not intended to include liabilities related to ongoing continuous expenses such as employee salary and benefits, which are covered by other current liabilities.
- The definition of A/P per OMB Circular A-136, “Financial Reporting Requirements” is consistent with SFFAS #1. OMB A-136 further states that disclosure of accounting policies should identify and describe the entity’s accounting principles and the methods of applying those principles, including important judgments about recognition and valuation.

---

9



---

## Observations

### Agency Financial Statement Disclosure/Reporting

---

Three agencies with significant A/P balances did not disclose

- A/P recognition criteria and/or
- key valuation policies for estimating grants payable.

---

10



## Observations

### Agency Reporting to Treasury (Closing Package) - Criteria

Treasury Financial Manual, Volume I, Part 2, Chapter 4700 (TFM 2-4700), Appendix 1, section 6.1, states that A/P should include:

- o Amounts owed to a non-Federal entity for goods and other property ordered and received;
- o Services rendered by other than Federal employees;
- o Voucher schedule payments transmitted but not yet processed;
- o Interest accrued and owed to others; and
- o A/P canceled reported by a department.

11



## Observations

### Agency Reporting to Treasury (Closing Package) – Criteria (Cont.)

TFM 2-4700 Appendix 1, section 6.8, states that Other Liabilities should include the following:

- |  |   |
|--|---|
| o Deferred Revenue,                            | o Accrued Grant Liability,                                |
| o Accrued Wages & Benefits,                    | o Contractual Services (Obligations),                     |
| o Gold Certificates,                           | o Advances from Others,                                   |
| o Exchange Stabilization Fund,                 | o Energy Employees Occupational Illness Compensation Act, |
| o Other Debt,                                  | o Nuclear Waste Fund,                                     |
| o Deposited Funds and Undeposited Collections, | o and “all other liabilities not classified” here.        |
| o Advances from Foreign Governments,           |   |
| o Carriers Claim Payable,                      |   |

12



---

**Observations**  
**Agency Reporting to Treasury (Closing Package)**

---

None of the selected agencies that included grants payable amounts in A/P reclassified such amounts to Other Liabilities consistent with TFM guidance.

---

13



---

**Observations**  
**A/P Reporting Guidance**

---

Consistency of OMB and Treasury Guidance

- TFM 2-4700 is very specific about including certain types of transactions, such as grants payable and interest payable, in Other Liabilities versus A/P.
- There is no specific guidance in OMB A-136 about where to classify grants payable or interest payable.

---

14



---

## Observations

### Auditor Cycle Memos - Criteria

---

- Government Auditing Standards state that "auditors must prepare audit documentation in sufficient detail to provide a clear understanding of the work performed, the audit evidence obtained and its source, and the conclusions reached".
- The GAO/PCIE FAM (2007 Exposure Draft) provides specific guidance in section 390.05 on what should be included in the cycle memo. For example, the FAM states that, among other things, a cycle memo should clearly describe the accounting system, identify the cycle transactions for each significant cycle, and identify major controls and agency policies.

---

15



---

## Observations

### Auditor Cycle Memos

---

We observed that the following were not always documented:

- Significant transactions – i.e. types of transactions included in A/P
- Significant internal controls and agency policies
  - A/P accounting recognition criteria
  - AP and/or grants payable estimation policies (for those agencies that were estimating the majority of their A/P and/or grants payable balances)

---

16



---

## A/P Follow-up

---

We plan to follow-up with selected agency auditors regarding the observations we discussed with them during recent agency A/P teleconferences.

---

17



---

## Questions

---

Suzanne Murphy, GAO, Assistant Director 404-679-1940  
Carolyn Voltz, GAO, Auditor in Charge, 404-679-2088

---

18

(198526)

---

---

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

---

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ([www.gao.gov](http://www.gao.gov)). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "E-mail Updates."

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office  
441 G Street NW, Room LM  
Washington, DC 20548

To order by Phone: Voice: (202) 512-6000  
TDD: (202) 512-2537  
Fax: (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Congressional Relations

Ralph Dawn, Managing Director, [dawnr@gao.gov](mailto:dawnr@gao.gov), (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, DC 20548

---

## Public Affairs

Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov), (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, DC 20548