



July 2015

MANAGEMENT REPORT

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

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 accrual-based CFS. As part of the fiscal year 2014 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 provide (1) details on the control deficiencies GAO identified related to the processes used to prepare the CFS, along with related recommendations, and (2) the status of corrective actions Treasury and OMB have taken to address GAO's prior recommendations relating to the processes used to prepare the CFS that remained open at the end of the fiscal year 2013 audit.

What GAO Recommends

GAO is making three new recommendations to Treasury to address the control deficiencies identified during the fiscal year 2014 CFS audit. In commenting on GAO's draft report, Treasury and OMB generally concurred with GAO's recommendations.

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 2014 consolidated financial statements of the U.S. government (CFS), GAO identified 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;
- 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 Reconciliation of Net Operating Cost and Unified Budget Deficit and the Statement of Changes in Cash Balance from Unified Budget and Other Activities is complete and consistent with the underlying information in the audited entities' financial statements and other financial data.

During its audit of the fiscal year 2014 CFS, GAO identified three new internal control deficiencies. Specifically, GAO found that Treasury did not have

- a sufficient process to work with key federal entities prior to the end of the fiscal year to reasonably assure that new or substantially revised federal accounting standards were consistently implemented by the entities to allow appropriate consolidation at the government-wide level,
- procedures for determining whether entities and transactions for which it does not have audit assurance are significant in the aggregate to the CFS, and
- sufficient procedures for (1) identifying significant increases or decreases in all CFS line items and disclosures from prior fiscal year reported amounts and (2) understanding the reasons for such changes.

In addition, GAO found that various other control deficiencies identified in previous years' audits with respect to the processes used to prepare the CFS continued to exist. Specifically, 24 of the 31 recommendations from GAO's prior reports regarding control deficiencies in the processes used to prepare the CFS remained open as of February 19, 2015, the date of GAO's report on its audit of the fiscal year 2014 CFS. GAO will continue to monitor the status of corrective actions taken to address the 3 new recommendations made in this report as well as the 24 open recommendations from prior years as part of its fiscal year 2015 CFS audit.

Contents

Letter		1
	Scope and Methodology	3
	Control Deficiencies Identified during Our Fiscal Year 2014 Audit	3
	Status of Recommendations from Prior Reports	8
	Agency Comments	9
Appendix I	Status of Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS	11
Appendix II	Comments from the Department of the Treasury	19

Abbreviations

CFS	consolidated financial statements of the U.S. government
FASAB	Federal Accounting Standards Advisory Board
GAAP	generally accepted accounting principles
OMB	Office of Management and Budget
RSI	required supplementary information
SCSIA	Statement of Changes in Social Insurance Amounts
SFFAS	Statement of Federal Financial Accounting Standards
SOP	standard operating procedure
SOSI	Statement of Social Insurance
TFM	<i>Treasury Financial Manual</i>
Treasury	Department of the Treasury

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July 30, 2015

The Honorable Jacob J. Lew
Secretary of the Treasury

The Honorable Shaun Donovan
Director
Office of Management and Budget

In our February 2015 report on the results of our audit of the consolidated financial statements of the U.S. government (CFS) for the fiscal years ended September 30, 2014 and 2013,¹ 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 These include material weaknesses that relate to the federal government's processes used to

¹The CFS as of and for the fiscal years ended September 30, 2014, and 2013, consist of the Statements of Net Cost; Statements of Operations and Changes in Net Position; Reconciliations of Net Operating Cost and Unified Budget Deficit; Statements of Changes in Cash Balance from Unified Budget and Other Activities; Balance Sheets; 2014, 2013, 2012, 2011, and 2010 Statements of Social Insurance (SOSI); and 2014 and 2013 Statements of Changes in Social Insurance Amounts (SCSIA), including the related notes to these financial statements. See GAO, *Financial Audit: U.S. Government's Fiscal Years 2014 and 2013 Consolidated Financial Statements*, [GAO-15-341R](#) (Washington, D.C.: Feb. 26, 2015).

²A material weakness is a deficiency, or combination of deficiencies, in internal control, 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 SOSI and the SCSIA. Because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2014, 2013, 2012, 2011, and 2010 SOSI, we were unable to, and did not, express opinions on the 2014, 2013, 2012, 2011, and 2010 SOSI as well as on the 2014 and 2013 SCSIA.

prepare the CFS.⁴ Such material weaknesses involve the federal government's inability to

- adequately account for and reconcile 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 Reconciliation of Net Operating Cost and Unified Budget Deficit and the Statement of Changes in Cash Balance from Unified Budget and Other Activities is complete and consistent with the underlying information in the audited entities' financial statements and other financial data.

The Department of the Treasury (Treasury), in coordination with the Office of Management and Budget (OMB), prepares the CFS on behalf of the federal government.⁵ Several of the material weaknesses in internal control over financial reporting that have contributed to our continuing disclaimers of opinion on the federal government's accrual-based consolidated financial statements were reported in detail along with related recommendations made by other auditors in their audit reports on individual federal entities' financial statements.

The purpose of this report is to provide (1) detailed information on three new control deficiencies identified during our fiscal year 2014 audit that relate to the processes used by Treasury and OMB to prepare the CFS, along with related recommendations, and (2) the status of corrective actions Treasury and OMB have taken to address the 31 recommendations relating to the processes to prepare the CFS, detailed in our previous reports, that remained open at the end of the fiscal year

⁴Our February 2015 report also discussed material weaknesses and scope limitations that did not relate to the processes used to prepare the CFS but that also prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements.

⁵The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. See 31 U.S.C. § 331(e). Treasury and OMB have elected to include certain financial information on the legislative and judicial branches in the consolidated financial statements as well.

2013 audit.⁶ Appendix I provides a summary of the status of actions taken as of February 19, 2015, the date of our report on the audit of the fiscal year 2014 CFS, to address the open recommendations from our previous reports.

Scope and Methodology

As part of our audit of the fiscal years 2014 and 2013 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 that were detailed in our previous reports. A full discussion of our scope and methodology is included in our February 2015 report on our audit of the fiscal years 2014 and 2013 CFS.⁷ We have communicated each of the control deficiencies discussed in this report to your staff. We performed our audit of the fiscal years 2014 and 2013 CFS in accordance with U.S. generally accepted government auditing standards. We believe that our audit provided a reasonable basis for our conclusions in this report.

Control Deficiencies Identified during Our Fiscal Year 2014 Audit

During our audit of the fiscal year 2014 CFS, we identified three new internal control deficiencies in Treasury's processes used to prepare the CFS. Specifically, we found that Treasury did not have (1) a sufficient process to work with key federal entities prior to the end of the fiscal year to reasonably assure that new or substantially revised federal accounting standards were consistently implemented by the entities to allow appropriate consolidation at the government-wide level, (2) procedures for determining whether entities and transactions for which it does not have audit assurance are significant in the aggregate to the CFS, and (3) sufficient procedures for (a) identifying significant increases or decreases in all CFS line items and disclosures from prior fiscal year reported amounts and (b) understanding the reasons for such changes.

⁶GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-14-543](#) (Washington, D.C.: Jun. 19, 2014).

⁷[GAO-15-341R](#).

Federal Accounting Standards

Treasury did not have a sufficient process to work with key federal entities prior to the end of the fiscal year to reasonably assure that new or substantially revised federal accounting standards were consistently implemented by the entities to allow appropriate consolidation at the government-wide level. For example, for the *Financial Report of the United States Government (Financial Report)*,⁸ the Federal Accounting Standards Advisory Board's (FASAB) Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*,⁹ requires a concise statement as part of required supplementary information (RSI) explaining the nature and valuation of federal natural resources. The statement is to encompass significant federal natural resources other than oil and gas under management by the federal government. For fiscal year 2014, only one federal entity (the Department of the Interior) provided to Treasury a discussion of significant federal natural resources under entity management, specifically related to coal leases. As a result, the RSI for federal natural resources other than oil and gas included in the fiscal year 2014 *Financial Report* reported only coal leases from the Department of the Interior. The RSI did not describe coal resources that are not currently under lease or certain other natural resources owned by the federal government. We communicated this matter to Treasury and OMB officials who revised the *Financial Report* before issuance, as appropriate.

We found that Treasury has a process to work with federal entities when implementing new and revised federal accounting standards. Specifically, Treasury presents the standards for discussion at regularly scheduled monthly meetings—called Central Reporting Team meetings—that include financial reporting representatives from federal entities. Treasury also updates the *Treasury Financial Manual*, its financial reporting guidance for federal entities, to include new reporting requirements. This process was followed in implementing Technical Bulletin 2011-1 in fiscal year 2014. However, this process is not sufficient to reasonably assure that new or substantially revised federal accounting standards are consistently implemented by the entities. In a prior year, after we identified inconsistencies in the information reported to Treasury related

⁸The *Financial Report* includes the CFS, required supplementary information, required supplementary stewardship information, and other information.

⁹Technical Bulletin 2011-1 was issued on July 6, 2011, and became effective in fiscal year 2014.

to the implementation of FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 33,¹⁰ Treasury established a working group involving the key federal entities affected by the standard. The group met several times to discuss the standard and through such discussions was able to identify and resolve inconsistencies in the reporting of information for consolidation at the government-wide level. However, Treasury has not adopted a similar process for implementing subsequent standards.

Federal financial statements are to be presented in accordance with applicable generally accepted accounting principles (GAAP). FASAB, the body designated as the source of GAAP for federal reporting entities,¹¹ regularly issues new and revised standards, including two new federal accounting standards that are to be implemented in fiscal year 2015.¹² Without a sufficient process to work with key federal entities to reasonably assure that new or substantially revised federal accounting standards are consistently implemented by the entities, there is an increased risk of misstatements in the financial statements or incomplete and inaccurate disclosure of information within the *Financial Report*.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and implement a sufficient process to work with key federal entities prior to the end of the fiscal year to reasonably assure that new or substantially revised federal accounting standards are consistently implemented by the responsible entities to allow appropriate consolidation at the government-wide level.

¹⁰FASAB's SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* (Oct. 14, 2008).

¹¹FASAB's SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* (Jul. 28, 2009), identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial reports of federal entities that are presented in accordance with federal GAAP.

¹²FASAB's SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32* (Apr. 25, 2012), and FASAB's SFFAS No. 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use* (Jan. 3, 2013).

Significant Entities and Transactions

Treasury did not have procedures for determining whether entities and transactions for which it does not have audit assurance are significant in the aggregate to the CFS. Treasury's standard operating procedure (SOP) entitled "Significant Entities" includes procedures for identifying federal entities with activity that is material to at least one financial statement line item or note disclosure. Each federal entity identified as significant is to submit an audited closing package to Treasury. The closing package methodology is intended to link federal entities' audited consolidated department-level financial statements to certain statements of the CFS. Chief financial officers of significant federal entities are required to verify the consistency of the closing package data with their respective entities' audited financial statements. In addition, entity auditors are required to separately audit and report on the financial information in the closing packages.¹³ However, the SOP did not include, and therefore Treasury did not perform, procedures for determining whether entities and amounts that were not included in a closing package, and thus for which Treasury did not have audit assurance, were significant to the CFS in the aggregate before the CFS was finalized. Specifically, we found that Treasury's SOP did not include procedures for assessing the significance of aggregate amounts for which it does not have audit assurance, including amounts related to the following:

- non-significant entities, which are not required to submit audited closing packages;
- significant entities that did not submit audited closing packages;
- nonmaterial line items for significant calendar year-end entities;
- material line items for calendar year-end entities that did not submit audited closing packages;
- journal vouchers processed by Treasury that were not based on the closing packages; and
- uncorrected misstatements identified at the consolidated level, including uncorrected misstatements submitted by the significant entities with their closing packages.

Standards for Internal Control in the Federal Government provides that control activities are the policies, procedures, techniques, and

¹³For the three significant federal entities with a calendar year-end of December 31, rather than a fiscal year-end of September 30, the entity auditors are only required to audit and report on the financial information in the closing packages that contributes material amounts to line items in the CFS, as identified by Treasury.

mechanisms that enforce management's directives.¹⁴ The standards also provide that an entity should accurately record transactions and events—from initiation to summary records—and that control activities include procedures to achieve accurate recording of transactions and events. Without procedures for determining whether aggregate amounts for which Treasury does not have audit assurance are significant to the CFS, there is an increased risk of material misstatements in the financial statements.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and implement procedures for determining whether entities and transactions for which Treasury does not have audit assurance are significant in the aggregate to the CFS.

Significant Changes from Prior Year Amounts

Treasury did not have sufficient procedures for (1) identifying significant increases or decreases in all CFS line items and disclosures from prior fiscal year reported amounts and (2) understanding the reasons for such changes. Treasury's SOP entitled "Preparation of the Financial Report" includes procedures for performing an overall variance analysis at the consolidated line item level for the Balance Sheet, Statement of Net Cost, Statement of Operations and Changes in Net Position, and related notes to the Balance Sheet. The variance analysis compares the amounts for the current and prior years and provides an explanation for material changes.¹⁵ Such variance analysis helps identify unusual trends or anomalies in the data that, if unexplained, could indicate misstatements in the data. However, the SOP did not include, and therefore Treasury did not perform, an overall variance analysis on the remaining CFS line items and disclosures where comparable amounts were presented. This includes the CFS budget statements, which consist of the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities; non-Balance Sheet notes; RSI; Required Supplementary Stewardship Information; and Other Information.

¹⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). In September 2014, GAO issued its revision of *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#), which will supersede [GAO/AIMD-00-21.3.1](#) and be effective beginning with fiscal year 2016.

¹⁵Treasury identifies material changes as differences greater than \$30 billion and +/-10 percent.

Standards for Internal Control in the Federal Government provides that control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. The standards also provide that an entity should accurately record transactions and events—from initiation to summary records—and that control activities include procedures to achieve accurate recording of transactions and events. Without sufficient procedures for identifying and understanding significant changes from prior year reported amounts, there is an increased risk of misstatements in the financial statements or incomplete and inaccurate disclosure of information within the *Financial Report*.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and implement procedures for identifying significant increases or decreases in all CFS line items and disclosures from prior fiscal year reported amounts and for understanding the reasons for such changes.

Status of Recommendations from Prior Reports

At the end of the fiscal year 2013 audit, 31 recommendations from our prior reports regarding control deficiencies in the processes used to prepare the CFS were open. Treasury implemented corrective actions during fiscal year 2014 that resulted in significant progress in resolving certain of the control deficiencies addressed by our recommendations. For 7 recommendations, the corrective actions resolved the related control deficiencies, and we closed the recommendations. While progress was made, 24 recommendations from our prior reports remained open as of February 19, 2015, the date of our report on the audit of the fiscal year 2014 CFS. Consequently, a total of 27 recommendations need to be addressed—24 remaining from prior reports and the 3 new recommendations we are making in this report.

Appendix I summarizes the status as of February 19, 2015, of the 31 open recommendations from our prior reports, including the status 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. We will continue to monitor Treasury's and OMB's progress in addressing our recommendations as part of our fiscal year 2015 CFS audit.

Agency Comments

OMB Comments

In oral comments on a draft of this report, OMB generally concurred with the findings and recommendations of this report.

Treasury Comments

In written comments on a draft of this report, which are reprinted in appendix II, Treasury concurred with our three new recommendations. Treasury also provided details on its ongoing efforts to address the material weaknesses that relate to the federal government's processes used to prepare the CFS. To address the material weakness related to intragovernmental transactions, Treasury stated that it will continue to devote significant resources toward resolving the material weakness and, in order to resolve systemic intragovernmental differences, Treasury has requested that federal agencies provide it with root cause information and corrective action plans. Regarding the material weakness related to the compilation process, Treasury stated that it continued to implement software and processes to automate and streamline the compilation of the *Financial Report*, and that in fiscal year 2015, it will focus on collecting critical information from reporting entities identified as significant to the *Financial Report*, including entities in the legislative and judicial branches. In addition, Treasury noted that it is continuing its efforts to validate material completeness of budgetary information included in the *Financial Report*, as well as the consistency of such information with agency reports.

This report contains recommendations to the Secretary of the Treasury. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and to the House Committee on Oversight and Government Reform not later than 60 days after the date of this report. A written statement must also be sent to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report. Please provide me with a copy of your responses.

We are sending copies of this report to interested congressional committees, the Fiscal Assistant Secretary of the Treasury, and the Controller of the Office of Management and Budget's Office of Federal Financial Management. In addition, this report is available at no charge on the GAO website at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by Treasury and OMB during our audit. If you or your staff 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.

A handwritten signature in black ink that reads "Dawn Simpson". The signature is written in a cursive, flowing style.

Dawn B. Simpson
Acting Director
Financial Management and Assurance

Appendix I: Status of Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS

Count	No.	Recommendation and related material weakness ^b	Status of recommendation ^a	
			Per Treasury and OMB	Per GAO
GAO-04-45 (results of the fiscal year 2002 audit)				
1	02-22	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to perform an assessment to define the reporting entity, including its specific components, in conformity with the criteria issued by the Federal Accounting Standards Advisory Board (FASAB). Key decisions made in this assessment should be documented, including the reason for including or excluding components and the basis for concluding on any issue. Particular emphasis should be placed on demonstrating that any financial information that should be included but is not included is immaterial. (Preparation material weakness)	Treasury developed a process to identify all reporting entities for inclusion in the <i>Financial Report of the U.S. Government (Financial Report)</i> . The reporting entities can be found in appendix A of the <i>Financial Report</i> .	Closed.
2	02-23	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to provide in the financial statements all the financial information relevant to the defined reporting entity, in all material respects. Such information would include, for example, the reporting entity's assets, liabilities, and revenues. (Preparation material weakness)	Treasury was able to collect data from all reporting entities in the executive branch for fiscal year-end 2014. Partial data were also collected from the judicial and legislative branches, despite those entities not being statutorily required to report to Treasury. Treasury and OMB will continue to work with non-executive branch entities to collect all necessary information.	Open.
3	02-24	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to disclose in the financial statements all information that is necessary to inform users adequately about the reporting entity. Such disclosures should clearly describe the reporting entity and explain the reason for excluding any components that are not included in the defined reporting entity. (Preparation material weakness)	Treasury revamped the wording in appendix A of the <i>Financial Report</i> to clearly demonstrate the reporting entities included in the <i>Financial Report</i> . In addition, appendix A clearly discloses the reasons for excluding certain reporting entities.	Closed.
4	02-35	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to help ensure that federal agencies provide adequate information in their legal representation letters regarding the expected outcomes of the cases. (Preparation material weakness)	Treasury and OMB will work with the agencies to encourage the proper usage of the "unable to determine" category for the legal cases. In addition, Treasury will work to limit agency use of this category, require that additional information be reported when this category is selected, or both.	Open.

**Appendix I: Status of Treasury's and OMB's
Progress in Addressing GAO's Prior Year
Recommendations for Preparing the CFS**

Count	No.	Recommendation and related material weakness ^b	Status of recommendation ^a	
			Per Treasury and OMB	Per GAO
5	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 will develop a process to leverage the existing information from agencies, where possible, and assess methods and approaches for obtaining additional information from agencies.	Open. Until a comprehensive analysis of major treaty and other international agreement information has been performed, Treasury and OMB are precluded from determining if additional disclosure is required by generally accepted accounting principles (GAAP) in the CFS, and we are precluded from determining whether the omitted information is material.
6	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.
7	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.

**Appendix I: Status of Treasury's and OMB's
Progress in Addressing GAO's Prior Year
Recommendations for Preparing the CFS**

Count	No.	Recommendation and related material weakness ^b	Status of recommendation ^a	
			Per Treasury and OMB	Per GAO
8	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.
9	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.
10	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 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 will continue to request this information from the agencies at interim and through year-end reporting requirements in the <i>Treasury Financial Manual</i> (TFM) 2-4700. In addition, Treasury will continue to participate on the FASAB Risk Assumed task force and implement any related changes corresponding to the issuance of revised or new federal accounting standards.	Open. Treasury's reporting in this area is not complete. The CFS should include all major federal insurance programs in the risk assumed reporting and analysis. Also, since future events are uncertain, risk assumed information should include indicators of the range of uncertainty around expected estimates, including indicators of the sensitivity of the estimate to changes in major assumptions.

**Appendix I: Status of Treasury's and OMB's
Progress in Addressing GAO's Prior Year
Recommendations for Preparing the CFS**

Count	No.	Recommendation and related material weakness ^b	Status of recommendation ^a	
			Per Treasury and OMB	Per GAO
GAO-04-866 (results of the fiscal year 2003 audit)				
11	03-8	The Director of OMB should direct the Controller of OMB, in coordination with Treasury's Fiscal Assistant Secretary, to work with the Department of Justice and certain other executive branch federal agencies to ensure that these federal agencies report or disclose relevant criminal debt information in conformity with GAAP in their financial statements and have such information subjected to audit. (Preparation material weakness)	Treasury and OMB will assess options as to what methodologies or approaches to use for obtaining the additional information needed from the agencies.	Open.
12	03-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to include relevant criminal debt information in the CFS or document the specific rationale for excluding such information. (Preparation material weakness)	See the status of recommendation No. 03-8.	Open.
GAO-05-407 (results of the fiscal year 2004 audit)				
13	04-3	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require that Treasury employees contact and document communications with federal agencies before recording journal vouchers to change agency audited closing package data. (Preparation material weakness)	Treasury will continue to strengthen internal control procedures to ensure accurate and supported journal vouchers.	Open.
14	04-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to assess the infrastructure associated with the compilation process and modify it as necessary to achieve a sound internal control environment. (Preparation material weakness)	Treasury continues to make improvements to its internal control infrastructure by updating and revising its standard operating procedures (SOP) and working to help ensure that key controls are in place at all critical areas.	Open.
GAO-07-805 (results of the fiscal year 2006 audit)				
15	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 will develop a process to leverage the existing information from agencies, where possible, and assess options for approaches to use for obtaining additional information from agencies.	Open.

**Appendix I: Status of Treasury's and OMB's
Progress in Addressing GAO's Prior Year
Recommendations for Preparing the CFS**

Count	No.	Recommendation and related material weakness ^b	Status of recommendation ^a	
			Per Treasury and OMB	Per GAO
GAO-08-748 (results of the fiscal year 2007 audit)				
16	07-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB's Office of Federal Financial Management, to develop and implement effective processes for monitoring and assessing the effectiveness of internal control over the processes used to prepare the CFS. (Preparation material weakness)	Treasury will start to implement an internal review, based on OMB Circular No. A-123 guidance, on the <i>Financial Report</i> in fiscal year 2016.	Open.
17	07-10	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 develop and implement alternative solutions to performing almost all of the compilation effort at the end of the year, including obtaining and utilizing interim financial information from federal agencies. (Preparation material weakness)	Treasury obtained and utilized interim financial information from federal agencies starting in fiscal year 2012. In fiscal year 2014, Treasury increased the number of key topics and completed subject matters to the extent possible before fiscal year-end.	Closed.
GAO-12-529 (results from the fiscal year 2011 audit)				
18	11-03	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to develop and implement procedures to provide for the active involvement of key federal entity personnel with technical expertise in relatively new areas and more complex areas in the preparation and review process of the <i>Financial Report</i> . (Preparation material weakness)	Treasury has involved key federal entity personnel with technical expertise during the interim and year-end preparation and review of the <i>Financial Report</i> . In fiscal year 2015, Treasury will continue to work collaboratively with the agencies to increase their involvement in preparing certain key disclosures and other information.	Open.
19	11-09	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" ^c to include procedures for identifying any entities that become significant to the <i>Financial Report</i> during the fiscal year but were not identified as significant in the prior fiscal year. (Preparation material weakness)	Treasury implemented a process in fiscal year 2014 to identify all significant entities in the <i>Financial Report</i> . This process monitors the significant entity reporting throughout the fiscal year and is finalized before the publication date.	Closed.
20	11-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" ^c to include procedures for obtaining audited closing packages from newly identified significant entities in the year they become significant, including timely written notification to newly identified significant entities. (Preparation material weakness)	Treasury has enhanced the SOP to include notifying the significant entities in a timely manner and explaining the required significant entity reporting. Treasury and OMB will continue to work with the identified significant entities to obtain audit coverage over the required reporting.	Open.

**Appendix I: Status of Treasury's and OMB's
Progress in Addressing GAO's Prior Year
Recommendations for Preparing the CFS**

Count	No.	Recommendation and related material weakness ^b	Status of recommendation ^a	
			Per Treasury and OMB	Per GAO
GAO-13-540 (results from the fiscal year 2012 audit)				
21	12-01	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" ^c to include procedures for identifying any material line items for significant calendar year-end entities that become material to the CFS during the current fiscal year but were not identified as material in the analysis using prior year financial information. (Preparation material weakness)	Treasury implemented a process in fiscal year 2014 to identify all significant entities in the <i>Financial Report</i> . This process monitors the significant entity reporting throughout the fiscal year and is finalized before the publication date.	Closed.
22	12-02	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" ^c to include procedures for obtaining audit assurance over identified material line items for significant calendar year-end entities in the year they become material. (Preparation material weakness)	Treasury has enhanced the SOP to notify the significant entities in a timely manner and to explain the required significant entity reporting. Treasury and OMB will continue to work with the identified significant entities to obtain audit coverage over the required reporting.	Open.
23	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. (Budget statements material weakness)	Treasury has established and begun implementing procedures to request agency submission of closing package data as a means of validating budget deficit data against agencies' audited financial information. In addition, Treasury is examining the benefits of performing a complete audit on the general ledger data used for the budget statements.	Open.
24	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. (Budget statements material weakness)	Treasury will strengthen procedures to demonstrate that all material reconciling items are included on the budget statements.	Open.

**Appendix I: Status of Treasury's and OMB's
Progress in Addressing GAO's Prior Year
Recommendations for Preparing the CFS**

Count	No.	Recommendation and related material weakness ^b	Status of recommendation ^a	
			Per Treasury and OMB	Per GAO
GAO-14-543 (results from the fiscal year 2013 audit)				
25	13-01	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to include all key elements recommended by the <i>Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control – Appendix A, Internal Control over Financial Reporting</i> and fully consider the interrelationships between deficiencies in the corrective action plans. (Preparation material weakness)	Treasury and OMB are working to develop a remediation plan to address issues that are impediments to auditability.	Open.
26	13-02	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement procedures to sufficiently document management's conclusions and the basis of such conclusions regarding the accounting policies for the CFS. (Preparation material weakness)	Treasury implemented procedures in fiscal year 2014 related to documenting accounting policies. Treasury documented several accounting policies for the <i>Financial Report</i> in fiscal year 2014.	Closed.
27	13-03	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to improve and implement Treasury's procedures for verifying that staff's preparation of the narrative within the notes to the CFS is accurate and supported by the underlying financial information of the significant component entities. (Preparation material weakness)	Treasury implemented a cross-reference guide in fiscal year 2014 to verify each line in the narrative of the <i>Financial Report</i> .	Closed.
28	13-04	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to continue to build on the procedures in place to effectively identify systemic root causes of intragovernmental differences and monitor how federal entities are addressing the root causes. (Intragovernmental material weakness)	Starting in fiscal year 2015, Treasury will require agencies to provide detailed root cause analysis documentation and corrective action plans (including target completion dates) through TFM 2-4700.	Open.
29	13-05	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to expand the scorecard process to include intragovernmental activity and balances that are currently not covered by the process or demonstrate that such information is immaterial to the CFS. (Intragovernmental material weakness)	Treasury will complete the analysis of agency intragovernmental differences on a quarterly basis to determine if additional agencies should be integrated into the quarterly reconciliation process.	Open.

**Appendix I: Status of Treasury's and OMB's
Progress in Addressing GAO's Prior Year
Recommendations for Preparing the CFS**

Count	No.	Recommendation and related material weakness ^b	Status of recommendation ^a	
			Per Treasury and OMB	Per GAO
30	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 is working to complete the General Fund general ledger and will continue to implement processes and controls in preparation for its auditability. Treasury has expanded the reciprocal categories for General Fund activity and balances to assist with reconciling intragovernmental differences with federal agency trading partners.	Open.
31	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)	Treasury and OMB will assess options to increase audit assurance over the reliability of agency intragovernmental activity and balances.	Open.

Legend: CFS= consolidated financial statements of the U.S. government; OMB = Office of Management and Budget; Treasury = Department of the Treasury.

Sources: GAO, Treasury, and OMB. | GAO-15-630

^aThe status of the recommendations listed in app. I is as of February 19, 2015, the date of our report on the audit of the fiscal year 2014 CFS.

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

Preparation: The material weakness related 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.

Budget statements: The material weakness related to the federal government's inability to reasonably assure that the information in the Reconciliation of Net Operating Cost and Unified Budget Deficit and the Statement of Changes in Cash Balance from Unified Budget and Other Activities is complete and consistent with the underlying information in the audited entities' financial statements and other financial data.

Intragovernmental: The material weakness related to the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities.

^cThe title of this SOP changed to "Significant Entities" in fiscal year 2013.

Appendix II: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

July 21, 2015

Ms. Dawn B. Simpson
Acting 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) 2014 audit, GAO-15-630, *MANAGEMENT REPORT, Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements (CFS)*.

The draft Report identifies three new recommendations concerning the *Financial Report of the U. S. Government (Financial Report)* preparation process. Specifically, GAO reported on internal control deficiencies in Treasury's processes pertaining to: (1) working with key federal entities to reasonably assure consistent implementation of new or substantially revised accounting standards; (2) determining whether entities and transactions for which Treasury does not have audit assurance are significant in the aggregate to the CFS; and (3) identifying increases/decreases, and understanding the reasons for changes in all CFS line items. We accept the three new recommendations and continue to work collaboratively with the Office of Management and Budget (OMB) and the federal agency community to pursue mitigation and resolution of the remaining issues.

We are pleased with our progress, notably the closing of 7 of the 31 outstanding recommendations from prior years' reports in the past year. The remaining 24 recommendations continue to emphasize the three critical material weaknesses identified in the audit: (1) accounting for and reconciliation of intragovernmental activity and balances, including transactions with and balances of the General Fund as a trading partner, (2) preparation of the CFS, including identifying and reporting all items needed to prepare the *Financial Report*, and (3) reconciliations of budget deficit to net operating cost and changes in cash balance.

During FY 2015, Treasury has developed a FY 2015 *Financial Report Remediation Plan (Remediation Plan)* that is a significantly more detailed and comprehensive corrective action plan, including targeted milestones and completion dates. Treasury and OMB officials collaborated with GAO to develop the *Remediation Plan* to address issues creating impediments to auditability. The *Remediation Plan* is intended not only to identify priority target areas for mitigation and resolution, but also to provide substantial detail concerning efforts to date as well

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

as planned actions (including scope, key personnel, targeted milestones, and completion dates). Using the *Remediation Plan* as a roadmap, Treasury and OMB intend to build upon the recent progress made on the material weaknesses.

Treasury will continue to devote significant management attention and staff resources to resolving material intragovernmental differences along with developing and improving process controls within Treasury and the federal agencies. For example, in the past year, Treasury expanded application of its intragovernmental metrics and scorecard program and will continue to do so in FY 2015. In addition, Treasury has requested that federal agencies provide root cause information and corrective action plans to resolve systemic differences.

With respect to the preparation material weakness, in FY 2014, Treasury continued to implement software and processes to automate and streamline *Financial Report* compilation in order to improve accuracy and control. These efforts have reduced, and will continue to reduce, inherent risk attributed to the *Financial Report* preparation process and provide a more discrete audit trail between information contained in agency reports and the *Financial Report*. Treasury also made substantial progress in identifying reporting entities significant to the *Financial Report*, and in FY 2015, will focus on collecting critical information from these entities, including the Legislative and Judicial branches.

Finally, Treasury will work to validate material completeness of budgetary information included in the *Financial Report*, as well as the consistency of that information with agency reports. To this end, in FY 2014, Treasury requested additional budget information from agencies as well as explanations of, and support for any differences between agency information and information maintained by Treasury used to produce the *Financial Report*. In FY 2015 and beyond, Treasury will continue to use this information to demonstrate consistency and reconcile the differences between agency reports and the *Financial Report*.

In conclusion, we appreciate GAO's recommendations 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 commitment to improve Federal financial reporting.

Sincerely,



David A. Lebryk
Fiscal Assistant Secretary

cc: Mark Reger, Deputy Controller, OMB

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