



Highlights of [GAO-05-407](#), a report to the Secretary of the Treasury and the Director of the Office of Management and Budget

Why GAO Did This Study

For the past 8 years, since the first audit of the consolidated financial statements of the U.S. government (CFS), certain material weaknesses in internal control and in selected accounting and financial reporting practices have resulted in conditions that prevented GAO from expressing an opinion on the CFS. Specifically, GAO has reported that the U.S. government did not have adequate systems, controls, and procedures to properly prepare the CFS. In December 2004, GAO reported on weaknesses identified during its fiscal year 2004 audit of the CFS, including weaknesses relating to the Department of the Treasury's (Treasury) preparation of the CFS. The purpose of this report is to

- (1) discuss the details of the weaknesses relating to Treasury's preparation of the CFS,
- (2) recommend improvements to address those weaknesses, and
- (3) provide the status of corrective actions to address the 142 open recommendations GAO previously reported.

What GAO Recommends

GAO is making 20 new recommendations to address compilation and reporting weaknesses identified during the fiscal year 2004 CFS audit. Treasury and the Office of Management and Budget stated that they generally concur with the findings in the report. Treasury also stated that it is addressing many of the recommendations from GAO's prior reports.

www.gao.gov/cgi-bin/getrpt?GAO-05-407.

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

FINANCIAL AUDIT

Process for Preparing the Consolidated Financial Statements of the U.S. Government Continues to Need Improvement

What GAO Found

GAO identified weaknesses during its tests of Treasury's process for preparing the fiscal year 2004 CFS. Such weaknesses in the CFS preparation process impair the U.S. government's ability to ensure that the CFS is consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles.

The weaknesses GAO identified during the fiscal year 2004 CFS audit involved the following six areas:

- directly linking audited federal agency financial statements to the CFS,
- controls over the compilation process,
- consolidated reporting guidance to agencies,
- intragovernmental activity and balances—explanations for material unreconciled transactions,
- consistency of the Department of Justice's and agencies' opinions on legal cases, and
- conformity with U.S. generally accepted accounting principles.

During fiscal year 2004, Treasury made progress in laying the foundation to address certain long-standing material deficiencies in preparing the CFS. Foremost is the ongoing development of a new system, which is intended to directly link information from federal agencies' audited financial statements to amounts reported in the CFS. Additional actions are under way and planned.

Of the 142 open recommendations that GAO reported in September 2004 regarding the process for preparing the CFS, 135 remained open as of December 6, 2004, the end of GAO's fieldwork for the fiscal year 2004 CFS audit. However, 86 of these 135 recommendations relate to specific disclosures required under U.S. generally accepted accounting principles. Treasury has taken action to begin addressing the conformity with U.S. generally accepted accounting principles issue. GAO plans to determine the status of corrective actions to address its open recommendations during its fiscal year 2005 audit of the CFS.