



July 2016

# MANAGEMENT REPORT

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

Accessible Version

# GAO Highlights

Highlights of [GAO-16-621](#), 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 accrual-based consolidated financial statements. As part of the fiscal year 2015 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 new 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 2014 audit.

## What GAO Recommends

GAO is making two recommendations to Treasury to address the control deficiencies identified during the fiscal year 2015 CFS audit. In commenting on GAO's draft report, Treasury concurred with GAO's two recommendations. Treasury also expressed its commitment towards improving federal financial reporting and stated that it will work collaboratively with OMB and the federal agency community to pursue mitigation and resolution of the remaining issues. OMB stated that the administration remains committed to achieving sound financial management across the federal government.

View [GAO-16-621](#). For more information, contact Dawn B. Simpson at (202) 512-3406 or [simpsondb@gao.gov](mailto:simpsondb@gao.gov).

July 2016

## 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 2015 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 that 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 (1) Reconciliations of Net Operating Cost and Unified Budget Deficit and (2) Statements 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 2015 CFS, GAO identified two new internal control deficiencies. Specifically, GAO found that Treasury did not have sufficient procedures for

- verifying the accuracy of certain data transfers of federal entity-reported financial data used in the CFS preparation process and
- determining whether user accounts already exist before establishing or recertifying user accounts in certain federal financial systems used in the CFS preparation process to help ensure that users are not assigned incompatible roles.

In addition, GAO found that various other control deficiencies identified in previous years' audits with respect to the processes used to prepare the CFS were resolved or continued to exist. For 5 of the 27 recommendations from GAO's prior reports regarding control deficiencies in the processes used to prepare the CFS, Treasury implemented corrective actions during fiscal year 2015 that resolved the related control deficiencies, and as a result, these recommendations were closed. While progress was made, 22 of the 27 recommendations remained open as of February 17, 2016, the date of GAO's report on its audit of the fiscal year 2015 CFS. GAO will continue to monitor the status of corrective actions taken to address the 2 new recommendations made in this report as well as the 22 open recommendations from prior years as part of its fiscal year 2016 CFS audit.

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## Abbreviations

CFS	consolidated financial statements of the U.S. government
FASAB	Federal Accounting Standards Advisory Board
<i>Financial Report</i>	<i>Financial Report of the U.S. Government</i>
GFRS	Governmentwide Financial Report System
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
OMB	Office of Management and Budget
SCSIA	Statement of Changes in Social Insurance Amounts
SLTFP	Statement of Long-Term Fiscal Projections
SOSI	Statement of Social Insurance
SOP	standard operating procedure
Treasury	Department of the Treasury
U.S. GAAP	U.S. generally accepted accounting principles

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July 13, 2016

The Honorable Jacob J. Lew  
Secretary of the Treasury

The Honorable Shaun Donovan  
Director  
Office of Management and Budget

In our February 2016 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, 2015, and 2014,<sup>1</sup> we disclaimed an opinion on the CFS. Since GAO's first audit of the CFS, for fiscal year 1997, certain material weaknesses<sup>2</sup> 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

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<sup>1</sup>The CFS as of and for the fiscal years ended September 30, 2015, and 2014, 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; 2015 Statement of Long-Term Fiscal Projections (SLTFP); 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance (SOSI); and 2015 and 2014 Statements of Changes in Social Insurance Amounts (SCSIA), including the related notes to these financial statements. In accordance with Statement of Federal Financial Accounting Standards No. 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*, as amended, 2015 was the initial year to present the SLTFP as a basic financial statement; the 2014 SLTFP was presented for comparison purposes and was not subject to audit. See GAO, *Financial Audit: U.S. Government's Fiscal Years 2015 and 2014 Consolidated Financial Statements*, [GAO-16-357R](#) (Washington, D.C.: Feb. 25, 2016).

<sup>2</sup>A 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.

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accrual-based consolidated financial statements.<sup>3</sup> These include material weaknesses that relate to the federal government's processes used to prepare the CFS.<sup>4</sup>

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 (1) Reconciliations of Net Operating Cost and Unified Budget Deficit and (2) Statements 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.<sup>5</sup> 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

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<sup>3</sup>As 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 SLTFP, SOSI, and SCSIA. Because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, we were unable to, and did not, express opinions on the 2015, 2014, 2013, 2012, and 2011 SOSI and the 2015 and 2014 SCSIA. Because of these significant uncertainties and a material weakness in internal control over financial reporting, we were unable to, and did not, express an opinion on the 2015 SLTFP.

<sup>4</sup>Our February 2016 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.

<sup>5</sup>The 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.

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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 two new control deficiencies identified during our fiscal year 2015 audit that relate to the processes used by Treasury to prepare the CFS, along with related recommendations, and (2) the status of corrective actions Treasury and OMB have taken to address the 27 recommendations relating to the processes used to prepare the CFS, detailed in our previous reports, that remained open at the end of the fiscal year 2014 audit.<sup>6</sup> Appendix I provides a summary of the status of actions taken as of February 17, 2016, the date of our report on the audit of the fiscal year 2015 CFS, to address the open recommendations from our previous reports.

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## Scope and Methodology

As part of our audit of the fiscal years 2015 and 2014 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 used to prepare the CFS, detailed in our previous reports, that remained open at the end of the fiscal year 2014 audit. A full discussion of our scope and methodology is included in our February 2016 report on our audit of the fiscal years 2015 and 2014 CFS.<sup>7</sup> We have communicated each of the control deficiencies discussed in this report to your staff. We performed our audit of the fiscal years 2015 and 2014 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.

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<sup>6</sup>GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-15-630](#) (Washington, D.C.: July 30, 2015).

<sup>7</sup>[GAO-16-357R](#).

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## Control Deficiencies Identified during Our Fiscal Year 2015 Audit

During our audit of the fiscal year 2015 CFS, we identified two new internal control deficiencies in Treasury's processes used to prepare the CFS. In taking steps towards improving federal financial reporting, Treasury has made significant progress in automating the preparation of the *Financial Report of the U.S. Government (Financial Report)* including developing reconciliations for data transfers and a streamlined process for providing federal entities access to certain financial systems used to prepare the CFS. We reviewed these processes and found that Treasury did not have sufficient procedures for (1) verifying the accuracy of certain data transfers of federal entity-reported financial data used in the CFS preparation process and (2) determining whether user accounts already exist before establishing or recertifying user accounts in certain federal financial systems used in the CFS preparation process to help ensure that users are not assigned incompatible roles.<sup>8</sup>

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## Verification of Data Transfers

Treasury did not have sufficient procedures to verify the accuracy of certain data transfers of federal entity-reported financial data used in the CFS preparation process. Federal entities identified as significant to the CFS enter their audited financial statement information directly into Treasury's Governmentwide Financial Report System (GFRS).<sup>9</sup> Non-significant federal entities enter their financial account balances into Treasury's web-based Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS), which Treasury subsequently transfers to GFRS. Non-significant federal entities also enter certain other financial data directly into GFRS. GFRS information for all CFS reporting entities is then automatically transferred nightly to Treasury's table manager tool to be used in the CFS preparation process, as illustrated in figure 1.<sup>10</sup>

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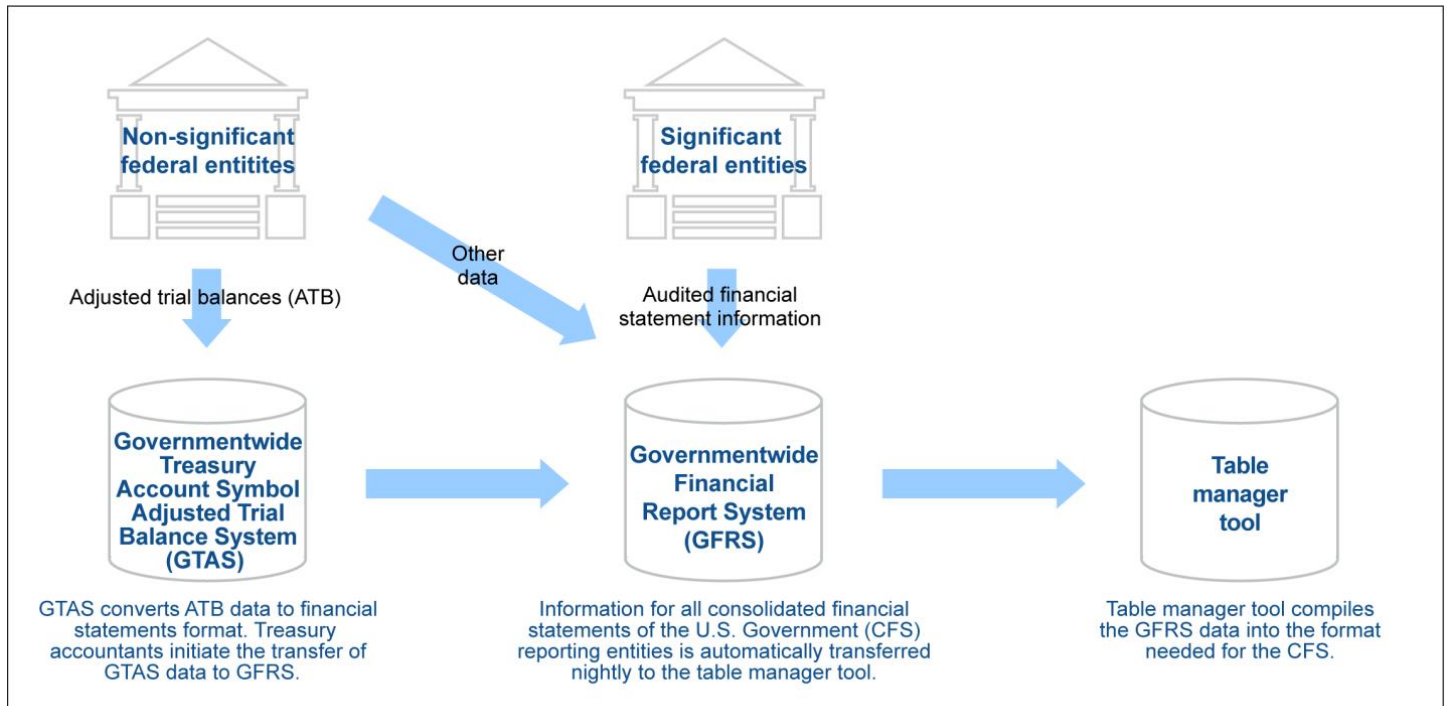
<sup>8</sup>Access controls limit access or detect inappropriate access to computer resources, such as data, programs, equipment, and facilities, thereby protecting them from unauthorized modification, loss, or disclosure.

<sup>9</sup>OMB and Treasury have identified 39 federal entities that are significant to the U.S. government's fiscal year 2015 consolidated financial statements, including the 24 Chief Financial Officers Act agencies. See *Treasury Financial Manual*, vol. I, part 2, ch. 4700, for a listing of the 39 entities.

<sup>10</sup>Treasury's table manager tool software is used to compile financial data from GFRS into the format needed for the CFS.



**Figure 1: Transfer of Data into the Department of the Treasury's (Treasury) Table Manager Tool**



Source: GAO. | GAO-16-621

During fiscal year 2015, Treasury developed standard operating procedures (SOP) to monitor the accuracy of data transfers between GTAS and GFRS and between GFRS and Treasury's table manager tool, including reconciliations of the data transferred between the three systems. Although Treasury made significant efforts to implement these new procedures, the SOPs did not include steps for verifying the accuracy of the GFRS data used to reconcile the transfers between GFRS and the table manager tool. Specifically, Treasury could not demonstrate that the GFRS data received by the table manager tool and used in the reconciliation matched the data that originally came from GFRS. Consequently, Treasury was not able to demonstrate that the GFRS data used in the reconciliation were independent of the table manager tool data, which is essential to an effective reconciliation process. Treasury performed other manual reviews to determine if information reported in the table manager tool was generally consistent with information in significant federal entities' audited financial statements. However, Treasury could not provide verification that the table manager tool used information that reconciled with all federal entity data in GFRS at the time the draft fiscal year 2015 CFS was prepared.

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*Standards for Internal Control in the Federal Government* provides that entities 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.<sup>11</sup> Without adequate verification of the data transfers used in the preparation process, there is an increased risk of misstatements in the financial statements and incomplete and inaccurate disclosure of information within the *Financial Report*.<sup>12</sup>

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and implement sufficiently detailed procedures, including ensuring the independence of information used in data reconciliations, to verify the accuracy of data transfers of federal entity-reported financial data used in the CFS preparation process.

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System User Accounts

Treasury did not have sufficient procedures to determine whether user accounts already exist before establishing or recertifying user accounts in GTAS and GFRS to help ensure that users are not assigned incompatible roles. We identified 9 GFRS users and 55 GTAS users that had more than one user account. Of these, 1 GFRS and 6 GTAS users had multiple user roles, which allowed these users potentially incompatible system access privileges, such as users being able to both process and authorize changes to system information. While Treasury procedures for establishing user accounts and recertifying existing user accounts included requiring authorizing official approvals, Treasury's procedures did not include steps to determine whether an account already existed for each user before establishing or recertifying user accounts, making it difficult for Treasury to reasonably assure that accurate and appropriate user account rights and privileges are maintained.

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<sup>11</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). *Standards for Internal Control in the Federal Government* was revised in September 2014 and became effective beginning with fiscal year 2016. Our report addresses internal control deficiencies from our audit of the CFS for fiscal years 2015 and 2014; therefore, we reference the November 1999 version of the standards throughout our report.

<sup>12</sup>The *Financial Report* includes the CFS, required supplementary information, required supplementary stewardship information, and other information.

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Treasury's procedures require that user accounts be established and periodically monitored to ensure that each user's application access is appropriate. The procedures include requirements that officials review individual user account information, such as user names, assigned application roles, and contact information, to ensure that accurate and updated information is maintained for individual user accounts. However, Treasury did not have procedures in place requiring these reviewing officials to identify whether there was an existing account in GTAS or GFRS prior to establishing a new user account or recertifying user accounts.

*Standards for Internal Control in the Federal Government* provides that management design control activities over access to protect an entity from inappropriate access and unauthorized use of the system.<sup>13</sup> Effectively designed and implemented logical access controls require users to authenticate themselves by using unique identification tools, such as tokens or passwords, and limit the files and other resources that authenticated users can access and the actions that they can execute based on a valid need that is determined by assigned official duties. Lack of adequate controls to prevent and detect inappropriate access to applications increases the risk of unauthorized use of the application, as well as unauthorized changes to the underlying data used to prepare the financial statements, disclosures, and other 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 to determine whether user accounts already exist before establishing or recertifying user accounts in GTAS or GFRS.

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## Status of Recommendations from Prior Reports

At the end of the fiscal year 2014 audit, 27 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 2015 that resulted in significant progress in resolving certain of the control deficiencies addressed by our recommendations. For 5 recommendations, the corrective actions resolved the related

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<sup>13</sup>[GAO/AIMD-00-21.3.1](#).

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control deficiencies, and we closed the recommendations. While progress was made, 22 recommendations from our prior reports remained open as of February 17, 2016, the date of our report on the audit of the fiscal year 2015 CFS. Consequently, a total of 24 recommendations need to be addressed—22 remaining from prior reports and the 2 new recommendations we are making in this report.

Appendix I summarizes the status as of February 17, 2016, of the 27 open recommendations from our prior years' 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 2016 CFS audit.

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## Agency Comments

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### OMB Comments

In written comments (reprinted in appendix II) on a draft of this report, OMB stated that the administration remains committed to achieving sound financial management across the federal government, and noted that through its work with Treasury a significant number of findings and recommendations related to the preparation of the *Financial Report* have been resolved since the start of this administration.

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### Treasury Comments

In written comments (reprinted in appendix III) on a draft of this report, Treasury concurred with our two new recommendations. Treasury also provided details on its ongoing efforts to address the material weaknesses in the federal government's processes used to prepare the CFS. Treasury stated that during fiscal year 2015, it continued to make significant improvements in accounting for and reporting on all significant General Fund activity and balances, and reconciling that activity with federal agencies. To address the material weakness related to intragovernmental transactions, Treasury stated that it will continue to devote significant management attention and staff resources to resolving intragovernmental differences. For example, in fiscal year 2015, Treasury began collecting root cause information and corrective action plans from federal agencies and noted it will continue to monitor these plans to aid in eliminating recurring and systemic differences. Regarding the material weakness related to the preparation process, Treasury stated that, in fiscal year 2015, it completed the implementation of software and processes to automate and streamline the compilation of all sections of

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the *Financial Report*, and that Treasury, along with OMB, will continue to work with legislative and judicial branch agencies to obtain confirmation that information related to all material assets, liabilities, and revenues are collected at year-end. Finally, with regard to the material weakness related to budget deficit reconciliations, Treasury noted progress over the past two years in its continuing efforts to validate material completeness of budgetary information included in the *Financial Report*, as well as the consistency of such information with agency reports. Treasury expressed its ongoing commitment to work collaboratively with OMB and the federal agency community towards improving federal financial reporting.

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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](mailto:simpsondb@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.



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

**Table 1: Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS**

Count	No.	Recommendation and related material weakness <sup>b</sup>	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
GAO-04-45 (Results of the fiscal year 2002 audit)	1	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 2015. Significant amounts of accrual-based data were collected from the judicial and legislative branches, despite entities in those branches not being statutorily required to report to Treasury. Treasury and OMB will continue to work with non-executive branch entities to obtain confirmation that all material assets, liabilities, and revenues are collected at year-end.	Open.
	2	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 will work to limit agency use of the "unable to determine" category for legal case reporting. Treasury and OMB will work with the agencies to help determine appropriate usage and require agencies to provide additional information.	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 <sup>b</sup>	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
3	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 options as to 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 U.S. generally accepted accounting principles (U.S. GAAP) in the CFS, and we are precluded from determining whether the omitted information is material.
4	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.
5	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 <sup>b</sup>	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
6	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.
7	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.
8	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 agencies at interim and through year-end reporting requirements in the <i>Treasury Financial Manual 2-4700</i> . In addition, Treasury will continue to participate on the Federal Accounting Standards Advisory Board (FASAB) Risk Assumed Task Force and implement any related changes corresponding to the issuance of revised or new federal accounting standards.	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 <sup>b</sup>	Status of recommendation <sup>a</sup>		
			Per Treasury and OMB	Per GAO	
GAO-04-866 (Results of the fiscal year 2003 audit)	9	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 U.S. 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 agencies.	Open.
	10	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)	11	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 implemented internal control procedures to reasonably assure accurate and supported journal vouchers.	Closed.
	12	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 improve its internal control infrastructure by updating standard operating procedures (SOP) as needed. Additionally, Treasury continues to assess key controls in systems and processes used in all critical areas in the compilation process.	Open.
GAO-07-805 (Results of the fiscal year 2006 audit)	13	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; identify information gaps; 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 <sup>b</sup>	Status of recommendation <sup>a</sup>	
				Per Treasury and OMB	Per GAO
<a href="#">GAO-08-748</a> <b>(Results of the fiscal year 2007 audit)</b>	14	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 designed and implemented a partial OMB Circular No. A-123 internal control review for the fiscal year 2015 <i>Financial Report of the U.S. Government</i> ( <i>Financial Report</i> ) processes. In fiscal year 2016, the review will be expanded to cover more processes in the preparation of the <i>Financial Report</i> .	Open.
<a href="#">GAO-12-529</a> <b>(Results from the fiscal year 2011 audit)</b>	15	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 involved key federal entity personnel with technical expertise during the interim and year-end preparation and review of the <i>Financial Report</i> .	Closed.
	16	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" <sup>c</sup> 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 and OMB will continue to work with the identified significant entities to obtain audit coverage over the required reporting.	Open.
<a href="#">GAO-13-540</a> <b>(Results from the fiscal year 2012 audit)</b>	17	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" <sup>c</sup> 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 and OMB will continue to work with the identified calendar year-end 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 <sup>b</sup>	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
18	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 partnered with FASAB to establish a working group to determine the best method for identifying items needed to prepare the budget statements, with a focus on demonstrating consistency with significant entities' audited financial statements.	Open.
19	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 has improved its process for preparing the budget statements over the past 2 years and will continue to do so. An example of an improvement made is ensuring the consistency of reconciling items reported on the Reconciliation Statement to entity financial information that is processed through Treasury's records.	Open.
<a href="#">GAO-14-543</a> 20 <b>(Results from the fiscal year 2013 audit)</b>	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 developed a significantly more robust remediation plan in fiscal year 2015. In fiscal year 2016, the plan will be enhanced to highlight key milestones and identify outcome measures to help track and maintain progress.	Open.
21	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)	Treasury began requiring agencies to provide detailed root cause analysis and corrective action plans in fiscal year 2015. Treasury will continue to monitor agency progress against these plans in fiscal year 2016 to verify results.	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 <sup>b</sup>	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
22	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 completed an analysis of agency intragovernmental differences and expanded coverage of the scorecard process to include newly identified significant entities with material differences in fiscal year 2015. In fiscal year 2016, Treasury will focus on ensuring and demonstrating that the process covers all material activity and balances.	Open.
23	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 officially established the General Fund as a federal reporting entity in fiscal year 2015 and consolidated its reporting in the fiscal year 2015 <i>Financial Report</i> using an adjusted trial balance. Fiscal year 2016 efforts will focus on refining the processes and controls in preparation for the audit of the General Fund.	Open.
24	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.
<a href="#">GAO-15-630</a> 25	14-01	The Secretary of the Treasury should 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. (Preparation material weakness)	Treasury established a multifaceted approach to help ensure new or substantially revised accounting standards are consistently implemented at federal entities for proper consolidation at the government-wide level.	Closed.

**GAO-15-630**  
**(Results from the fiscal year 2014 audit)**

**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 <sup>b</sup>	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
26	14-02	The Secretary of the Treasury should 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. (Preparation material weakness)	Treasury completed an analysis to identify the extent of audit coverage over the data contained in the <i>Financial Report</i> . Treasury continues to monitor this activity on a monthly basis.	Closed.
27	14-03	The Secretary of the Treasury should 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. (Preparation material weakness)	Treasury expanded the variance analysis to all line items and disclosures in the <i>Financial Report</i> .	Closed.

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-16-621

<sup>a</sup>The status of the recommendations listed in app. I is as of February 17, 2016, the date of our report on the audit of the fiscal year 2015 CFS.

<sup>b</sup>The 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 (1) Reconciliations of Net Operating Cost and Unified Budget Deficit and (2) Statements 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.

<sup>c</sup>The title of this SOP changed to "Significant Entities" in fiscal year 2013.

# Appendix II: Comments from the Office of Management and Budget



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

THE CONTROLLER

June 29, 2016

Ms. Dawn Simpson  
Acting Director  
Financial Management Assurance  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Ms. Simpson:

I appreciate the opportunity to provide comments in response to the Government Accountability Office's (GAO) draft report titled "Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements" (GAO-16-621). The Office of Management and Budget (OMB) appreciates the GAO's work in planning and conducting its review and issuing this report.

As careful stewards of the taxpayers' dollars, the Federal Government has a responsibility to ensure that it is spending money responsibly. The Administration is committed to making sure that we have the proper controls, practices, and safeguards in place on those dollars. Working with the Department of the Treasury, we have reduced the number of GAO findings and recommendations on the Government-Wide Financial Report from 44 at the start of this Administration to 24 at the end of the FY 2015 audit.

We are working with the Department of the Treasury and executive agencies to improve financial reporting across the Federal government. I appreciate the attention that GAO dedicates to achieving an auditable Government-Wide Financial Report, along with the efforts of the Department of the Treasury and agencies. The Administration remains committed to achieving our mutual objective of conducting sound financial management across the Federal Government.

Sincerely,

David Mader  
Controller

# Appendix III: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

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) 2015 audit, GAO-16-621, MANAGEMENT REPORT, *Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements (CFS)*.

The draft Report identifies two 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 procedures for: (1) verifying the accuracy of certain data transfers of federal entity reported financial data used in the CFS preparation process; and (2) determining whether user accounts already exist before establishing or recertifying user accounts in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) or the Governmentwide Financial Reporting System (GFRS). We accept the two new recommendations and will 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 five of the 27 outstanding recommendations from prior years' reports in the past year. The remaining 22 recommendations continue to emphasize the three material weaknesses identified in the audit: (1) accounting for and reconciliation of intragovernmental activity and balances, (2) preparation of the CFS and (3) reconciliations of budget deficit to net operating cost and changes in cash balance.

During FY 2015, Treasury developed a FY 2015 *Financial Report Remediation Plan* that is a significantly more detailed and comprehensive corrective action plan than previous remediation plans. This new, improved plan, which features targeted milestones and completion dates for the most critical impediments to auditability, reflects a truly collaborative effort among Treasury, OMB, and GAO officials, and will act as a blueprint to guide future efforts.

Treasury continued to make significant improvements in accounting for and reporting on all significant General Fund activity and balances, and reconciling that activity with federal entity trading partners during FY 2015. This is 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.



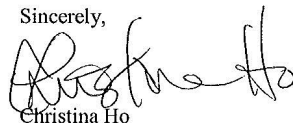
Treasury will continue to devote significant management attention and staff resources to resolving material intragovernmental differences along with developing and improving process controls within Treasury and the federal agencies. For example, in the past year, Treasury began collecting root cause information and corrective action plans from federal agencies to document and resolve systemic intragovernmental differences. Treasury will continue to monitor these plans to ensure this new process yields success in eliminating recurring and systemic differences.

With respect to the preparation material weakness, in FY 2015, Treasury completed the implementation of software and processes to automate and streamline all sections of the *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 Treasury was able to collect data from all reporting entities in the executive branch. A significant amount of accrual-based data was 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 obtain confirmation that information relating to all material assets, liabilities, and revenues are collected at year-end.

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 agency reports. Over the past two years, 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 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 ongoing commitment to improve Federal financial reporting.

Sincerely,



Christina Ho  
Deputy Assistant Secretary  
Accounting Policy and Financial Transparency

cc: Mark Reger



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# Appendix IV: Accessible Data

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## Agency Comment Letter

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Text of Appendix II:  
Comments from the Office  
of Management and  
Budget

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OFFICE OF MANAGEMENT AND BUDGET

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Text of Appendix III:  
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Page 1

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Government Accountability Office

441 G Street, NW.

Washington, DC 20548

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Sincerely,

Christina Ho

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Deputy Assistant Secretary

Accounting Policy and Financial Transparency

cc: Mark Reger

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