



Highlights of [GAO-04-866](#), a report to the Secretary of the Treasury and the Director of the Office of Management and Budget

Why GAO Did This Study

For the past 7 years, since the first audit of the consolidated financial statements of the U.S. government (CFS), certain material weaknesses in internal control and financial reporting have resulted in conditions that have prevented GAO from expressing an opinion on the CFS. Specifically, GAO has reported that the federal government did not have adequate systems, controls, and procedures to properly prepare the CFS. In October 2003, GAO reported on weaknesses identified during the fiscal year 2002 audit regarding financial reporting procedures and internal control over the process for preparing the CFS. The purpose of this report is to (1) discuss additional weaknesses identified during the fiscal year 2003 audit, (2) recommend improvements to address those weaknesses, and (3) provide the status of corrective actions to address the 129 recommendations contained in the October 2003 report.

What GAO Recommends

GAO is making 25 new recommendations to address weaknesses identified during the fiscal year 2003 CFS audit, including 11 recommendations related to four disclosure areas required under U.S. generally accepted accounting principles. Treasury and the Office of Management and Budget stated that they generally concur with the findings in the report, however Treasury disagrees with some recommendations in two areas.

www.gao.gov/cgi-bin/getrpt?GAO-04-866.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gary T. Engel at (202) 512-3406 or engelg@gao.gov.

FINANCIAL AUDIT

Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Further Improvement

What GAO Found

Many of the weaknesses in internal control that have contributed to GAO's continuing disclaimers of opinion on the CFS were identified by agency financial statement auditors during their audits of federal agencies' financial statements and have been reported in detail with recommendations to agencies in separate reports. However, some of the weaknesses we reported were identified during GAO's tests of the Department of the Treasury's process for preparing the CFS. Such weaknesses impair the federal government's ability to ensure that the CFS is consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles.

In addition to the compilation and reporting weaknesses that GAO reported in October 2003, GAO found additional weaknesses in the compilation and reporting process in the following seven areas during the fiscal year 2003 CFS audit:

- allocation methodology for certain costs in the statement of net cost,
- statement of changes in cash balance from unified budget and other activities,
- reporting of criminal debt,
- recording and disclosing contingencies,
- directly linking audited federal agency financial statements to the CFS,
- prior period adjustments, and
- conformity with U.S. generally accepted accounting principles.

GAO found that with respect to four required disclosure areas, information was either not included in the CFS or was not presented in conformity with U.S. generally accepted accounting principles. As a result of this and certain other weaknesses we identified, we were unable to determine if the missing information was material to the CFS. The four disclosure areas were (1) federal employee and veteran benefits payable, (2) environmental and disposal liabilities, (3) research and development, and (4) deferred maintenance.

GAO's October 2003 report contained 129 recommendations. Of those recommendations, 118 remained open as of February 20, 2004, the end of GAO's fieldwork for the fiscal year 2003 CFS audit.