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June 2013

# MANAGEMENT REPORT

## Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements

# GAO Highlights

Highlights of [GAO-13-540](#), 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 CFS, exclusive of the Statements of Social Insurance (SOSI). Also, GAO was unable to express opinions on the 2012, 2011, and 2010 SOSI and 2012 and 2011 Statements of Changes in Social Insurance Amounts because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, reflected in these statements. As part of the fiscal year 2012 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 (1) provide details on new control deficiencies GAO identified related to the preparation of the CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken by Treasury and OMB to address GAO's prior recommendations relating to the preparation of the CFS that remained open at the end of the fiscal year 2011 audit.

## What GAO Recommends

GAO is making six recommendations — five to Treasury and one to OMB— to address the new control deficiencies identified by GAO during the fiscal year 2012 CFS audit. In commenting on GAO's draft, OMB and Treasury generally concurred on 5 of the 6 recommendations, and Treasury will consider implementation of the other recommendation.

View [GAO-13-540](#). For more information, contact Gary Engel at (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov).

June 2013

## MANAGEMENT REPORT

### Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements

## What GAO Found

During its audit of the fiscal year 2012 consolidated financial statements of the U.S. government (CFS), GAO identified new and continuing control deficiencies in the Department of the Treasury's (Treasury) and the Office of Management and Budget's (OMB) processes used to prepare the CFS. These control deficiencies contributed to material weaknesses in internal control over the federal government's ability to

- adequately account for and reconcile intragovernmental activity and balances between federal entities;
- ensure that the federal government's accrual-based consolidated financial statements were (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in conformity with U.S. generally accepted accounting principles; and
- identify and either resolve or explain material differences between (1) components of the budget deficit that are used to prepare certain information in the CFS and (2) related amounts reported in federal entities' financial statements and underlying financial information and records.

Specifically, for fiscal year 2012, GAO found that Treasury's procedures were not effectively designed to

- reasonably assure the timely submission of audited material line items for significant calendar year-end federal entities,
- determine the effect of restatements and reclassifications submitted by significant federal entities on related line items and notes presented in the CFS, and
- ensure that the budget statements included in the CFS were prepared in a reliable manner.

GAO also notified OMB of a reporting requirement in OMB Circular No. A-136, *Financial Reporting Requirements*, that may result in inconsistent and inaccurate reporting of compliance with the Federal Financial Management Improvement Act of 1996.

In addition, GAO found that various other control deficiencies identified in previous years' audits with respect to the CFS preparation continued to exist. Specifically, 31 of the 48 recommendations from GAO's prior reports regarding control deficiencies in the CFS preparation process remained open as of January 9, 2013, the date of GAO's report on its audit of the fiscal year 2012 CFS. GAO will continue to monitor the status of corrective actions taken to address the 6 new recommendations as well as the 31 open recommendations from prior years as part of its fiscal year 2013 CFS audit.

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## Abbreviations

CFO	chief financial officer
CFS	consolidated financial statements of the U.S. government
CSGL	Treasury's Central Standard General Ledger
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act
GAAP	generally accepted accounting principles
IRAS	Intragovernmental Reporting and Analysis System
OMB	Office of Management and Budget
SOP	standard operating procedure
SOSI	Statement of Social Insurance
STAR/CARS	Treasury's central accounting and reporting system

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June 28, 2013

The Honorable Jacob J. Lew  
Secretary of the Treasury

The Honorable Sylvia Mathews Burwell  
Director  
Office of Management and Budget

In our January 2013 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, 2012 and 2011,<sup>1,2</sup> we disclaimed an opinion on the CFS, except for the 2009 and 2008 Statements of Social Insurance (SOSI), which received unqualified opinions.<sup>3</sup> Since GAO's first audit of the fiscal year 1997 CFS, certain material weaknesses in internal control over financial reporting and other limitations on the scope of our work have resulted in conditions that prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements.<sup>4</sup> These include material weaknesses that relate to the federal

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<sup>1</sup>GAO, *Financial Audit: U.S. Government's Fiscal Years 2012 and 2011 Consolidated Financial Statements*, [GAO-13-271R](#) (Washington, D.C.: Jan. 17, 2013).

<sup>2</sup>The CFS for the fiscal years ended September 30, 2012 and 2011, 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; 2012, 2011, 2010, 2009, and 2008 Statements of Social Insurance; and 2012 and 2011 Statements of Changes in Social Insurance Amounts, including the related notes to these financial statements.

<sup>3</sup>Because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2012, 2011, and 2010 SOSI, we were unable to, and did not, express opinions on the 2012, 2011, and 2010 SOSI as well as on the 2012 and 2011 Statements of Changes in Social Insurance Amounts. We were, however, able to render unqualified opinions on the 2009 and 2008 SOSI. The Statement of Changes in Social Insurance Amounts became a basic financial statement in fiscal year 2011.

<sup>4</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 SOSI and the Statements of Changes in Social Insurance Amounts.

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government's processes used to prepare the CFS.<sup>5</sup> Such material weaknesses involve the federal government's inability to

- adequately account for and reconcile intragovernmental activity and balances between federal entities;
- ensure that the federal government's accrual-based consolidated financial statements were (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in conformity with U.S. generally accepted accounting principles; and
- identify and either resolve or explain material differences between (1) certain components of the budget deficit reported in the Department of the Treasury's (Treasury) records that are used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit, the Statement of Changes in Cash Balance from Unified Budget and Other Activities, and the Fiscal Projections for the U.S. Government (included in the unaudited Required Supplementary Information section of the *2012 Financial Report of the United States Government (Financial Report)*)<sup>6</sup> and (2) related amounts reported in federal entities' financial statements and underlying financial information and records.

Treasury, in coordination with the Office of Management and Budget (OMB), prepares the CFS on behalf of the federal government.<sup>7</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 consolidated financial statements were

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<sup>5</sup>Our January 2013 report also discussed material weaknesses and scope limitations that did not relate to the process 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>6</sup>The *2012 Financial Report of the United States Government*, which includes the CFS and our related audit report, was issued by the Department of the Treasury on January 17, 2013, and is available through Treasury's website at <http://www.fms.treas.gov/fr/index.html>.

<sup>7</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. 31 U.S.C. 331(e). The federal government has elected to include certain financial information on the legislative and judicial branches in the CFS as well.

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reported in detail along with related recommendations by other auditors in their audit reports on individual federal entities' financial statements.<sup>8</sup>

The purpose of this report is to provide (1) detailed information on new control deficiencies identified during our fiscal year 2012 audit that relate to the processes used by Treasury and OMB to prepare the CFS, (2) 6 recommendations to address these new control deficiencies, and (3) the status of corrective actions taken by Treasury and OMB to address the 48 recommendations relating to the processes used by them to prepare the CFS, detailed in our previous reports, that remained open at the end of the fiscal year 2011 audit.<sup>9</sup> In total, we closed 17 of the 48 recommendations at the end of the fiscal year 2012 audit. Of the 17 recommendations that have been closed, 7 were closed as a result of corrective actions taken by Treasury. We closed the other 10 recommendations by making 2 new recommendations in this report that are better aligned with the current status of the remaining internal control deficiencies associated with the budget statements included in the CFS and that reflect certain actions taken by Treasury. Appendix I provides a summary of the status of actions taken to address the open recommendations from our previous reports as of January 9, 2013, the date of our report on the audit of the fiscal year 2012 CFS.

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## Scope and Methodology

As part of our audit of the fiscal years 2012 and 2011 CFS, we considered the federal government's financial reporting procedures and related internal control. Also, we determined the status of corrective actions taken by Treasury and OMB to address open recommendations relating to the processes used by them to prepare the CFS that were detailed in our previous reports. Based on the scope of our work and the effects of the other limitations on the scope of our audit noted throughout our audit report on the fiscal year 2012 CFS, our internal control work

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<sup>8</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.

<sup>9</sup>GAO, *Management Report: Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements*, [GAO-12-529](#) (Washington, D.C.: June 27, 2012).

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would not necessarily identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies.<sup>10</sup> We have communicated each of the new control deficiencies to your staff. We performed our audit of the fiscal years 2012 and 2011 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.

We requested comments on a draft of this report from the Director of OMB and the Secretary of the Treasury or their designees. OMB provided oral comments, which are summarized in the Agency Comments and Our Evaluation section of this report. Treasury's Fiscal Assistant Secretary provided written comments on June 6, 2013, which are reprinted in their entirety in appendix II and are also summarized in the Agency Comments and Our Evaluation section.

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## New Control Deficiencies Identified

During our audit of the fiscal year 2012 CFS, we identified several new internal control deficiencies in Treasury's and OMB's processes used to prepare the CFS. Specifically, we found that Treasury's procedures were not effectively designed to (1) reasonably assure the timely submission of audited material line items for significant calendar year-end federal entities, (2) determine the effect of restatements and reclassifications submitted by significant federal entities on related line items and notes presented in the CFS, and (3) ensure that the budget statements included in the CFS were prepared in a reliable manner. We also notified OMB of a reporting requirement in OMB Circular No. A-136, *Financial Reporting Requirements*,<sup>11</sup> that may result in inconsistent and inaccurate reporting of compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA).<sup>12</sup>

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<sup>10</sup>A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<sup>11</sup>OMB Circular No. A-136, *Financial Reporting Requirements*, revised, August 3, 2012.

<sup>12</sup>Pub. L. No. 104-208, div. A., § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996).

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## Timely Submission of Audited Material Line Items for Significant Calendar Year-End Federal Entities

Treasury's procedures were not effectively designed to reasonably assure the timely submission of audited material line items for significant calendar year-end federal entities. Significant federal entities are required to submit a closing package to Treasury.<sup>13</sup> The closing package methodology is intended to link federal entities' audited consolidated department-level financial statements to certain statements of the CFS. Chief financial officers (CFO) of significant federal entities are required to verify the consistency of the closing package data with their respective entities' audited financial statements. In addition, entity auditors are required to separately audit and report on the financial information in the closing packages. For the three significant federal entities with a calendar year-end of December 31, rather than a fiscal year-end of September 30, the entity auditors are only required to audit and report on the financial information in the closing packages that contributes material amounts to line items in the CFS, as identified by Treasury.<sup>14</sup>

Treasury's standard operating procedure (SOP) entitled "Significant Federal Entities Identification" includes procedures for Treasury to annually assess significant calendar year-end entities' financial statement line items to determine which line items are material to the *Financial Report*. Treasury's assessments are based on prior year financial information. The SOP also includes procedures for Treasury to notify OMB of changes in previously identified material line items. OMB is responsible for coordinating with each of the respective significant calendar year-end federal entities to obtain audit assurance over identified material line items through the closing package process.

During our audit of the fiscal year 2012 CFS, we found that Treasury's SOP did not include procedures to identify any material line items for significant calendar year-end entities that become material to the CFS during the current fiscal year, but that were not identified as material in

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<sup>13</sup>For fiscal year 2012, Treasury defined the significant federal entities as the 24 Chief Financial Officers Act agencies, Export-Import Bank of the United States, Farm Credit System Insurance Corporation, Federal Communications Commission, Federal Deposit Insurance Corporation, National Credit Union Administration, U.S. Postal Service, Pension Benefit Guaranty Corporation, Railroad Retirement Board, Securities and Exchange Commission, Smithsonian Institution, and Tennessee Valley Authority.

<sup>14</sup>For fiscal year 2012, Treasury defined the significant calendar year-end entities as the Farm Credit System Insurance Corporation, Federal Deposit Insurance Corporation, and National Credit Union Administration.

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the analysis using prior year financial information. In addition, we found that Treasury's SOP did not reasonably assure that identified material line items were audited as part of the significant calendar year-end entities' closing package process in the year a line item becomes material, including affording OMB adequate time to provide timely written notification to the significant calendar year-end entities of the line items that require audit coverage in the closing package process. *Standards for Internal Control in the Federal Government* provides that control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives.<sup>15</sup> The standards also provide that agencies are to ensure accurate and timely recording of transactions. Without the above-noted procedures, Treasury and OMB are unable to reasonably assure that they have appropriate audit assurance over material financial information for all significant calendar year-end entity line items.

#### Recommendations for Executive Action

To help provide reasonable assurance that Treasury timely receives audited information for the material line items as part of the closing package process for the significant calendar year-end entities, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" to include procedures for (1) identifying any material line items for significant calendar year-end entities that become material to the CFS during the current fiscal year but were not identified as material in the analysis using prior year financial information and (2) obtaining audit assurance over such identified material line items in the year they become material.

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#### Analyzing Significant Federal Entities' Restatements and Reclassifications

Treasury's procedures were not effectively designed to determine the effect of restatements and reclassifications submitted by significant federal entities on related line items and notes presented in the CFS. Changes to amounts shown in previously issued financial statements can occur from restatements and reclassifications. A restatement is the process of revising previously issued financial statements to reflect the correction of an error in those financial statements. A reclassification is the movement of a prior year amount in comparative financial statements in order to conform to the current year presentation. Reclassifications can

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<sup>15</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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be from one line item to another, such as from inventory to other assets, or within components of a note to the financial statements. Significant federal entities that restate or reclassify their financial statements or notes are required to submit such changes to prior year amounts to Treasury as part of the entities' closing package.

Treasury's SOP entitled "Prior Period Adjustments" includes procedures for Treasury to analyze restatements and reclassifications submitted by the significant federal entities. During the preparation of the fiscal year 2012 CFS, Treasury analyzed the effect, in the aggregate, of restatements and reclassifications submitted by significant federal entities on the net position and net cost reported in the CFS for the prior fiscal year. Treasury determined that the effect was not material with respect to prior fiscal year net position and net cost at the government-wide level and, as such, adjustments to the prior year financial statements were not needed. However, we found that Treasury's SOP did not include procedures to analyze whether the effect of federal entity-submitted restatements and reclassifications on related line items and notes presented in the CFS was material. *Standards for Internal Control in the Federal Government* provides that control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. The standards also provide that agencies are to ensure accurate and timely recording of transactions. Although we did not find any instances in our fiscal year 2012 audit, a material change in a line item or note related to significant federal entities' submitted restatements and reclassifications could occur and not be identified, resulting in inconsistent reporting between current and prior fiscal year amounts, which may mislead readers of the *Financial Report*.

Recommendation for  
Executive Action

To reasonably assure the comparability of the CFS between the current and prior fiscal year, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to enhance the SOP entitled "Prior Period Adjustments" to include procedures for analyzing and assessing the effects of significant federal entities' restatements and reclassifications on related line items and notes presented in the CFS.

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Preparation of the  
Budget Statements  
Included in the CFS

Treasury's procedures were not effectively designed to ensure that the CFS budget statements, which consist of the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities, were prepared in a reliable manner. Treasury uses a different approach for gathering federal entity data for the CFS budget statements than that of the closing

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package process used for the other CFS accrual-based financial statements. Specifically, the two CFS budget statements are not required statements at the federal entity level. As such, for these statements, Treasury uses the data, including the unified budget deficit amount (the difference between outlays and receipts) from its Central Summary General Ledger system (CSGL), which is unaudited.

During our audit of the fiscal year 2012 CFS, we found that although Treasury has made changes to its procedures and now documents its process for preparing the CFS budget statements, Treasury had not established and implemented effective processes and procedures to reconcile (1) outlays and receipts as recorded in the CSGL to outlays and receipts reported in the federal entities' audited financial statements and other financial data, (2) the operating results to the budget results, and (3) changes in cash and other monetary assets to the budget results. We identified several errors in the draft CFS budget statements that may have been prevented had these reconciliations been effectively completed. Further, both of the CFS budget statements had at least one line item that included amounts that were unsupported but were needed to make the statement balance. As a result, Treasury continues to be unable to demonstrate that it has fully identified and reported all items needed to adequately prepare the CFS budget statements.

The Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Concepts No. 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states that the consolidated financial report is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats, both aggregated and disaggregated, such as individual agency reports, agency websites, and the President's Budget. Until Treasury is able to prepare the CFS budget statements in a manner that is fully consistent with the financial information from significant federal entities' audited financial statements, the CFS budget statements may not be reliable.

## Recommendations for Executive Action

To improve the reliability of the information presented in the CFS budget statements, we recommend that the Secretary of the Treasury 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 (1) reporting amounts in the CFS budget statements that are fully consistent with the underlying information in significant federal entities' audited financial statements and other

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financial data and (2) identifying and reporting all items needed to prepare the CFS budget statements.

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## OMB's FFMIA Reporting Requirement

During our audit of the fiscal year 2012 CFS, we notified OMB of a reporting requirement in OMB Circular No. A-136 that may result in inconsistent and inaccurate reporting of compliance with FFMIA. Under FFMIA, both CFO Act entities<sup>16</sup> and their auditors are required to make an annual determination as to whether an entity's financial management systems<sup>17</sup> substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Standard General Ledger* at the transaction level. Consistent with the act, OMB Circular No. A-136 requires the CFO Act entities to report annually on their determination, as well as their auditors' determination, of compliance with each of the three FFMIA requirements in the Summary of Management Assurances table in their respective annual financial reports or performance and accountability reports. However, the circular also requires the CFO Act entities to report on "overall substantial compliance". The requirement to report such information may create an appearance that the three separate system requirements are not equally important, and result in inconsistent and inaccurate reporting among entities and in the Management's Discussion and Analysis section of the *Financial Report*. In discussions with OMB officials, they stated that OMB plans to resolve the matter by removing the "overall substantial compliance" requirement in connection with OMB's ongoing efforts to revise the circular.

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<sup>16</sup>CFOs were established under 31 U.S.C. § 901(b) for 24 specific entities that are subject to the CFO Act, as amended: the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, the Interior, Justice, Labor, State, Transportation, the Treasury, and Veterans Affairs; Environmental Protection Agency; National Aeronautics and Space Administration; Agency for International Development; General Services Administration; National Science Foundation; Nuclear Regulatory Commission; Office of Personnel Management; Small Business Administration; and Social Security Administration.

<sup>17</sup>FFMIA defines financial management systems as the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. The term mixed system means an information system that supports both financial and nonfinancial functions of the federal government or components thereof.

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## Recommendation for Executive Action

To help assure the consistency and clarity of FFMI compliance reporting in CFO Act entities' annual financial reports or performance and accountability reports and the Management's Discussion and Analysis section of the *Financial Report*, we recommend that the Director of OMB ensure that OMB continues its efforts to remove the requirement for reporting "overall substantial compliance" from OMB Circular No. A-136, *Financial Reporting Requirements*.

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## Status of Recommendations from Prior Reports

Of our 48 recommendations from our prior reports regarding control deficiencies in the CFS preparation process that were open at the end of the fiscal year 2011 audit, we closed 17 recommendations during our fiscal year 2012 audit. Of the 17 closed recommendations, we closed 7 as a result of corrective actions taken by Treasury. We closed the other 10 recommendations, which were related to the CFS budget statements, by making 2 new recommendations in this report that are better aligned with the current status of the remaining internal control deficiencies associated with the budget statements and that reflect certain actions taken by Treasury. Thirty-one recommendations from our prior reports remained open as of January 9, 2013, the date of our report on the audit of the fiscal year 2012 CFS.

Appendix I summarizes the status as of January 9, 2013, of the 48 open recommendations from our prior years' reports. Specifically, appendix I includes the status according to Treasury and OMB, as well as our own assessments where appropriate. The status of recommendations per GAO includes explanatory comments on Treasury's and OMB's information. We will continue to monitor Treasury's and OMB's progress in addressing our recommendations as part of our fiscal year 2013 CFS audit.

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## Agency Comments and Our Evaluation

### OMB Comments

In oral comments on a draft of this report, OMB generally concurred with the findings and recommendations in this report. OMB also provided technical comments, which were incorporated as appropriate.

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## Treasury Comments

In written comments on a draft of this report, which are reprinted in appendix II, Treasury concurred with four of the five recommendations and stated that it will consider the recommendation related to the restatement and reclassification assessment. We continue to believe that this assessment will help assure the comparability of the CFS between the current and prior fiscal year.

To address the long-standing material weakness related to intragovernmental transactions, Treasury stated that it is continuing to develop the General Fund reporting entity to address the intragovernmental elimination differences that occur when a federal entity records the General Fund as a trading partner. Treasury is also working with federal entities and the audit community to develop and strengthen policy and guidance for reporting of intragovernmental transactions, including a number of measures intended to enhance the identification, resolution, and prevention of intragovernmental imbalances. In addition, Treasury noted that it is continuing its efforts to reconcile the budget deficit to federal entities' audited financial statements for the compilation of the two budget statements included in the CFS.

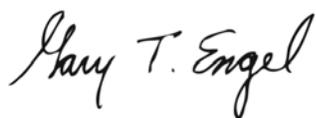
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This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and to 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.

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>.

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



Gary T. Engel  
Director  
Financial Management and Assurance

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

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
<b>GAO-04-45 (results of the fiscal year 2002 audit)</b>				
1	02-4	As the Department of the Treasury (Treasury) is designing its new financial statement compilation process to begin with the fiscal year 2004 consolidated financial statements of the U.S. government (CFS), the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of the Office of Management and Budget (OMB), to develop reconciliation procedures that will aid in understanding and controlling the net position balance as well as eliminate the plugs previously associated with compiling the CFS.	To eliminate or explain adjustments to net position, Treasury eliminates, at the consolidated level, intragovernmental activity and balances using formal balanced accounting entries (via Reciprocal Categories) and analyzes transactions that contribute to the unmatched transactions and balances adjustment i.e., the plug. Major contributors to the plug are transactions with the General Fund. A Treasury task group has developed the Schedule of General Fund Authority and will enter fiscal year 2013 General Fund data via journal voucher into the Government-wide Financial Report System (GFRS). In the interim, Treasury provides agencies with selected General Fund data on a monthly basis to facilitate reconciliation of agency transactions with the General Fund on a quarterly basis. In addition, Treasury issued new guidance in fiscal year 2013 for recording intragovernmental transactions and for resolving material differences. In addition, throughout fiscal year 2013, Treasury will identify and resolve, via communications to, and assistance from, agencies, material differences related to fiduciary, benefits, buy/sell, and transfer activity via quarterly metrics and scorecard data to assist the agencies in identifying and mitigating root causes for differences and to implement both short- and long-term solutions.	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	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
2	02-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to design procedures that will account for the difference in intragovernmental assets and liabilities throughout the compilation process by means of formal consolidating and elimination accounting entries.	See the status of recommendation No. 02-4.	Open.
3	02-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop solutions for intragovernmental activity and balance issues relating to federal agencies' accounting, reconciling, and reporting in areas other than those OMB now requires be reconciled, primarily areas relating to appropriations.	See the status of recommendation No. 02-4.	Open.
4	02-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to reconcile the change in intragovernmental assets and liabilities for the fiscal year, including the amount and nature of all changes in intragovernmental assets or liabilities not attributable to cost and revenue activity recognized during the fiscal year. Examples of these differences would include capitalized purchases, such as inventory or equipment, and deferred revenue.	Treasury's consolidating procedures include requests for information from the agencies related to asset capitalization and agency advances or deferred revenue to assist in ensuring the proper reporting of this activity. During fiscal year 2013, Treasury will continue working on guidance related to intragovernmental capitalized purchases that was begun during fiscal year 2012. See the status of recommendation No. 02-4.	Open.
5	02-12	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should report "net unreconciled differences" included in the net operating results line item as a separate reconciling activity in the reconciliation statement.	Treasury has taken certain actions regarding the two CFS budget statements to address GAO's past recommendations. Treasury is committed to continuing its efforts to address the remaining control deficiencies in this area.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.

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

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
6	02-13	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should develop policies and procedures to ensure completeness of reporting and document how all the applicable components reported in the other consolidated financial statements (and related note disclosures included in the CFS) were properly reflected in the reconciliation statement.	See the status of recommendation No. 02-12.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.
7	02-14	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should establish reporting materiality thresholds for determining which agency financial statement activities to collect and report at the government-wide level to assist in ensuring that the reconciliation statement is useful and conveys meaningful information.	See the status of recommendation No. 02-12.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.
8	02-15	If Treasury chooses to continue using information from both federal agencies' financial statements and Treasury's central accounting and reporting system (STAR), Treasury should demonstrate how the amounts from STAR reconcile to federal agencies' financial statements.	See the status of recommendation No. 02-12.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.

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

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
9	02-16	If Treasury chooses to continue using information from both federal agencies' financial statements and from STAR, Treasury should identify and document the cause of any significant differences, if any are noted.	See the status of recommendation No. 02-12.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.
10	02-17	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should document the consistency of the significant line items on this statement to federal agencies' audited financial statements.	See the status of recommendation No. 02-12.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.
11	02-20	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should explain and document the differences between the operating revenue amount reported on the Statement of Operations and Changes in Net Position and unified budget receipts reported on the Statement of Changes in Cash Balance from Unified Budget and Other Activities.	See the status of recommendation No. 02-12.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.

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

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
12	02-22	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to perform an assessment to define the reporting entity, including its specific components, in conformity with the criteria issued by the Federal Accounting Standards Advisory Board (FASAB). Key decisions made in this assessment should be documented, including the reason for including or excluding components and the basis for concluding on any issue. Particular emphasis should be placed on demonstrating that any financial information that should be included but is not included is immaterial.	During fiscal year 2013, Treasury will completely document Treasury's assessment as to whether entities are to be included or excluded in the reporting entity in accordance with the FASAB criteria. As part of this assessment, Treasury will also take into account FASAB's Reporting Entity standard, once it is finalized.	Open.
13	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.	During fiscal year 2013, Treasury will work with certain entities that do not currently submit financial statement data to ensure that financial information relevant to the defined reporting entity, in all material respects, is submitted.	Open.
14	02-24	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to disclose in the financial statements all information that is necessary to inform users adequately about the reporting entity. Such disclosures should clearly describe the reporting entity and explain the reason for excluding any components that are not included in the defined reporting entity.	Pending results of actions taken pursuant to recommendation Nos. 02-22 and 02-23.	Open.
15	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.	During fiscal year 2013, Treasury will work with the Department of Justice, OMB, and GAO and the agencies to determine if further changes in policy and/or guidance (e.g., OMB Circular A-136) are needed for all agencies to provide the required information regarding the expected outcomes of legal cases in their legal representations.	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	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
16	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).	Agencies are currently required to report contingencies in their financial statements and notes pursuant to generally accepted accounting principles (GAAP) guidance. In addition, OMB Circular A-136 specifically references the inclusion of treaties and international agreements within "Commitments and Contingencies." Further, agencies include specific representations with respect to material liabilities or contingencies in their management representations. In addition, the financial statements of most significant entities and many other federal entities received unqualified audit opinions. However, no additional analysis of treaties has been performed to reasonably ensure that all of the federal government's treaties are considered in agency analyses or that agencies are consistently analyzing treaties for recognition or disclosure. Treasury will annually review agency financial statements, audit reports and management representation letters for any references to treaties and international agreements, and if deemed material will disclose in the CFS.	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 GAAP in the CFS, and we are precluded from determining whether the omitted information is material.
17	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.	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	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
18	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.	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.
19	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.	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.
20	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.	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	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
21	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.	This information continues to be requested from federal agencies for disclosure in the CFS. Treasury, along with OMB, will work with agencies to improve the consistency of this disclosure in the fiscal year 2013 CFS and will also monitor the work of the FASAB task force that is reviewing the reporting for risk assumed.	Open. Treasury's reporting in this area is not complete. The CFS should include all major federal insurance programs in the risk assumed reporting and analysis. Also, since future events are uncertain, risk assumed information should include indicators of the range of uncertainty around expected estimates, including indicators of the sensitivity of the estimate to changes in major assumptions.
<b>GAO-04-866 (results of the fiscal year 2003 audit)</b>				
22	03-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop a process that will allow full reporting of the changes in cash balance of the U.S. government. Specifically, the process should provide for reporting on the change in cash reported on the consolidated balance sheet, which should be linked to cash balances reported in federal agencies' audited financial statements.	See the status of recommendation No. 02-12.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.
23	03-8	The Director of OMB should direct the Controller of OMB, in coordination with Treasury's Fiscal Assistant Secretary, to work with the Department of Justice and certain other executive branch federal agencies to ensure that these federal agencies report or disclose relevant criminal debt information in conformity with GAAP in their financial statements and have such information subjected to audit.	During fiscal year 2013, Treasury and OMB will assess options as to what methodologies or approaches to be used for obtaining the additional information needed from the 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	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
24	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.	See the status of recommendation No. 03-8.	Open.
25	03-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to modify Treasury's plans for the new closing package to (1) require federal agencies to directly link their audited financial statement notes to the CFS notes and (2) provide the necessary information to demonstrate that all of the five principal consolidated financial statements are consistent with the underlying information in federal agencies' audited financial statements and other financial data.	Treasury's current CFS compilation process provides for direct linkage from the 35 significant federal agencies' audited financial statements to most of the CFS principal statements and to the related note disclosures. However, additional work is needed related to the two budgetary financial statements.	Open. Treasury's process for compiling the CFS generally demonstrated that amounts in the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts were consistent with the underlying federal entities' audited financial statements and that the Balance Sheet and the Statement of Net Cost were also consistent with the 35 significant federal entities' financial statements prior to eliminating intragovernmental activity and balances. However, Treasury's process did not ensure that the information in the remaining three principal financial statements (Statement of Operations and Changes in Net Position, Reconciliation of Net Operating Cost and Unified Budget Deficit, and Statement of Changes in Cash Balance from Unified Budget and Other Activities) was fully consistent with the underlying information in the 35 significant federal entities' audited financial statements and other financial data. With regard to directly linking the last two statements to federal entities' audited financial statements and other financial data, we have incorporated this issue along with other control deficiencies related to the two CFS budget statements into new recommendations for corrective action in this report under "Preparation of the Budget Statements Included in the CFS."

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

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
<b>GAO-05-407 (results of the fiscal year 2004 audit)</b>				
26	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.	During fiscal year 2013, Treasury will fully implement and enforce its procedures to document communications with the agencies in the supporting documentation for journal vouchers.	Open.
27	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.	During fiscal year 2012, Treasury continued to make improvements to its internal control infrastructure. Treasury updated and revised its standard operating procedures (SOP) to document that key controls are in place at all critical areas of the CFS preparation process. Treasury will monitor and assess its efforts during fiscal year 2013 to determine its progress in achieving a sound internal control environment.	Open.
<b>GAO-07-805 (results of the fiscal year 2006 audit)</b>				
28	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.	Treasury, in coordination with OMB and Justice, will work during fiscal year 2013 to establish effective processes and procedures to require that appropriate information regarding litigation and claims is included in the government-wide legal representation letter.	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	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
29	06-7	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to develop a process for obtaining sufficient information from federal agencies to enable Treasury and OMB to adequately monitor federal agencies' efforts to reconcile intragovernmental activity and balances with their trading partners. This information should include (1) the nature and a detailed description of the significant differences that exist between trading partners' records of intragovernmental activity and balances, (2) detailed reasons why such differences exist, (3) details of steps taken or being taken to work with federal agencies' trading partners to resolve the differences, and (4) the potential outcome of such steps.	<p>The monitoring of intragovernmental differences and their resolution effort is being significantly increased in fiscal year 2013 via quarterly intragovernmental metrics and scorecard meetings with the agencies. This expanded monitoring and resolution effort commenced during the first quarter of fiscal year 2013 and will continue throughout the remaining quarters and at yearend. The agencies will provide corrective actions based on these meetings. Treasury will monitor their corrective actions during the remaining quarters and at yearend with the ultimate goal to reduce intragovernmental differences to an immaterial level.</p> <p>In addition to this expanded monitoring and resolution activity, agencies can seek out further resolution of their differences via a dispute resolution process.</p> <p>See also the status of recommendation No. 02-4.</p>	Open.
<b>GAO-08-748 (results of the fiscal year 2007 audit)</b>				
30	07-1	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance and fully document all practices referred to in the SOP entitled "Preparing the Financial Report of the U.S. Government" to better ensure that practices are proper, complete, and can be consistently applied by staff members.	See the status of recommendation No. 02-12.	Closed. Treasury has taken several actions to address this recommendation. To provide recommendations that are better aligned with the current status of remaining deficiencies related to this area, we have (1) closed this recommendation based on Treasury's significant progress and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective actions for the remaining deficiencies.

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

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
31	07-5	The Director of OMB should direct the Controller of OMB's Office of Federal Financial Management, in coordination with Treasury's Fiscal Assistant Secretary, to develop formal processes and procedures for identifying and resolving any material differences in distributed offsetting receipt amounts included in the net outlay calculation of federal agencies' Statements of Budgetary Resources and the amounts included in the computation of the budget deficit in the CFS.	See the status of recommendation No. 02-12.	Closed. Over the past few years, Treasury has taken certain actions to address recommendations related to the two CFS budget statements. To provide recommendations that are better aligned with the remaining control deficiencies in this area, we have (1) closed this recommendation and (2) included in this report under "Preparation of the Budget Statements Included in the CFS" new recommendations for corrective action.
32	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.	See the status of recommendation No. 04-6.	Open.
33	07-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to develop and implement alternative solutions to performing almost all of the compilation effort at the end of the year, including obtaining and utilizing interim financial information from federal agencies.	During fiscal year 2012, Treasury obtained and utilized third quarter information from agencies, focusing on key topics and issues to facilitate year-end CFS preparation. Treasury expects to expand the use of third quarter information in fiscal year 2013 to further facilitate year-end compilation.	Open.
<b>GAO-09-387 (results of the fiscal year 2008 audit)</b>				
34	08-01	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to design, document, and implement policies and procedures to identify and eliminate intragovernmental payroll tax amounts at the government-wide level when compiling the CFS.	During fiscal year 2013, Treasury will evaluate the adequacy of the payroll tax amounts reported in the Monthly Treasury Statement by discussing the methodology for preparing this amount with the providing agency. If deemed adequate, policies and procedures will be modified to reflect the results of the analysis and document how this amount is identified and used when compiling the CFS.	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	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
35	08-04	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement policies and procedures for assessing and documenting, on an annual basis, which entities meet the criteria established for identifying federal entities as significant to the CFS.	During fiscal year 2012, Treasury implemented policies and procedures for assessing and documenting, on an annual basis, which entities meet the criteria established for identifying federal entities as significant to the CFS.	Closed.
<b>GAO-10-757 (results of the fiscal year 2009 audit)</b>				
36	09-04	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop, implement, and document procedures for identifying, analyzing, compiling, and reporting all significant accounting policies and related party transactions at the government-wide level.	During fiscal year 2012, Treasury developed, implemented, and documented procedures for identifying, analyzing, compiling, and reporting all significant accounting policies and related party transactions at the government-wide level.	Closed.
37	09-06	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the SOP entitled "Statement of Social Insurance, Social Insurance Note, and Required Supplementary Information" to implement and document procedures for assuring the accuracy of staff's work related to preparing the social insurance information for the CFS.	In fiscal year 2013, Treasury will fully comply with its enhanced Statement of Social Insurance SOP to document that all the social insurance information in the CFS is consistent with the agencies' social insurance information.	Open.
38	09-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to implement and document procedures for assuring the accuracy of staff's work related to performing analytical procedures.	During fiscal year 2012, Treasury implemented and documented procedures for assuring the accuracy of staff's work related to performing analytical procedures.	Closed.
<b>GAO-12-529 (results from the fiscal year 2011 audit)</b>				
39	11-01	The Acting Director of OMB should direct the Controller of OMB to develop and implement written procedures specifying the steps required for effectively reviewing and approving the drafts of the <i>Financial Report of the United States Government (Financial Report)</i> before they are provided to GAO, to include clear delineation of the review and approval roles and responsibilities of designated appropriate higher-level officials in OMB's Office of Federal Financial Management, including the Controller of OMB.	OMB developed and implemented written procedures specifying the OMB review process of the <i>Financial Report</i> .	Open. OMB's written procedures state that the Office of Federal Financial Management provides certification that the <i>Financial Report</i> was reviewed and approved by OMB management. However, these procedures do not clearly delineate the review and approval roles and responsibilities of designated appropriate higher-level officials, including the Controller of OMB.

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

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
40	11-02	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to revise and implement Treasury's procedures related to preparing and reviewing the drafts of the <i>Financial Report</i> before they are provided to GAO, to include clear delineation of the review and approval roles and responsibilities of designated appropriate higher-level officials in the Office of the Fiscal Assistant Secretary, including the Fiscal Assistant Secretary.	During fiscal year 2012, Treasury revised and implemented its procedures related to preparing the <i>Financial Report</i> before they are provided to GAO, including clear delineation of the review and approval roles and responsibilities of designated appropriate higher-level officials in the Office of the Fiscal Assistant Secretary, including the Fiscal Assistant Secretary.	Closed.
41	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> .	During fiscal year 2013, Treasury will identify complex areas needing key federal entity involvement and will obtain their review of the <i>Financial Report</i> related to their specific area prior to the completion of the first draft of the report.	Open.
42	11-04	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a mechanism to ensure that Treasury's CFS disclosure checklist is reviewed and approved by the date in Treasury's policies and procedures.	During fiscal year 2012, Treasury established a mechanism to ensure that the CFS disclosure checklist is revised and approved by the date in its policies and procedures.	Closed.
43	11-05	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to revise the SOP to include requirements for using the CFS disclosure checklist to prepare the format draft of the CFS and to update the CFS disclosure checklist as necessary when subsequent drafts of the CFS are prepared.	During fiscal year 2013, Treasury will utilize the CFS disclosure checklists for all drafts of the CFS, including the format draft.	Open.
44	11-06	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the SOP entitled "Data Analysis" to include required steps for pursuing any instances where the information provided to Treasury contains indications that financial information provided by federal entities for inclusion in the CFS may not be in conformity with GAAP, particularly with respect to any recent changes in GAAP.	During fiscal year 2012, Treasury enhanced the SOP entitled "Data Analysis" to include required steps for pursuing any instances where the information provided to Treasury contains indications that financial information provided by federal entities for inclusion in the CFS may not be in conformity with GAAP, particularly with respect to any recent changes in GAAP.	Closed.

**Appendix I: Status of Treasury's and OMB's  
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Recommendations for Preparing the CFS**

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
45	11-07	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the Intragovernmental Reporting and Analysis System (IRAS) validation procedures, at a minimum, to include specific steps for testing intragovernmental data of the administrator's assigned entity.	During fiscal year 2012, Treasury enhanced the IRAS validation procedures to, among other things, include specific steps for testing intragovernmental data of the administrator's assigned entity.	Closed.
46	11-08	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a mechanism for ensuring that all steps in the required validation process are completed, documented, and reviewed prior to the distribution of IRAS reports.	During fiscal year 2013, Treasury will complete and document all steps in the required IRAS validation process prior to the distribution of the IRAS reports.	Open.
47	11-09	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to enhance the SOP entitled "Significant Federal Entities Identification" to include procedures for identifying any entities that become significant to the <i>Financial Report</i> during the fiscal year but were not identified as significant in the prior fiscal year.	Treasury will work with OMB to assess an approach for identifying new entities that become significant to the <i>Financial Report</i> during the fiscal year.	Open.
48	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" 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.	Treasury will work with OMB to assess an approach for obtaining timely audited closing packages from these newly identified entities in the fiscal year that they become significant to the <i>Financial Report</i> .	Open.

Sources: GAO, Treasury, and OMB.

<sup>a</sup>The status of the recommendations listed in app. I is as of January 9, 2013, the date of our report on the audit of the fiscal year 2012 CFS.

# Appendix II: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

June 6, 2013

Mr. Gary T. Engel  
Director, Financial Management and Assurance  
Governmental Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Engel:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft Management Report (Report) on the Fiscal Year (FY) 2012 audit, GAO-13-540, *MANAGEMENT REPORT, Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements*.

The draft Report identifies six new recommendations concerning the Consolidated Financial Statements (CFS) preparation process. As stated in the draft Report, two of these new recommendations replace ten pre-existing recommendations related to the two budget statements to better align GAO's recommendations with the current status of the internal control deficiencies associated with these statements. We concur with these two new budget statement-related recommendations and expect that this realignment will help facilitate eventual resolution of these issues. We also concur with the two new recommendations specific to Treasury's CFS preparation process and will consider the one new recommendation related to restatement and reclassification assessment. We defer to the Office of Management and Budget (OMB) concerning dispensation of the recommendation concerning revision of OMB Circular A-136 with respect to Federal Financial Management Improvement Act (FFMIA) reporting.

We are pleased with our progress, including efforts that precipitated the aforementioned consolidation of the budget statement recommendations and the closing of an additional seven of the forty-eight outstanding recommendations from prior years' reports in the past year, placing greater emphasis on interim and preliminary reporting, and providing better quality information to GAO throughout the CFS preparation process. However, we understand that much work remains.

We continue to devote significant management attention and staff resources to resolving material intra-governmental differences along with developing or improving process controls within Fiscal Service and the Federal Program Agencies (FPAs). Treasury continues to develop the General Fund reporting entity to address the intra-governmental elimination differences that occur when an FPA records the General Fund as a trading partner. As part of this effort, Treasury has developed General Fund accounts that will provide Treasury with the capability to reconcile FPA financial reporting data. Regular postings to the General Fund have begun, and

will play an increased role in the FY 2013 consolidation. Implementation of the General Fund is critical to our efforts to resolve this long-standing material weakness.

In addition, during the past year, we have dedicated full-time resources and worked collaboratively with the FPAs and the audit community to develop and issue strengthened policy and guidance for agency reporting of intra-governmental transactions. This new policy includes a number of measures intended to enhance the identification, resolution, and prevention of intragovernmental imbalances. These measures, include, but are not limited to a Dispute Resolution Process, through which Treasury has taken a key role in helping agencies resolve long standing differences with their trading partners. In addition, the team has identified tools and system solutions that will aid in compliance with the policy. Progress resulting from these and other related initiatives will be monitored through a series of recently introduced metrics and scorecards, now available to all verifying FPAs, providing targeted quarterly feedback on their performance and encouraging them to work throughout the year to resolve their differences. We believe that these and other related efforts will yield systemic improvement in resolving the long-standing differences and the ultimate elimination of the related material weakness in the near future.

With respect to the compilation and consolidation material weakness, our emphasis continues to be the reconciliation of the budget deficit validation to the agencies audited financial statements for the compilation of the two budget statements in the CFS. In addition, we will be working to identify and document all of the different treatments between budgetary reporting and accrual reporting to support this reconciliation.

In conclusion, we are appreciative of GAO's recommendations. Thank you, again, for the opportunity to review and comment on the final draft. We look forward to working with you and your staff as we fulfill our commitment to improve Federal financial reporting.

Sincerely,



Richard L. Gregg  
Fiscal Assistant Secretary

cc: Norman Dong, Deputy Comptroller, OMB

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