



August 2023

U.S. CONSOLIDATED FINANCIAL STATEMENTS

Improvements Needed in Internal Controls over Treasury and OMB Preparation Processes

Accessible Version

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Why GAO Did This Study

The Secretary of the Treasury, in coordination with the Director of OMB, prepares the *Financial Report of the United States Government*, which includes 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 2022 CFS audit, GAO identified continuing material weaknesses and other control deficiencies in the processes used to prepare the CFS.

The objectives of this report are to provide (1) details on new control deficiencies GAO identified related to the processes Treasury used to prepare the CFS, along with related recommendations, and (2) the status of corrective actions that Treasury, in coordination with OMB, has taken to address GAO's prior recommendations related to the processes used to prepare the CFS that remained open as of the completion of GAO's audit of the fiscal year 2021 CFS.

What GAO Recommends

GAO is making five new recommendations to Treasury to address the control deficiencies identified during the fiscal year 2022 CFS audit. In commenting on GAO's draft report, Treasury concurred with the five new recommendations and noted its ongoing commitment to improving federal financial reporting. OMB generally agreed with the draft report and noted its continuing commitment to achieving sound financial management across the federal government.

View [GAO-23-106707](#). For more information, contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov.

What GAO Found

GAO's audit of the fiscal year 2022 consolidated financial statements of the U.S. government (CFS) identified control deficiencies in the processes the Department of the Treasury, in coordination with the Office of Management and Budget (OMB), 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 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 (U.S. GAAP); and
- reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

GAO found that Treasury, as part of a working group, has made significant progress in addressing the control deficiencies related to treaties and other international agreements (TIA) identified in previous years. GAO closed the five recommendations related to TIAs and made two new TIA recommendations in this report that are better aligned with the current status of the remaining control deficiencies related to TIAs.

GAO also identified two new control deficiencies in the processes Treasury used to prepare the CFS.

1. Treasury did not sufficiently identify information significant component entities submitted for inclusion in the CFS that did not link directly to information reported in the respective entities' audited financial statements.
2. Treasury did not reasonably assure the reliability of information used from sources other than significant component entities' audited financial statements to prepare the social insurance sections of the CFS.

These deficiencies increase the risk that material amounts and disclosures may not be presented in the CFS in accordance with U.S. GAAP. In addition to the five closed TIA-related recommendations, Treasury implemented corrective actions that resolved one other open recommendation. As part of its fiscal year 2023 CFS audit, GAO will continue to monitor the status of corrective actions to address the five new recommendations made in this report as well as the nine open recommendations from prior years.

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Abbreviations

CFS	consolidated financial statements of the U.S. government
CMS	Centers for Medicare & Medicaid Services
DI	Disability Insurance
EDA	entity data analysis
<i>Financial Report</i>	<i>Financial Report of the U.S. Government</i>
FRD	Financial Reports Division
General Fund	General Fund of the U.S. Government
GLID	General Ledger and Intragovernmental Transaction Division
HHS	Department of Health and Human Services
OASI	Old-Age and Survivors Insurance
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
SMI	Supplementary Medical Insurance
SOP	standard operating procedure
SOSI	Statement of Social Insurance
SSA	Social Security Administration
TIA	treaties and other international agreements
U.S. GAAP	U.S. generally accepted accounting principles

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August 15, 2023

The Honorable Janet Yellen
Secretary of the Treasury

The Honorable Shalanda Young
Director
Office of Management and Budget

In our February 2023 report on the results of our audit of the consolidated financial statements of the U.S. government (CFS) as of and for the fiscal years ended September 30, 2022, and 2021,¹ we disclaimed an opinion on the federal government’s accrual-based consolidated financial statements and on the sustainability financial statements. Since our 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

¹The CFS as of and for the fiscal years ended September 30, 2022, and 2021, consist of the accrual-based consolidated financial statements (Statements of Net Cost; Statements of Operations and Changes in Net Position; Reconciliations of Net Operating Cost and Budget Deficit; Statements of Changes in Cash Balance from Budget and Other Activities; and Balance Sheets, including the related notes to these financial statements) and the sustainability financial statements (2022 and 2021 Statements of Long-Term Fiscal Projections; 2022, 2021, 2020, 2019, and 2018 Statements of Social Insurance; and 2022 and 2021 Statements of Changes in Social Insurance Amounts, including the related notes to these financial statements). See GAO, *Financial Audit: FY 2022 and FY 2021 Consolidated Financial Statements of the U.S. Government*, [GAO-23-105837](#) (Washington, D.C.: Feb. 16, 2023).

²A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

financial statements.³ We described these material weaknesses in our report on the audit of the fiscal year 2022 CFS.⁴ Other auditors also reported, in their audit reports on individual federal entities' financial statements, internal control deficiencies related to several of these material weaknesses along with related recommendations.

Several of the material weaknesses we described in our audit report related to the federal government's processes used to prepare the CFS.⁵ Such material weaknesses involve the federal government's inability to

- adequately account for 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 (U.S. GAAP); and
- reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), prepares, on behalf of the federal government, the *Financial Report of the United States*

³We have reported that significant uncertainties prevented us from expressing an opinion on the sustainability financial statements (Statements of Social Insurance for fiscal years 2010 through 2022 and Statements of Long-Term Fiscal Projections for fiscal years 2015 through 2022). The Statements of Social Insurance were first presented for fiscal year 2006, and the Statements of Long-Term Fiscal Projections were first presented for fiscal year 2015.

⁴See [GAO-23-105837](#), app. II.

⁵Our February 2023 report also discussed material weaknesses and scope limitations that did not relate to the processes used to prepare the CFS but prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements (see [GAO-23-105837](#), app. II).

Government, which includes the CFS.⁶ The objectives of this management report are to provide

- detailed information on control deficiencies identified during our fiscal year 2022 audit that relate to the processes used to prepare the CFS, along with related recommendations, and
- the status of corrective actions that the Department of the Treasury and OMB have taken to address the 15 recommendations relating to the processes used to prepare the CFS that were detailed in our previous reports and remained open as of the completion of our fiscal year 2021 audit.⁷

Scope and Methodology

As part of our fiscal year 2022 CFS audit, we considered the federal government's financial reporting procedures and related internal control. We determined the status of corrective actions Treasury and OMB have taken to address recommendations relating to their processes to prepare the CFS that remained open as of the completion of our fiscal year 2021 audit (see app. I). A full discussion of our scope and methodology is included in our February 2023 report on the audit of the fiscal year 2022 CFS.⁸ We have communicated the status of each of the recommendations discussed in this report with your staff. We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe that our audit provides a reasonable basis for our findings and recommendations in this report.

⁶The Government Management Reform Act of 1994 has required the preparation of the government-wide financial statements, covering the executive branch of the government, beginning with financial statements prepared for fiscal year 1997. See 31 U.S.C. § 331(e). The consolidated financial statements also include the legislative and judicial branches.

⁷GAO, *Management Report: Improvements Needed in the Controls over the Processes Treasury and OMB Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-22-105851](#) (Washington, D.C.: Aug. 16, 2022).

⁸[GAO-23-105837](#).

Control Deficiencies Identified during Our Fiscal Year 2022 Audit

During our audit of the fiscal year 2022 CFS, we found that Treasury, as part of a working group, has made significant progress in addressing the control deficiencies related to treaties and other international agreements (TIA) identified in previous years. We updated the description of the remaining control deficiencies related to TIAs.

We also identified two new control deficiencies in Treasury's processes used to prepare the CFS. Specifically, we found the following:

1. Treasury did not sufficiently identify information significant component entities submitted for inclusion in the CFS that did not link directly to information reported in the respective entities' audited financial statements.⁹
2. Treasury did not reasonably assure the reliability of information used from sources other than significant component entities' audited financial statements to prepare the social insurance sections of the CFS.

Reporting of Contingencies Related to Treaties and Other International Agreements

During our fiscal year 2022 CFS audit, we found that Treasury continued to be unable to reasonably assure that contingencies related to TIAs are reported in the CFS in accordance with U.S. GAAP. Treasury, as part of a working group with the Department of State, has taken certain actions over the past few years to address control deficiencies we identified in this area during our fiscal year 2002 CFS audit.¹⁰ In this report, we summarize the actions taken and provide an updated description of the remaining control deficiencies.

⁹Significant component entities consist of the 24 Chief Financial Officers Act agencies and 16 additional entities Treasury identified that are material to the CFS. A federal entity is generally deemed material to the CFS if it contributes more than \$1 billion to a CFS line item or note disclosure.

¹⁰GAO, *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Improvement*, [GAO-04-45](#) (Washington, D.C.: Oct. 30, 2003).

TIAAs may lead to contingencies that should be recognized or disclosed in the CFS,¹¹ in accordance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. The likelihood that there will be a loss, along with the ability to reasonably estimate the potential loss, determines the appropriate financial reporting treatment.

In response to our five recommendations relating to TIAAs from our fiscal year 2002 CFS audit, Treasury issued guidance to federal entities and formed a working group that developed a multiphase methodology to review TIAAs.¹² This included Treasury adding a section to its *Treasury Financial Manual* providing guidance to federal entities for identifying and reporting TIAAs.

In reviewing the corrective actions Treasury has taken to address control deficiencies we previously identified related to TIAAs, we determined that significant progress was made in addressing many aspects of the issues we originally identified. For example, in fiscal years 2020 and 2021, the working group analyzed State-determined categories of TIAAs through October 31, 2019, to identify those categories likely to have potential contingencies. In fiscal year 2022, the working group then performed reviews of selected TIAAs in the identified categories to determine whether contingencies existed.

However, the corrective actions did not include developing and implementing policies and procedures for (1) identifying, at the time the TIAAs enter into force, those with contingencies or (2) monitoring TIAAs with identified contingencies for events that may give rise to recognition of a contingent liability or disclosure of a contingency. The corrective actions also did not include developing and implementing policies and procedures

¹¹The term "recognize" means to formally record or incorporate an item into the financial statements of an entity as an asset, liability, revenue, expense, etc. The term "disclose" means to report information in notes or narrative that is regarded as integral to the financial statements.

¹²In October 2019, Treasury formed the Chief Financial Officers Council's Treaties Working Group (the working group), along with State and other federal entities that have significant TIAAs.

for determining, in coordination with applicable federal entities, in which reporting entity's financial statements to report any identified contingencies. We noted during our fiscal year 2022 CFS audit that the working group did not review any TIAs issued or recorded after October 31, 2019. Subsequent to the end of our fiscal year 2022 audit, the working group reviewed selected treaties recorded from November 1, 2019, through September 30, 2022.

SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, establishes standards for contingencies in the federal government. In addition, *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks. Financial reporting objectives include gathering and communicating information management needs to support financial statement preparation. The standards further state that management should implement control activities through policies. The policies are to be documented in the appropriate level of detail to allow for effective management review.¹³

Without sufficient policies and procedures over TIAs, Treasury is at increased risk that material amounts and disclosures may not be presented in the CFS in accordance with U.S. GAAP.

Recommendations for Executive Action

The Fiscal Assistant Secretary of the Treasury, in coordination with the working group, should develop and implement policies and procedures for identifying, at the time of entry into force, the TIAs that have contingencies, and for monitoring the TIAs that have contingencies for events that may give rise to the recognition of a contingent liability or disclosure of a contingency. (Recommendation 1)

The Fiscal Assistant Secretary of the Treasury, in coordination with the working group, should develop and implement policies and procedures for determining, in coordination with applicable federal entities, in which reporting entity's financial statements to report any identified contingencies. (Recommendation 2)

¹³GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).

Entity Data Analysis Procedures

During our fiscal year 2022 CFS audit, we found that Treasury's General Ledger and Intragovernmental Transaction Division (GLID), as part of its entity data analysis (EDA) process, did not sufficiently identify information significant component entities submitted that did not link directly to information reported in the respective entities' audited financial statements. For example:

- For the Statement of Operations and Changes in Net Position, GLID did not identify and document that some revenue amounts included in significant component entity data submissions for the CFS did not link to the amounts reported in the entities' audited financial statements. Specifically, we identified 10 significant component entities for which revenue amounts included in entity data submissions could not be linked to entity audited financial statements or related note information.
- For the Balance Sheet, GLID did not sufficiently identify and document whether some amounts included in significant component entity data submissions, such as Advances and Prepayments and Benefits Due and Payable, agreed to the amounts reported in the entities' audited financial statements. Though some of this information was included in the entities' related notes to the financial statements as provided in OMB Circular No. A-136, *Financial Reporting Requirements*,¹⁴ GLID did not include sufficient support in its EDA documentation to link the information to the entities' financial statements. Also, GLID did not identify and document that Treasury's departmental financial statements did not separately report Advances and Prepayments, Benefits Due and Payable, and Accounts Payable on its Balance Sheet or disclose the breakout of these amounts in the notes to its financial statements.
- For the Statement of Net Cost, GLID did not consistently identify and document when significant component entities did not separately report subcomponents of net cost, such as gross cost and earned

¹⁴OMB Circular No. A-136 issued June 3, 2022, section II.3.2.2, Balance Sheet Template, states "if a line title is immaterial to an entity, the entity must do one of the following: (1) use the numbered line title with the immaterial amount presented, (2) present the immaterial amount in the numbered line title as a discrete component under Other Assets or Other Liabilities, or (3) disclose the amount for the numbered line title under Other Assets or Other Liabilities."

revenue, to support the breakout of net cost subcomponents in the CFS.

To reasonably assure that information reported in the CFS is reliable, GLID established an EDA process to verify that data significant component entities submitted for inclusion in the CFS are based on audited entity financial statements. For this process, GLID accountants determine whether the entity-submitted data used in the CFS consolidation process link to the entities' audited financial statement line items. Treasury's Financial Reports Division (FRD) also performs an annual analysis to determine the aggregate impact on the CFS of amounts not obtained from significant component entity audited financial statements. The fiscal year 2022 aggregate analysis considered some unaudited amounts included in the CFS, such as journal entries that FRD processed that were not based on audited financial data.

However, in our fiscal year 2022 CFS audit, we found that GLID's EDA standard operating procedure (SOP) did not include detailed steps for accountants to record the results of their EDA reviews. For example, we found the following:

- Accountants included check marks in the EDA documentation beside amounts that significant component entities submitted for inclusion in the CFS, but as noted in the examples above, the amounts with check marks were not always supported by information reported in the significant component entity audited financial statements. As a result, it was not clear what the check marks indicated.
- The SOP did not include procedures for accountants to (1) notate when entity financial statement amounts needed to be combined or (2) include excerpts from entity note disclosures used in linking amounts to significant component entities' audited financial statements.
- Although the SOP required accountants to prepare correcting journal vouchers for material differences identified, the SOP did not include detailed steps for documenting all amounts that did not link to significant component entities' audited financial statements.

In addition, the SOP did not require consideration of unsupported amounts identified in the EDA process in the aggregate analysis to determine the impact of these amounts on the CFS.

Statement of Federal Financial Accounting Concepts 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial*

Report of the United States Government, states that the consolidated financial report should be a general purpose report that is aggregated from agency reports. Additionally, *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks. Financial reporting objectives include gathering and communicating information management needs to support financial statement preparation. The standards further state that management should implement control activities through policies. The policies are to be documented in the appropriate level of detail to allow for effective management review.¹⁵

Without sufficient procedures for documenting amounts for which Treasury does not have audit assurance, Treasury is unable to effectively determine the aggregate impact of these amounts on the CFS.

Recommendations for Executive Action

The Fiscal Assistant Secretary of the Treasury should enhance the EDA process to include detailed procedures for GLID to document the information that significant component entities submitted for inclusion in the CFS that does not link directly to information reported in the entities' audited financial statements. (Recommendation 3)

The Fiscal Assistant Secretary of the Treasury should develop and implement procedures for considering amounts identified through the EDA process that do not link directly to the significant component entities' audited financial statements as part of the aggregate analysis to determine their impact on the CFS. (Recommendation 4)

Reliability of Information Used to Prepare the Social Insurance Sections of the CFS

During our fiscal year 2022 CFS audit, we found that Treasury did not reasonably assure the reliability of information used from sources other than significant component entities' audited financial statements to prepare the social insurance sections of the CFS. Social insurance sections of the CFS include the Statement of Social Insurance (SOSI), Statement of Changes in Social Insurance Amounts (SCSIA), Note

¹⁵[GAO-14-704G](#).

disclosure - Social Insurance, and the Required Supplementary Information (RSI) Social Insurance section.

For the fiscal year 2022 CFS, Treasury primarily prepared the social insurance sections using information from the four social insurance program component entities' audited financial statements.¹⁶ When information was not available in the component entities' audited financial statements, Treasury used information from other sources to prepare the social insurance sections of the CFS.

According to Treasury's SOP, Social Insurance, information from other sources included workbooks from the Department of Health and Human Services' (HHS) Centers for Medicare & Medicaid Services (CMS) and the Social Security Trust Fund Data.¹⁷ The CMS workbooks are electronic files of social insurance data that HHS provides and are submitted annually to Treasury through email. Treasury used amounts in the CMS workbooks to support certain amounts reported in the 2022 SOSI; 2022 SCSIA; Note 25, Social Insurance; and the RSI Social Insurance section of the CFS. For example, the \$56.6 billion of Federal Supplementary Medical Insurance (Medicare Part B) revenue for all current and future participants and the \$11.7 billion of Federal Supplementary Medical Insurance (Medicare Part D) revenue for all current and future participants on the 2022 SOSI were supported by the CMS workbooks.¹⁸ Additionally, Treasury used Social Security Trust Fund Data obtained from the Social Security Administration website to support certain amounts reported in the RSI Social Insurance section of the CFS. For example, the \$1,135.4 billion of Social Security payroll and benefit taxes reported in the Revenues and Expenditures for Medicare and Social Security Trust Funds and the Total Federal Budget for the Fiscal Year

¹⁶The four social insurance program component entities are the Social Security Administration, Department of Health and Human Services, Railroad Retirement Board, and Department of Labor.

¹⁷Treasury's SOP, Social Insurance, includes other unaudited sources used to prepare the CFS in addition to the aforementioned sources.

¹⁸The Medicare Program has two separate trust funds: the Hospital Insurance Trust Fund and the Supplementary Medical Insurance (SMI) Trust Fund. The SMI Trust Fund consists of Medicare Part B and Part D. Part B helps pay for physician, outpatient hospital, home health, and other services. Part D helps pay for prescription drugs.

Ended September 30, 2022, table was supported by the Social Security Trust Fund Data.¹⁹

However, Treasury does not have procedures to annually determine the reliability of the information used from sources other than the significant component entities' audited financial statements, such as the CMS workbooks and the Social Security Trust Fund Data, to prepare the social insurance sections of the CFS.

Standards for Internal Control in the Federal Government states that management should implement control activities through policies. The standards provide that management documents in policies the internal control responsibilities of the organization and periodically reviews policies, procedures, and related control activities. In addition, the standards state that one of the key objectives of an organization's internal control is to provide reasonable assurance as to the reliability of its financial reporting, which includes financial statements and note disclosures.²⁰

Without establishing and implementing procedures to determine the reliability of information used from sources other than significant component entities' audited financial statements, Treasury cannot reasonably assure the reliability of the information in the social insurance sections of the CFS.

Recommendation for Executive Action

The Fiscal Assistant Secretary of the Treasury should develop and implement procedures to annually determine the reliability of information used from sources other than significant component entities' audited financial statements to prepare the social insurance sections of the CFS. (Recommendation 5)

¹⁹The Social Security Program has two separate trust funds: the Federal Old-Age and Survivors Insurance (OASI) Trust Fund and the Federal Disability Insurance (DI) Trust Fund. The OASI Trust Fund pays cash retirement benefits to eligible retirees and their eligible dependents and survivors. The DI Trust Fund pays cash benefits to eligible individuals who are unable to work because of medical conditions and certain family members of such eligible individuals. The two funds are often referred to as the combined OASDI Trust Funds.

²⁰[GAO-14-704G](#).

Status of Recommendations from Prior Reports

At the completion of our fiscal year 2021 audit, 15 recommendations were open from our prior reports regarding control deficiencies in the processes used to prepare the CFS. During our fiscal year 2022 CFS audit, we found that Treasury implemented corrective actions that resolved one control deficiency and associated recommendation from our prior reports, and we closed this recommendation. As noted in this report, for the five TIA recommendations open from our prior reports, we found that Treasury, as part of a working group, addressed significant elements of the TIA control deficiencies. We closed these five recommendations as implemented and made two new recommendations in this report that are better aligned with the current status of the remaining internal control deficiencies associated with TIAs.

We also found that Treasury, in coordination with OMB, continued to make significant progress in resolving many of the remaining control deficiencies and associated recommendations from our prior reports. However, additional work is needed, and nine recommendations remained open as of February 8, 2023, the date of our report on the audit of the fiscal year 2022 CFS. Therefore, 14 recommendations need to be addressed—nine remaining from prior reports and five new recommendations we are making in this report. These control deficiencies contributed to the three material weaknesses that relate to the processes Treasury, in coordination with OMB, used to prepare the CFS.

Appendix I summarizes the status of the 15 open recommendations from our prior years' reports according to Treasury and OMB, as well as our own assessment and additional comments, where appropriate. Treasury, in coordination with OMB, has various efforts under way to address the nine recommendations that remain open as of the end of our fiscal year 2022 audit. As part of our fiscal year 2023 CFS audit, we will continue to monitor Treasury's and OMB's progress in addressing our recommendations.

Conclusions

The annual preparation and audit of federal financial statements are critical to help ensure federal entity accountability and facilitate effective financial management. However, during our fiscal year 2022 audit, we identified internal control deficiencies in Treasury's processes used to

prepare the CFS. We identified remaining deficiencies regarding the reporting of contingencies related to TIAs in the CFS. We also found new deficiencies related to identifying information included in the CFS that did not link directly to information reported in significant component entities' audited financial statements and the reliability of certain information used to prepare the social insurance sections of the CFS. The deficiencies increase the risk that material amounts and disclosures may not be presented in the CFS in accordance with U.S. GAAP. Taking actions to address these deficiencies would enhance federal government officials' and others' access to accurate and reliable financial data and, in turn, their ability to make more informed financial decisions. As part of our audit of the fiscal year 2023 CFS, we plan to follow up with Treasury to determine the status of corrective actions it has taken on our new recommendations and those prior years' recommendations reported as open in this report (see app. I).

Agency Comments

We provided a draft of this report to Treasury and OMB for comment. In written comments, reproduced in appendix II, Treasury stated that it appreciates our perspective and will continue to focus its efforts on cost-beneficial solutions to resolve the material conditions that preclude having an opinion rendered on the CFS. Treasury concurred with our five new recommendations. Treasury agreed that these recommended process improvements would increase its internal controls over the processes used to prepare the CFS. In its response, Treasury described actions it will take, and has taken, to address certain open recommendations from our prior reports that are summarized in appendix I of this report. Treasury indicated its ongoing commitment to improving federal financial reporting.

In oral comments, OMB staff in the Office of Federal Financial Management stated that OMB generally agreed with the draft report and Treasury's written response. OMB noted that the current administration is committed to continuing to work with Treasury and federal agencies to achieve sound financial management across the federal government.

We are sending copies of this report to appropriate congressional committees, the Fiscal Assistant Secretary of the Treasury, the Deputy Controller of the Office of Management and Budget's Office of Federal Financial Management, and other interested parties. In addition, the

report is available at no charge on the GAO website at <https://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance that Treasury and OMB staff members provided during our audit. If you or your staffs 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. GAO staff members who made major contributions to this report are listed in appendix III.

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

Dawn B. Simpson
Director
Financial Management and Assurance

Appendix I: Status of GAO's Prior Recommendations Related to the Processes Used to Prepare the CFS

Table 1 shows the status of GAO's prior year recommendations related to the processes the Department of the Treasury, in coordination with the Office of Management and Budget, used to prepare the consolidated financial statements of the U.S. government (CFS). The abbreviations used are defined in the legend at the end of the table.

**Appendix I: Status of GAO's Prior
Recommendations Related to the Processes
Used to Prepare the CFS**

Table 1: Status of GAO's Prior Recommendations Related to the Processes Used to Prepare the CFS

Count	No.	Recommendation ^a	Status of recommendation ^b	
			Per Treasury and OMB	Per GAO
GAO-04-45 (results of the fiscal year 2002 audit)				
1	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, in conjunction with the Department of State, has completed multiple phases of its assessment of TIAs to determine overall risk to the <i>Financial Report</i> for undisclosed commitments or contingencies, to address GAO's past recommendations. Treasury, in conjunction with State, is committed to continuing its efforts to address the remaining internal control deficiencies in this area.	Closed. Members of the Chief Financial Officers Council's Treaties Working Group, including members from Treasury and State, completed multiple phases planned to help ensure that TIAs are properly identified and reported in the CFS. We reviewed the corrective actions implemented and determined that they addressed significant elements of this recommendation and the four other recommendations related to TIAs (02-38, 02-39, 02-40, and 02-41). To provide recommendations that are better aligned with the remaining internal control deficiencies in this area, we (1) have closed this recommendation as implemented and (2) included in this report under "Reporting of Contingencies Related to Treaties and Other International Agreements" new recommendations for corrective actions.
2	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 status of recommendation no. 02-37.	Closed. See status of recommendation no. 02-37.

**Appendix I: Status of GAO's Prior
Recommendations Related to the Processes
Used to Prepare the CFS**

Count	No.	Recommendation ^a	Status of recommendation ^b	
			Per Treasury and OMB	Per GAO
3	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 status of recommendation no. 02-37.	Closed. See status of recommendation no. 02-37.
4	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 status of recommendation no. 02-37.	Closed. See status of recommendation no. 02-37.
5	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 status of recommendation no. 02-37.	Closed. See status of recommendation no. 02-37.

[GAO-13-540](#) (results from the fiscal year 2012 audit)

**Appendix I: Status of GAO's Prior
Recommendations Related to the Processes
Used to Prepare the CFS**

Count	No.	Recommendation ^a	Status of recommendation ^b	
			Per Treasury and OMB	Per GAO
6	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. (Reconciliation Statements material weakness)	Treasury has two focus areas to ensure that the budget statements are fully consistent with federal entities' audited data. First, Treasury reviews the audit of the Schedules of the General Fund of the U.S. Government and is working to obtain audit assurance over the budget deficit amount. Second, Treasury continued to provide federal entities with additional guidance to supplement Statement of Federal Financial Accounting Standards 53, <i>Budget and Accrual Reconciliation</i> , to ensure that they are implementing the reconciliation consistently. Once consistent reporting is achieved by federal entities, then Treasury will trace it to the Reconciliation Statements.	Open. Treasury continued to identify items needed to prepare and improve the presentation of the Reconciliation Statements. Treasury continued to educate federal entities on how to properly use the new guaranteed and direct loan financing activity transaction codes and is in the process of reviewing debt-related transactions and other General Fund activity to determine the reporting requirements needed to improve the accounting for and reporting of General Fund transactions and balances. Therefore, additional work is needed to determine the appropriate presentation for the reconciling items, which could affect the line items included on the statements.
7	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. (Reconciliations Statements material weakness)	Treasury has effective procedures for identifying and reporting all items needed to prepare the Reconciliation Statements. In fiscal year 2023, Treasury will continue to focus on identifying the best financial statement presentation for the reconciling items. This includes the recommencing of the Budget Accrual Reconciliation working group.	Open. See status of recommendation no.12-04.

[GAO-14-543](#) (results from the fiscal year 2013 audit)

**Appendix I: Status of GAO's Prior
Recommendations Related to the Processes
Used to Prepare the CFS**

Count	No.	Recommendation ^a	Status of recommendation ^b	
			Per Treasury and OMB	Per GAO
8	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 has worked previously to develop the infrastructure to support the Schedules of the General Fund. In addition, Treasury developed an accounting model as well as a reporting format for the General Fund. Treasury also created a method for federal entities to identify and report their activity with the General Fund that has shown great results in reconciling intragovernmental activity with the General Fund. Treasury continues to work on obtaining audit assurance on the activity and balances.	Open. Treasury continued to make progress, for example, by establishing procedures to (1) obtain and review support for material accrual balances provided by federal entities for inclusion in the General Fund's general ledger and (2) review federal entity audited financial statements and conduct data calls for unrecorded activity to include in the General Fund's general ledger. In addition, Treasury has been working with federal entities to ensure proper use of newly established transaction codes. However, intragovernmental differences remain, and further improvements are needed to account for and report all significant General Fund activity and balances, including obtaining audit assurance and reconciling with federal entity trading partners.

**Appendix I: Status of GAO's Prior
Recommendations Related to the Processes
Used to Prepare the CFS**

Count	No.	Recommendation ^a	Status of recommendation ^b	
			Per Treasury and OMB	Per GAO
9	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)	As a result of multiple ongoing initiatives established over the past few years, Treasury and OMB have seen a significant decrease in intragovernmental elimination differences submitted by federal entities. Treasury and OMB will continue to monitor the raw intragovernmental data from the entities. In the past couple of years, Treasury has seen the need to obtain the proper assurance over the intragovernmental transactions processes and controls from the management and auditors at the federal entities. Treasury will work to determine a path forward to update guidance and requirements to obtain the proper intragovernmental transactions assurance from the federal entities.	Open. Progress was made, but we continued to note that amounts reported by federal entity trading partners to Treasury were not in agreement by significant amounts. A formalized process requiring that auditors perform additional audit procedures focused on intragovernmental activity and balances would help to address these unreconciled transactions.
GAO-20-586 (results from the fiscal year 2019 audit)				
10	19-01	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary enhances Treasury's procedures for the aggregate analysis to consider the impact of all amounts not obtained from significant entity audited financial statements on the reliability of the CFS and use the results to determine if audit coverage is needed for any information. (Preparation material weakness)	For fiscal year 2022, Treasury focused on the remaining narrative in the <i>Financial Report</i> that does not have audit coverage and determined the appropriate action. In addition, Treasury will focus on strengthening its procedures around audit coverage and documenting how this analysis is used to target improvement areas.	Open. Treasury made improvements to its procedures, including adding steps to evaluate narrative information and improving note table tracing spreadsheets. However, additional work is needed to correctly include unaudited amounts in the aggregate analysis and use the results to determine if additional audit coverage is needed.
GAO-22-105851 (results from the fiscal year 2021 audit)				

**Appendix I: Status of GAO's Prior
Recommendations Related to the Processes
Used to Prepare the CFS**

Count	No.	Recommendation ^a	Status of recommendation ^b	
			Per Treasury and OMB	Per GAO
11	21-01	The Fiscal Assistant Secretary of the Treasury should enhance existing policies and procedures to reasonably assure appropriate accounting and reporting for significant, unusual transactions or events, such as changes in legislation, affecting the CFS. (Preparation material weakness)	In fiscal year 2022, Treasury began looking into the feasibility of preemptively identifying legislative language that would create significant new accounting events that would affect the <i>Financial Report</i> and associated disclosures. For fiscal year 2023, Treasury will turn those research efforts into actionable items that can be implemented to help mitigate this finding. Potential new actionable items include receiving preemptive delta analysis to help assess significant, unusual transactions or events and assist in their proper disclosure.	Open.
12	21-02	The Fiscal Assistant Secretary of the Treasury should enhance Treasury's procedures for analyzing uncorrected misstatements to identify all known uncorrected misstatements, by line item and on all of the affected current year and prior year financial statements, during the CFS preparation process. (Preparation material weakness)	In fiscal year 2022, Treasury improved existing procedures to identify and analyze all prior year and current year uncorrected misstatements, including the effect of uncorrected restatements. For fiscal year 2023, further improvements will be added to the process to include additional analysis.	Open. Treasury enhanced its procedures for analyzing uncorrected misstatements. However, additional work is needed to consider all uncorrected misstatements identified during the CFS preparation process.
13	21-03	The Fiscal Assistant Secretary of the Treasury should enhance Treasury's procedures for analyzing uncorrected misstatements to consider the effect of uncorrected misstatements by line item and on all of the affected current year and prior year financial statements. (Preparation material weakness)	See the status of recommendation no. 21-02.	Open. See the status of recommendation no. 21-02.
14	21-04	The Fiscal Assistant Secretary of the Treasury should enhance existing procedures to reasonably assure that significant accounting policies are appropriately disclosed in CFS Note 1 and, as applicable, are consistent with significant component entity audited financial statements. (Preparation material weakness)	Treasury enhanced existing procedures to provide reasonable assurance that the significant accounting policies are appropriately discussed in CFS Note 1 and are consistent with entity audited financial statements when applicable.	Closed. During our fiscal year 2022 audit, we determined that Treasury enhanced existing procedures and implemented new procedures that sufficiently addressed this recommendation.

Appendix I: Status of GAO's Prior Recommendations Related to the Processes Used to Prepare the CFS

Count	No.	Recommendation ^a	Status of recommendation ^b	
			Per Treasury and OMB	Per GAO
15	21-05	The Fiscal Assistant Secretary of the Treasury should enhance existing policies and procedures to support CFS disclosure decisions related to explaining significant fluctuations and disaggregating line item components in note tables. (Preparation material weakness)	In fiscal year 2023, Treasury will be completely overhauling its Materiality Policy for the CFS. Once complete, this policy will be used to inform the disclosure requirements and disaggregation policies of financial statement and note line items.	Open.

Legend:

CFS = consolidated financial statements of the U.S. government

Financial Report = *Financial Report of the U.S. Government*

General Fund = General Fund of the U.S. Government

OMB = Office of Management and Budget

TIA = treaties and other international agreements

Sources: GAO, Treasury, and OMB. | GAO-23-106707

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

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

Preparation: The material weakness relates 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. generally accepted accounting principles.

Reconciliation Statements: The material weakness relates to the federal government's inability to reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

^bThe status of the recommendations listed in the table is as of February 8, 2023, the date of our report on the audit of the fiscal year 2022 CFS.

Appendix II: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 2, 2023

Dawn B. Simpson
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) 2022 audit, GAO-23-106707, MANAGEMENT REPORT, U.S. Consolidated Financial Statements: *Improvements Needed in Internal Controls over the Processes Treasury and OMB Used to Prepare the Statements*.

We appreciate GAO's perspective and look forward to building on our significant progress to date in pursuing resolution of the remaining substantial barriers to auditability of the *Financial Report of the U.S. Government (Financial Report)*. The Department of the Treasury's (Treasury) efforts in recent years have yielded closure of over 48 percent of outstanding prior year recommendations since FY 2015. Going forward and reflecting management's accountability to the reliable reporting of the Government's financial position, Treasury will continue to focus its efforts on cost-beneficial solutions that Treasury believes will yield the desired outcome - sufficiently resolving the material conditions that have precluded the full audit of the *Financial Report* since its inception in FY 1997.

The draft Report identifies five new audit recommendations concerning control deficiencies in the preparation of the FY 2022 *Financial Report*. Specifically, GAO found that: (1) The Fiscal Assistant Secretary, in coordination with the working group, should develop and implement policies and procedures for identifying, at the time of entry into force, the Treaties and International Agreements (TIAs) that have contingencies, and for monitoring the TIAs that have contingencies for events that may give rise to the recognition of a contingent liability or disclosure of a contingency; (2) Treasury, in coordination with the Treaties working group, should develop and implement policies and procedures for determining which reporting entity's financial statements to report any identified contingencies resulting from Treaties in force; (3) Treasury should enhance its Entity Data Analysis (EDA) process to document the information that significant component entities submitted for inclusion in the consolidated financial statements (CFS) that does not link directly to information reported in the entities audited financial statements; (4) Treasury should also develop and implement procedures for considering amounts identified through the EDA process that do not link directly to the significant component entities' audited financial statements as part of the

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

aggregate analysis to determine their impact on the CFS; and (5) Treasury should develop and implement procedures to annually determine the reliability of information used from sources other than significant component entities' audited financial statements to prepare the social insurance sections of the CFS. Treasury agrees these five new audit recommendations are process improvements that would increase the controls in the preparation of the *Financial Report*, but Treasury does not believe any of these are scope limitations, meaning there is not a situation where the completeness of the data used for preparation and reconciliation is questionable.

Additionally, we are pleased with the closure of six outstanding recommendations from prior years' reports. The remaining recommendations emphasize and articulate the three critical material weaknesses identified in the audit: (1) intra-governmental activity and balances; (2) preparation of the CFS; and (3) reconciliations of budget deficit to net operating cost and changes in cash balance.

Treasury continues to improve the reliability of the amounts in the Schedules of the General Fund of the U.S. Government. The General Fund has undergone three audits for FY 2018, FY 2020, and FY 2022, and all resulted in a disclaimer of opinion, although Treasury continues to make significant improvements in: (1) improving the accounting for and reporting of General Fund activity and balances and (2) reducing the intra-governmental elimination differences between the General Fund and its trading partners. These differences totaled \$12 billion in FY 2022, which is a decrease of approximately 90 percent in the last four fiscal years. This decrease is consistent with the overall intra-governmental eliminations differences that have decreased significantly by approximately 97 percent since FY 2016 (\$1.37 trillion in FY 2016 to \$45 billion in FY 2022). Reporting on and audit of the General Fund represents 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.

In addition, Treasury's efforts in recent years have significantly strengthened internal controls intended to address the preparation of material weakness. Notably, the U.S. Chief Financial Officers (CFO) Council has provided essential support towards Treasury's efforts, in coordination with the Department of State, to implement corrective action plans that have a planned date of completion during FY 2024 to address the new recommendations contained in this Management Report concerning monitoring, testing, and identifying treaties as having potential commitments or contingencies and issuing guidance to federal entities on the proper disclosures.

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 federal entity reports. In FY 2021 and FY 2022, the focus has been on identifying the transaction-level data needed to improve its traceability to federal entity financial statement lines and its use in calculating the U.S. government's budget deficit. Federal entities started to report this detailed level of data in FY 2021; however, Treasury continues to work with entities on completeness. The additional entity data will support the General Fund audit and, in so doing, provide assurance over the budget deficit amounts reported in the CFS. Treasury is prioritizing the Budget and Accrual Reconciliation Project and has met with several significant

2

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

component entities to discuss differences and obstacles they have faced throughout their implementation process.

In conclusion, we appreciate GAO's partnership 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,

/s/ Renata Miskell

Renata Miskell
Deputy Assistant Secretary
Accounting Policy and Financial
Transparency

cc: Deidre A. Harrison

Accessible Text for Appendix II: Comments from the Department of the Treasury

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Director, Financial Management and Assurance
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We appreciate GAO's perspective and look forward to building on our significant progress to date in pursuing resolution of the remaining substantial barriers to auditability of the Financial Report of the U.S. Government (Financial Report). The Department of the Treasury's (Treasury) efforts in recent years have yielded closure of over 48 percent of outstanding prior year recommendations since FY 2015. Going forward and reflecting management's accountability to the reliable reporting of the Government's financial position, Treasury will continue to focus its efforts on cost-beneficial solutions that Treasury believes will yield the desired outcome - sufficiently resolving the material conditions that have precluded the full audit of the Financial Report since its inception in FY 1997.

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Sincerely,

Renata Miskell
Deputy Assistant Secretary Accounting Policy and Financial Transparency

cc: Deidre A. Harrison

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Dawn B. Simpson, (202) 512-3406 or simpsondb@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made major contributions to this report: Carolyn M. Voltz (Assistant Director), Taya R. Tasse (Auditor-in-Charge), Deyanna Beeler, Mark Cheung, LaDonna Towler, Cindy Tsao, Jeffrey Yoder, and Michael Zalenski.

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