

**GAO**

Report to the Secretary of the Treasury  
and the Director of the Office of  
Management and Budget

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April 2009

# FINANCIAL AUDIT

## Material Weaknesses in Internal Control Continue to Impact Preparation of the Consolidated Financial Statements of the U.S. Government



**GAO**

Accountability \* Integrity \* Reliability

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Highlights of [GAO-09-387](#), a report to the Secretary of the Treasury and the Director of the Office of Management and Budget

## Why GAO Did This Study

Since GAO's first audit of the fiscal year 1997 consolidated financial statements of the U.S. government (CFS), material weaknesses in internal control and other limitations on the scope of our work have prevented GAO from expressing an opinion on the accrual basis CFS. Certain of those material weaknesses relate to inadequate systems, controls, and procedures to properly prepare the CFS. The purpose of this report is to (1) provide details of the continuing material weaknesses related to the preparation of the CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken to address GAO's previous 56 recommendations in this area.

## What GAO Recommends

GAO is making four new recommendations to address control deficiencies identified during the fiscal year 2008 CFS audit that relate to the federal government's processes used to prepare the CFS. In commenting on our draft report, The Department of the Treasury and the Office of Management and Budget stated that they generally concurred with our recommendations.

## FINANCIAL AUDIT

### Material Weaknesses in Internal Control Continue to Impact Preparation of the Consolidated Financial Statements of the U.S. Government

## What GAO Found

During its audit of the fiscal year 2008 CFS, GAO identified continuing and new control deficiencies in the federal government's processes used to prepare the CFS. These control deficiencies contribute to material weaknesses in internal control over the federal government's ability to (1) adequately account for and reconcile intragovernmental activity and balances between federal agencies; (2) ensure that the CFS was consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles; and (3) identify and either resolve or explain material differences between components of the budget deficit reported in the Department of the Treasury's records, used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities, and related amounts reported in federal agencies' financial statements and underlying financial information and records.

The control deficiencies GAO identified involved:

- establishing and documenting policies and procedures for identifying and eliminating federal agencies' intragovernmental payroll tax amounts when compiling the CFS,
- establishing and documenting policies and procedures for preparing and reviewing information included in key sections of the *Financial Report of the U.S. Government*,
- establishing criteria for identifying federal entities' significance to the CFS and annually assessing which entities meet such criteria,
- enhancing procedures for analyzing and reviewing data used when compiling the Statements of Net Cost, and
- various other control deficiencies identified in previous years' audits (see app. I).

Of the 56 open recommendations GAO reported in June 2008, 16 were closed and 40 remained open as of December 9, 2008, the date of our report on our audit of the fiscal year 2008 CFS. GAO will continue to monitor the status of corrective actions taken to address the 4 new recommendations as well as the 40 open recommendations from prior years.

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# Contents

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<b>Letter</b>		1
	Scope and Methodology	2
	Treatment of Intragovernmental Payroll Tax Amounts in Compiling the CFS	3
	Consistency and Accuracy of Key Sections of the Financial Report	4
	Identifying Federal Entities Significant to the CFS	6
	Procedures for Reviewing the Statements of Net Cost	8
	Agency Comments and Our Evaluation	9

---

<b>Appendix I</b>	<b>Status of Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS</b>	11
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<b>Appendix II</b>	<b>Comments from the Department of the Treasury</b>	39
--------------------	---	----

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<b>Appendix III</b>	<b>GAO Contact and Staff Acknowledgments</b>	40
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<b>Tables</b>		
	Table 1: Status of Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS (as of December 9, 2008)	12

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## Abbreviations

CFOC	Chief Financial Officers' Council
CFS	Consolidated financial statements of the U.S. government
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GFRS	Governmentwide Financial Report System
IDRC	Intragovernmental Dispute Resolution Committee
Justice	Department of Justice
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standard
SNC	Statement of Net Cost
SOP	Standard Operating Procedure
STAR	Treasury's Central Accounting and Reporting System
TFM	Treasury Financial Manual
Treasury	Department of the Treasury

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United States Government Accountability Office  
Washington, DC 20548

April 21, 2009

The Honorable Timothy F. Geithner  
The Secretary of the Treasury

The Honorable Peter Orszag  
Director, Office of Management and Budget

In our report dated December 9, 2008,<sup>1</sup> we disclaimed an opinion on the consolidated financial statements of the U.S. government (CFS) for the fiscal years ended September 30, 2008 and 2007,<sup>2</sup> except for the 2008 and 2007 Statements of Social Insurance, which received unqualified opinions. Since GAO's first audit of the fiscal year 1997 CFS, material weaknesses in financial reporting and other limitations on the scope of our work have prevented us from expressing an opinion on the federal government's accrual basis consolidated financial statements.<sup>3</sup> We have reported that the federal government did not have adequate systems, controls, and procedures for preparing the CFS to ensure that the consolidated financial statements are consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles (GAAP).

On behalf of the federal government, the Department of the Treasury (Treasury), in coordination with the Office of Management and Budget (OMB),<sup>4</sup> prepares the CFS. Many of the material weaknesses<sup>5</sup> in internal

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<sup>1</sup>The fiscal year 2008 *Financial Report of the United States Government* includes our report and was issued by the Department of the Treasury (Treasury) on December 15, 2008, and is available through GAO's Web site at [www.gao.gov/financial.html](http://www.gao.gov/financial.html) and Treasury's Web site at [www.fms.treas.gov/fr/index.html](http://www.fms.treas.gov/fr/index.html).

<sup>2</sup>The consolidated financial statements for the fiscal years ended September 30, 2008 and 2007, 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, and the Statements of Social Insurance, including the related notes to these financial statements.

<sup>3</sup>As used in this report, accrual basis consolidated financial statements refer to all of the consolidated financial statements and notes, except those related to the Statement of Social Insurance.

<sup>4</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).

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control that have contributed to our continuing disclaimers of opinion were identified by other auditors during their audits of individual federal agencies' financial statements and were reported in detail with recommendations to the agencies in separate reports. This report presents the additional material weaknesses that we identified during our tests of the federal government's processes used to prepare the CFS.

The purpose of this report is to (1) provide more detailed information on the material weaknesses that we identified during our audit of the fiscal year 2008 CFS that relate to internal control over the processes used to prepare the CFS, (2) recommend improvements to address these weaknesses, and (3) provide the status of corrective actions by Treasury and OMB to address the 56 recommendations detailed in our previous reports that remained open at the end of the fiscal year 2007 audit (see app. I). We have discussed each of the new control deficiencies identified during our fiscal year 2008 audit with your staff and have incorporated their comments as appropriate.

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## Scope and Methodology

As part of our audit of the fiscal years 2008 and 2007 CFS, we evaluated the federal government's financial reporting procedures and related internal control. Also, we determined the status of corrective actions by Treasury and OMB to address open recommendations relating to the processes used to prepare the CFS detailed in our previous reports. In our audit report on the fiscal year 2008 CFS, which is included in the fiscal year 2008 Financial Report of the United States Government (Financial Report), we discussed the material weaknesses related to the federal government's processes used to prepare the CFS. These material weaknesses contributed to our disclaimer of opinion on the accrual basis consolidated financial statements and also contributed to our adverse opinion on internal control. We performed sufficient audit procedures to provide the disclaimer of opinion on the accrual basis consolidated financial statements in accordance with U.S. generally accepted

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<sup>5</sup>A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A control deficiency 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 misstatements on a timely basis.

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government auditing standards. This report provides the details of the material weaknesses identified during the fiscal year 2008 audit that relate to the processes used to prepare the CFS and our recommendations to correct these weaknesses, as well as the status of corrective actions by Treasury and OMB to address recommendations from previous reports.

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 comments are reprinted in appendix II and are also summarized in the Agency Comments section.

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## Treatment of Intragovernmental Payroll Tax Amounts in Compiling the CFS

Treasury did not establish policies and procedures to provide assurance that federal agencies' intragovernmental payroll tax amounts are identified and eliminated at the governmentwide level when compiling the CFS. Consolidated financial statements are intended to present the results of operations and financial position of all of the components that make up the reporting entity as if the entity were a single enterprise. Therefore, when preparing the CFS, Treasury should ensure that intragovernmental activity and balances between federal agencies are eliminated. Federal agencies, as well as other employers, are required to pay, among other taxes, a matching amount of Social Security and Medicare taxes for their employees (payroll taxes). Federal agencies' payments of payroll taxes to the Internal Revenue Service represent intragovernmental transactions. If these amounts are not eliminated at the governmentwide level when compiling the CFS, revenues and expenses become overstated in the CFS. However, in disclosing the types of revenues included in the Statement of Operations and Changes in Net Position in the draft CFS, Treasury's description stated that "individual income tax and tax withholdings include....payroll taxes collected from other agencies." We inquired of Treasury as to why these amounts would be included in the CFS and not eliminated during the preparation process. Treasury subsequently deleted the language regarding the inclusion of federal agency payroll taxes from the CFS. However, Treasury was unable to provide any documentation demonstrating that these amounts were appropriately classified as intragovernmental transactions and eliminated from the CFS. Without adequate policies and procedures to accurately identify and eliminate intragovernmental payroll tax amounts in the process used to prepare the CFS, the federal government's ability to determine the impact of these amounts on the CFS is impaired and, consequently, the CFS may be misstated.

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## Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to design, document, and implement policies and procedures to identify and eliminate intragovernmental payroll tax amounts at the governmentwide level when compiling the CFS.

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## Consistency and Accuracy of Key Sections of the Financial Report

Treasury, in coordination with OMB, did not take the steps necessary to help assure that certain key information related to significant financial events and conditions were consistent and accurately presented throughout the fiscal year 2008 Financial Report.<sup>6</sup> Specifically, Treasury, in coordination with OMB, has not fully established an effective process for preparing and reviewing information included in the Management's Discussion and Analysis (MD&A), and "The Federal Government's Financial Health: A Citizen's Guide to the Financial Report of the United States Government" (Citizen's Guide) sections of the Financial Report. According to Statement of Federal Financial Accounting Standards No. 15, Management's Discussion and Analysis, the MD&A should highlight key information and increase the understanding and usefulness of the Financial Report. Similarly, the Citizen's Guide is intended to provide readers with a brief, high-level summary of key financial information from the Financial Report on our nation's current fiscal condition and the long-term sustainability. Further, data presented in both the MD&A and Citizen's Guide must be consistent with related data in the CFS.

Treasury, in coordination with OMB, performed certain procedures to prepare and review the MD&A and Citizen's Guide. However, these procedures were not effective in helping assure that (1) information was consistently reported in the CFS and these related sections of the Financial Report and (2) information reported in the MD&A and Citizen's Guide was consistent, complete, and accurate. During our comparison of information reported in draft versions of the MD&A and Citizen's Guide with information reported in the fiscal year 2008 draft CFS, we identified (1) several inconsistencies and (2) numerous instances in which information was omitted from, or incorrectly reported in, these draft sections of the Financial Report that were not detected by Treasury's review process. For example, information in the draft MD&A and Citizen's Guide regarding certain federal actions for addressing the financial crisis was incomplete or incorrectly reported. In addition, the \$339 billion

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<sup>6</sup>The Financial Report is intended to provide an understanding of both the government's current financial position and prospects for moving forward.



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change in veterans benefit liability in fiscal year 2008 reported in the draft CFS was incorrectly reported as \$365 billion in the draft versions of the MD&A and Citizen’s Guide. We communicated our findings to Treasury officials who corrected the data presented in the MD&A and Citizen’s Guide sections of the final Financial Report. Without effective procedures for preparing and reviewing the MD&A and Citizen’s Guide to ensure that the information is complete, accurate, and consistent with the information reported in the CFS, Treasury is at risk that information provided in these key sections of the Financial Report will not be reliable.

A contributing factor to the reporting errors and inconsistencies we detected is that Treasury does not have documented procedures for preparing and reviewing the MD&A and Citizen’s Guide sections of the Financial Report in comparison with data presented in the CFS. As preparer of the Financial Report, Treasury management, in coordination with OMB, is responsible for developing and documenting detailed policies, procedures, and practices and for ensuring that internal control is built into and is an integral part of operations to ensure that information is consistent and accurate throughout the Financial Report. GAO’s Standards for Internal Control in the Federal Government calls for clear documentation of policies and procedures.<sup>7</sup> Although, Treasury has documented policies and procedures used to compile the CFS in its Standard Operating Procedures (SOP) entitled “Preparing the Financial Report of the U.S. Government,” the SOP does not provide procedures for preparing and reviewing the MD&A and Citizen’s Guide—two key report sections providing information to the Congress and the public regarding the fiscal condition of the U.S. government—to help assure they are consistent and accurate in comparison with related information presented elsewhere in the Financial Report.

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## Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop, document, and implement processes and procedures for preparing and reviewing the MD&A and Citizen’s Guide sections of the Financial Report to help assure that information reported in these sections is complete, accurate, and consistent with related information reported elsewhere in the Financial Report.

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<sup>7</sup>GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

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## Identifying Federal Entities Significant to the CFS

Treasury, in coordination with OMB, has not established and documented criteria for identifying which federal entities are significant to the CFS for purposes of verifying and validating the information submitted by federal entities for inclusion in the CFS. Treasury, through the Treasury Financial Manual (TFM), identified 35 significant federal agencies and entities, referred to as “verifying agencies.”<sup>8</sup> Those agencies are required to perform a number of procedures to provide audit assurance over the information submitted to Treasury for the CFS. However, Treasury and OMB have not (1) established and documented criteria for designating federal entities as “verifying agencies” significant to the CFS, and (2) established policies and procedures for assessing and documenting, on an annual basis, which entities meet the criteria.

Treasury, in coordination with OMB, is required to prepare the CFS. According to 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, the consolidated financial report should be a general purpose report that is aggregated from federal agencies’ and other federal entities’ financial reports. The TFM provides policies and procedures on how federal agencies are to provide their financial data to Treasury for consolidation.

In accordance with the TFM, verifying agencies are required to submit their financial data to Treasury using a Closing Package. The verifying agency’s Chief Financial Officer must certify the accuracy of the data in the Closing Package and have the Closing Package audited by the agency’s Inspector General. In addition, the Closing Package process requires verifying agencies to reclassify their audited financial statements to the Closing Package “special purpose financial statements.” Verifying agencies must also identify trading partners<sup>9</sup> and enter certain financial statement notes. The special purpose financial statements are audited to obtain

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<sup>8</sup>Treasury refers to the significant agencies as “verifying agencies.” They are the 24 Chief Financial Officers Act agencies, the Export-Import Bank of the United States, the Farm Credit System Insurance Corporation, the Federal Communications Commission, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the U.S. Postal Service, the Pension Benefit Guaranty Corporation, the Railroad Retirement Board, the Securities and Exchange Commission, the Smithsonian Institution, and the Tennessee Valley Authority.

<sup>9</sup>“Trading partners” are U.S. government agencies, departments, or other components included in the CFS that do business with each other.

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reasonable assurance about whether the financial statements are (1) free of material misstatements, (2) in conformity with accounting principles generally accepted in the United States, and (3) presented pursuant to the requirements of the TFM. Because the Closing Package process requires verifying agencies to verify and validate the information in the special purpose financial statements with their audited information and receive an audit opinion, Treasury is provided a level of assurance that it is compiling the CFS with audited financial information. All other federal entities that contribute financial information to the CFS are classified by Treasury as “nonverifying agencies.” Over 100 nonverifying federal agencies and entities submitted data for fiscal year 2008. Currently these entities are only required to submit adjusted trial balance data to Treasury instead of an audited Closing Package. Because of a lack of criteria for determining an entity’s significance to the CFS, it is unclear whether any of these “nonverifying agencies” should be classified as “verifying agencies.”

One of Treasury’s and OMB’s goals for preparing the CFS is to link the agencies’ audited financial statements to the CFS. To accomplish this goal, Treasury needs an appropriate level of assurance that it compiles the CFS using audited Closing Packages from the federal entities contributing the most significant amounts of financial information. However, without establishing the criteria for identifying federal entities as significant to the CFS and establishing related policies and procedures to assess, on an annual basis, which entities meet such criteria, Treasury and OMB cannot obtain this level of assurance.

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## Recommendations for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to (1) establish and document criteria to be used in identifying federal entities as significant to the CFS for purposes of obtaining assurance over the information being submitted by those entities for the CFS and (2) develop and implement policies and procedures for assessing and documenting, on an annual basis, which entities met such criteria. These actions will help provide Treasury and OMB with assurance that the information being used to prepare the CFS is consistent with the audited financial statements of the federal agencies, in all material respects.

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## Procedures for Reviewing the Statements of Net Cost

During fiscal year 2008, Treasury enhanced its SOP entitled “Preparing the Financial Report of the U.S. Government” to require an overall analysis of the consolidated numbers in the financial statements to include a review for reasonableness of changes from the prior year to the current year. However, because of a lack of details on the objectives of the analysis and the procedures to be performed, the overall analysis did not detect significant errors in amounts used to prepare the Statements of Net Cost (SNC).

Internal control should provide, among other things, reasonable assurance that financial reporting is reliable. GAO’s Standards for Internal Control in the Federal Government<sup>10</sup> defines the minimum level of quality acceptable for internal control in the federal government and provides the standards against which internal control is to be evaluated. These standards state that internal controls should include, among other items, reviews by management at the functional or activity level.

Treasury categorizes and allocates costs in the SNC by agency. For example, most of the costs associated with pension and health benefits that are reported by the Office of Personnel Management (OPM) in its financial statements are allocated to the costs of OPM’s federal user agencies for governmentwide federal reporting purposes. Treasury uses head count figures reported by OPM in its Closing Package to perform the allocation of pension and health benefit costs across all user federal agencies. However, we found that Treasury did not detect a significant variance in head count between certain federal entities from 2007 to 2008, which resulted in significant errors in the draft SNC. Specifically, we found that, in fiscal year 2007, the head count used for the Department of Defense (DOD) was 497,724, and the head count used for “all other entities” was 92,566.<sup>11</sup> In fiscal year 2008, we found that the head counts were erroneously reversed. The head count used for DOD was 95,157, while the head count used for “all other entities” was 495,673. Treasury’s review process and overall analysis did not detect this error. As a result, Treasury’s draft SNC understated DOD’s reported costs on the fiscal year 2008 SNC by approximately \$10 billion and costs for the “all other entities” line item was equally overstated. Without sufficiently detailed procedures

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<sup>10</sup>[GAO/AIMD-00-21.3.1](#).

<sup>11</sup>“All other entities,” a line item on the Statement of Net Cost (SNC), consists of entities not individually listed on the SNC. The entities in the “all other entities” line item are individually not deemed significant agencies by Treasury.

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including guidance for performing the analysis and review of data used in the allocation process for compiling the SNC, significant errors could occur in the SNC and not be detected.

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### Recommendation for Executive Action

We reaffirm our recommendation that the Secretary of the Treasury direct the Fiscal Assistant Secretary to further enhance the SOP entitled “Standard Operating Procedures for Preparing the Financial Report of the U.S. Government” to better ensure that CFS compilation practices are proper, complete, and can be consistently applied, including detailed procedures for conducting reviews and documenting reasonableness of data used in the process for compiling the CFS.

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## Agency Comments and Our Evaluation

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### OMB Comments

In oral comments on a draft of this report, OMB stated that it generally concurred with the new findings and related recommendations in this report. In addition, OMB provided technical comments, which we have incorporated as appropriate.

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### Treasury Comments

In its April 15, 2009, written comments on a draft of this report, which are reprinted in appendix II, Treasury stated that it concurs with the new recommendations and expects to implement them by the end of fiscal year 2009. We will evaluate the actions taken to address our recommendations as part of our fiscal year 2009 CFS audit.

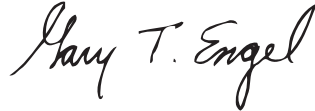
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This report contains recommendations to the Secretary of the Treasury. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on these recommendations. You should submit your statement to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform within 60 days of the date of this report. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency’s first request for appropriations made more than 60 days after the date of the report.

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We are sending copies of this report to the Chairman and Ranking Member of the Senate Committee on Homeland Security and Governmental Affairs and its Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security and the Chairman and Ranking Member of the House Committee on Oversight and Government Reform and its Subcommittee on Government Management, Organization, and Procurement. In addition, we are sending copies to the Fiscal Assistant Secretary of the Treasury, the Director of OMB, the Deputy Director for Management of OMB, and the Acting Controller of OMB's Office of Federal Financial Management. This report is also available at no charge on GAO's Web site at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by Treasury and OMB during our audit. If you or your staff have any questions or wish to discuss this report, please contact me (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov). Key contributors to this report are listed in appendix III.



Gary T. Engel  
Director  
Financial Management and Assurance

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

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This appendix includes the status of recommendations from the following six reports that were open at the beginning of our fiscal year 2008 audit:

*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);

*Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Further Improvement*, [GAO-04-866](#) (Washington, D.C.: Sept. 10, 2004);

*Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Continues to Need Improvement*, [GAO-05-407](#) (Washington, D.C.: May 4, 2005);

*Financial Audit: Significant Internal Control Weaknesses Remain in Preparing the Consolidated Financial Statements of the U.S. Government*, [GAO-06-415](#) (Washington, D.C.: Apr. 21, 2006);

*Financial Audit: Significant Internal Control Weaknesses Remain in the Preparation of the Consolidated Financial Statements of the U.S. Government*, [GAO-07-805](#) (Washington, D.C.: July 23, 2007); and

*Financial Audit: Material Weaknesses in Internal Control over the Processes Used to Prepare the Consolidated Financial Statements of the U.S. Government*, [GAO-08-748](#) (Washington, D.C.: June 17, 2008).

Recommendations from these reports that were closed in prior years are not included in this appendix. This appendix includes the status of the 56 remaining open recommendations, according to the Department of the Treasury (Treasury) and the Office of Management and Budget (OMB), as well as our own assessments. Explanations are included in the status of recommendations per GAO when Treasury and OMB disagreed with our recommendation or our assessment of the status of a recommendation. We will continue to monitor Treasury's and OMB's progress in addressing GAO's recommendations.

Of the 56 recommendations relating to the processes used to prepare the consolidated financial statements of the U.S. government (CFS) that are listed in this appendix, 16 were closed and 40 remained open as of December 9, 2008, the date of our report on the audit of the fiscal year 2008 CFS.

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

**Table 1: Status of Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS (as of December 9, 2008)**

Count	No.	Recommendation	Status of recommendation	
			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 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 has continued to eliminate, at the consolidated level, intragovernmental activity and balances using formal balanced accounting entries (via Reciprocal Categories) and has continued its analysis of transactions that contribute to the unmatched transactions and balances adjustment. Major contributors to the plug are transactions with the General Fund (Reciprocal Category 29). In fiscal year 2008, a Treasury Task Force was formed to develop an accounting model for the General Fund. Treasury continues to separately identify General Fund transactions to facilitate their agency reconciliation. Also in fiscal year 2008, Treasury focused its efforts on particular areas (fiduciary and employee benefits) and increased its analysis and monitoring efforts on agencies' explanations of material differences with their trading partners.	Open. Treasury has continued developing reconciliation procedures to aid in understanding the net position balance but remains unable to eliminate the plugs associated with compiling the CFS. In addition, there are hundreds of billions of dollars of unreconciled differences between the General Fund and federal agencies related to appropriation and other intragovernmental transactions. The ability to reconcile these transactions is hampered because not all General Fund transactions are reported in the Department of the Treasury's financial statements.



**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	
			Per Treasury and OMB	Per GAO
2	02-6	As OMB continues to make strides to address issues related to intragovernmental transactions, the Director of OMB should direct the Controller of OMB to develop policies and procedures that document how OMB will enforce the business rules provided in OMB Memorandum M-07-03, Business Rules for Intragovernmental Transactions.	<p>The business rules were revised in fiscal year 2006 to expand and enhance the standard practices for how federal agencies do business with each other. The revised rules are published in Treasury Financial Manual (TFM) Bulletin 2007-03.</p> <p>OMB, Treasury, and the Chief Financial Officers' Council (CFOC) are distributing quarterly, a "Watchlist" of the largest dollar imbalances between two federal agencies and/or federal agencies not reporting a trading partner. Federal agencies on the "Watchlist" meet with OMB and Treasury to discuss the root causes of the imbalances and come to resolution on how to mitigate the root causes. At the same time, OMB, Treasury, and the CFOC are continuing their efforts toward establishing the Intragovernmental Dispute Resolution Committee (IDRC), as referenced in the business rules. The IDRC will be a vehicle for resolving accounting disputes between federal agencies. The dispute resolution process is also predicated on the principle that federal agencies have implemented the business rules and will require the disputing federal agencies to provide evidence of compliance with the business rules during arbitration.</p>	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	
			Per Treasury and OMB	Per GAO
3	02-7	As OMB continues to make strides to address issues related to intragovernmental transactions, the Director of OMB should direct the Controller of OMB to require that significant differences noted between business partners be resolved and the resolution be documented.	OMB will continue to work with individual federal agencies to resolve imbalances that are referred to OMB on a case-by-case basis. As part of OMB's standard practice, resolutions reached will be communicated to all parties. As noted above, OMB, Treasury, and the CFOC are documenting the imbalances identified on the "Watchlist" and subsequent resolutions. OMB, Treasury, and the CFOC will continue to work toward establishing the IDRC, as referenced in the business rules, and it will be used as a vehicle for federal agencies to resolve their accounting disputes. The IDRC will incorporate a standard practice of documenting all resolutions and communicating the resolutions to all parties involved.	Open.

**Appendix I: Status of Treasury's and OMB's  
Progress in Addressing GAO's Prior Year  
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
4	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.	Treasury has designed formal consolidating and eliminating procedures to account for these differences and has implemented them. See the status for recommendation No. 02-4.	Open. Treasury's formal consolidating and eliminating accounting entries could not fully account for the difference in intragovernmental assets and liabilities during the fiscal year 2008 compilation process. For example, there are hundreds of billions of dollars of unreconciled differences between the General Fund and federal agencies related to appropriation and other intragovernmental transactions. These amounts are not eliminated by Treasury's formal consolidating and elimination accounting entries due to the fact that Treasury's ability to reconcile these transactions is hampered because not all General Fund transactions are reported in the Department of the Treasury's financial statements. As indicated in Treasury's response to recommendation No. 02-4, additional analysis of the General Fund is necessary to account for all differences in intragovernmental assets and liabilities.

**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	
			Per Treasury and OMB	Per GAO
5	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.	Treasury continues to provide to federal agencies information from its Central Accounting and Reporting System (STAR) related to appropriations, transfers, and fund balance with Treasury for the agencies' use in reconciling with this centrally reported data. The agencies will be required to reconcile with this information in fiscal year 2009.	Open. Treasury and OMB did not provide federal agencies instructions on how to reconcile and report to Treasury any differences between their records and Treasury's central accounting records. Further, although Treasury's analysis of agencies' transactions with the General Fund is ongoing, the ability to reconcile these transactions is hampered because not all General Fund transactions are reported in the Department of the Treasury's financial statements.
6	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.	The current reconciliation of intragovernmental activity does account for differences caused by asset capitalization and agency advances or deferred revenue. Given current intragovernmental differences, further resolution of this activity is contingent on these differences being materially resolved. See status of recommendation No. 02-4.	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	
			Per Treasury and OMB	Per GAO
7	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.	These unmatched transactions and balances will continue to be reflected in the Statements of Operations and Changes in Net Position until they are materially resolved. However, based on its analyses of these unmatched transactions and balances, Treasury believes that these unmatched transactions and balances are primarily caused by unreconciled transactions that affect only the amounts reported on an accrual basis of accounting (net operating cost) and, therefore, these unmatched transactions and balances should not be included as a separate reconciling item on this statement. Treasury will continue its analysis in fiscal year 2009.	Open. Treasury has not implemented a process that demonstrates the amount, if any, of unmatched transactions and balances should be included as a separate reconciling item in the reconciliation statement.
8	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.	Treasury will continue to improve the completeness and consistency of the information in this reconciliation statement and will continue to resolve significant inconsistencies, if any, to the applicable and related components reported in the other basic financial statements, and in the related note disclosures, included in the CFS.	Open. While Treasury has made progress in developing certain Standard Operating Procedures (SOP), it has not fully developed policies and procedures to ensure the completeness of reporting of information on the reconciliation statement and to document how all applicable components reported elsewhere in the CFS are properly reflected in the reconciliation statement.

**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	
			Per Treasury and OMB	Per GAO
9	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 governmentwide level to assist in ensuring that the reconciliation statement is useful and conveys meaningful information.	During fiscal year 2009, Treasury will revise its reporting materiality policy to address any remaining concerns about the policy.	Open.
10	02-15	If Treasury chooses to continue using information from both federal agencies' financial statements and STAR, Treasury should demonstrate how the amounts from STAR reconcile to federal agencies' financial statements.	Treasury has elected to continue the use of information from STAR and has identified the material areas where STAR data does not reconcile to federal agencies' financial statements. Treasury intends to provide these specific items to agencies for their reconciliation in fiscal year 2009.	Open.
11	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 status of recommendation No. 02-15.	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	
			Per Treasury and OMB	Per GAO
12	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.	Treasury has elected to continue to use information from STAR. Treasury will document the consistency of the significant line items on this statement to federal agencies' audited financial statements as possible during fiscal year 2009. See status of recommendation No. 02-15.	Open.
13	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.	Treasury will continue with its efforts to reconcile budgetary receipts to net operating revenue. During fiscal year 2008, Treasury made significant progress with identifying and documenting the larger differences between budgetary receipts and net operating revenue. Efforts will continue in fiscal year 2009, including looking into automating a portion of this reconciliation in the Governmentwide Financial Reporting System (GFRS).	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	
			Per Treasury and OMB	Per GAO
14	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.	Treasury continues to define and document the reporting entity and made corresponding changes to the reporting entity disclosure in the fiscal year 2008 CFS.	Open. Key decisions by the Fiscal Assistant Secretary and the Controller of OMB have not been documented showing the basis for including and excluding certain federal entities.
15	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.	See status of recommendation No. 02-22.	Open. See status of recommendation No. 02-22.



**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	
			Per Treasury and OMB	Per GAO
16	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.	See status of recommendation No. 02-22.	Open. See status of recommendation No. 02-22.
17	02-29	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an analysis of the agency management representations to determine if discrepancies exist between what the agency auditor reported and the representations made by the agency, including the resolution of such discrepancies.	Treasury and OMB revised their policies and procedures in fiscal year 2008 to improve internal control over this process.	Closed.

**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	
			Per Treasury and OMB	Per GAO
18	02-33	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an evaluation and assessment of the omission of representations ordinarily included in agency management representation letters.	Treasury and OMB revised their policies and procedures in fiscal year 2008 to improve internal control over this process.	Closed.
19	02-34	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an analysis and aggregation of federal agencies' summary of unadjusted misstatements to determine the completeness of the summaries and to ascertain the materiality, both individually and in the aggregate, of such unadjusted misstatements to the CFS taken as a whole.	Treasury updated the SOP for the aggregation and analysis of federal agencies' summary of unadjusted misstatements. Treasury also tracked federal agencies' submissions of this information and prepared a CFS-level summary that showed that federal agencies' unadjusted misstatements were immaterial in the aggregate to the CFS.	Closed.

**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	
			Per Treasury and OMB	Per GAO
20	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 2008, Treasury and OMB continued to work with federal agencies to ensure that adequate information was provided in the legal representation letters regarding the expected outcomes of the cases.	Open. Treasury and OMB did not ensure that all federal agencies reported adequate information relating to expected outcomes of legal cases.

**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	
			Per Treasury and OMB	Per GAO
21	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).	Based on the work Treasury and OMB performed in fiscal year 2008, OMB believes it is reasonable to continue disclosing treaties and other international agreements in the CFS notes with the acknowledgment that the U.S. government is a party to them and may have certain responsibilities under them; also, the Note should include a reference to where more detailed information is available (e.g., State Department's Treaties In Force) similar to other notes. To that end, OMB proposed updating the requisite Note and believes that this proposed Note meets the intent and substance of Statement of Federal Financial Accounting Standard (SFFAS) No. 32, Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government" because the audience to whom the CFS is mainly directed is citizens and their intermediaries and, as such, this information should be timely and understandable to that audience. However, GAO has since provided some additional insight to OMB regarding the recommendation, and OMB established a working group of the OMB Circular No. A-136, Financial Reporting Requirements (A-136) Subcommittee of the CFOC to address the topic. Finally, OMB looks forward to meeting with GAO this year to discuss the recommendation further.	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	
			Per Treasury and OMB	Per GAO
22	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 status of recommendation No. 02-37.	Open.
23	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 status of recommendation No. 02-37.	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	
			Per Treasury and OMB	Per GAO
24	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 status of recommendation No. 02-37.	Open.
25	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.	OMB questions this recommendation, as it is not known whether any treaties or international agreements are different than any other commitments or contingencies. Additionally, if the difference were known, those that were classified as "remote" contingencies would not be recorded or disclosed as probable or reasonably possible in the CFS. Therefore, until these can be established as actually being different than any other commitments or contingencies, this recommendation should be removed.	Open. Treasury, OMB, and the federal agencies have not yet performed the necessary work to determine whether commitments or contingencies exist under treaties and international agreements with foreign countries that would be required to be reported. In addition, Treasury and OMB have not established written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported 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	
			Per Treasury and OMB	Per GAO
26	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 SFFAS No. 5, Accounting for Liabilities of the Federal Government, 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 required information was requested from federal agencies for disclosure in the required supplementary information (risk assumed) section of the fiscal year 2008 CFS. Further discussions with federal agencies will take place in fiscal year 2009 to ensure proper and complete disclosure of this information.	Open.

**GAO-04-866 (results of the fiscal year 2003 audit)**

27	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.	In fiscal year 2008, Treasury disclosed the change in cash balances as reported on the Balance Sheet on the Statement of Changes in Cash Balance.	Open. Although Treasury took steps to improve the readability of the Statement of Changes in Cash Balance, Treasury has not developed a process that will allow full reporting of the changes in cash balance. For example, Treasury was unable to identify and explain certain changes necessary to account for the changes in cash and other monetary assets reported on the Statement of Changes in Cash Balance.
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**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	
			Per Treasury and OMB	Per GAO
28	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 (Justice) and certain other executive branch federal agencies to ensure that these federal agencies report or disclose relevant criminal debt information in conformity with generally accepted accounting principles (GAAP) in their financial statements and have such information subjected to audit.	OMB will continue working with Justice to develop a reasonable approach for the reporting or disclosing of this information.	Open.
29	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.	Treasury will include criminal debt information in the CFS as it becomes available. See status of recommendation No. 03-8.	Open.
30	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 continues to use its CFS compilation process, GFRS, to provide direct linkage from the agency audited financial statements to most of the CFS principal statements. However, additional work is needed related to the two budgetary principal financial statements. See status of recommendation No. 02-17. With regard to note disclosures, GFRS note references (linkages), with additional Treasury analysis, ensure direct linking of the CFS and agency note disclosures.	Open. Treasury has showed progress by demonstrating that amounts in the Statement of Social Insurance were consistent with the underlying federal agencies' audited financial statements and that the Balance Sheet and the Statement of Net Cost were consistent with federal agencies' financial statements prior to eliminating intragovernmental activity and balances. However, Treasury's closing package process did not ensure that the information in the remaining three principal financial statements were fully consistent with the underlying information in federal agencies' audited financial statements and other financial data.



**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	
			Per Treasury and OMB	Per GAO
<b>GAO-05-407 (results of the fiscal year 2004 audit)</b>				
31	04-2	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require and maintain appropriate supporting documentation for all journal vouchers recorded in the CFS.	Treasury will continue its efforts to better ensure that journal vouchers include appropriate supporting documentation.	Open. Treasury did not have appropriate supporting documentation for all journal vouchers recorded in the CFS.
32	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.	Treasury will continue its efforts to better ensure that journal vouchers are communicated to the federal agencies before recording them in GFRS.  However, because of year-end time constraints, Treasury will make changes without agency contact under the following circumstances: (1) adjustments to agree closing packages to financial statements, (2) adjustments to ensure consistency of GAAP between federal agencies, and (3) adjustments to conform an agency to GAAP.	Open. We believe that Treasury should be required to contact federal agencies to resolve any discrepancies between federal agencies' audited closing packages and audited financial statements and discuss any other situations that require adjustments to federal agencies' audited closing package data because Treasury could incorrectly adjust federal agencies' audited information.
33	04-4	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require and document management reviews of all procedures that result in data changes to the CFS.	Treasury will continue its efforts to ensure that data changes have appropriate management review.	Open. Not all of Treasury's procedures were effective for fiscal year 2008. We identified certain adjustments and key spreadsheets that lacked documentation evidencing management review.

**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	
			Per Treasury and OMB	Per GAO
34	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.	Treasury continued to make improvements to its internal control infrastructure during fiscal year 2008. Treasury has updated its documentation to help ensure control procedures are in place at all critical areas of the CFS preparation process and is working with a contractor to ensure that these controls are adequately monitored and assessed each year.	Open. Treasury has not completed an assessment to ensure it has sufficient personnel with specialized financial reporting experience to achieve a sound internal control environment to carry out the compilation process and help ensure reliable financial reporting by the reporting date. For example, for fiscal year 2008, Treasury did not provide the final accrual basis CFS and related supporting documentation in time for us to complete all of our planned audit procedures.
35	04-19	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that federal agencies designate in the note disclosure for cash and other monetary assets any amounts reported for the "other cash" line items that are restricted with respect to the federal government taken as a whole.	This required information was disclosed in Note 2, Cash and Other Monetary Assets, in the fiscal year 2008 CFS.	Closed.
36	04-20	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for other liabilities meets the requirements of SFFAS No. 5, paragraph 114, which requires the reporting of indicators of the range of uncertainty around insurance-related estimates and the sensitivity of the estimates to changes in major assumptions.	The required information related to life insurance in the other liabilities note disclosure was not material to the fiscal year 2008 CFS.	Closed.

**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	
			Per Treasury and OMB	Per GAO
<b>GAO-06-415 (results of the fiscal year 2005 audit)</b>				
37	05-2	The Director of OMB should direct the Controller of the Office of Federal Financial Management, in coordination with the Treasury Fiscal Assistant Secretary, to develop an alternative solution for obtaining audit assurance related to the Federal Deposit Insurance Corporation's funds, National Credit Union Administration, and Farm Credit System Insurance Corporation, which includes the requirement for adequate audit procedures to be performed over significant information included in the CFS for these federal agencies.	OMB has developed an alternative solution and documented related procedures for obtaining audit assurance related to those verifying entities that have a calendar year-end and determined to be significant to the CFS. The solution entails the requirement that these entities have an examination attestation engagement performed.	Closed.
38	05-3	The Director of OMB should direct the Controller of the Office of Federal Financial Management to consider, in order to provide audit assurance over federal agencies' closing packages, not waiving the closing package audit requirement for any verifying agency in future years, such as Tennessee Valley Authority.	OMB generally agrees with the recommendation; however, it will continue to weigh the costs against the benefits of global requirements during extenuating circumstances. OMB and Treasury will continue to work with agencies that are also subject to Securities and Exchange Commission filing requirements.	Open. For fiscal year 2008, OMB did not ensure that all verifying entities met the closing package audit requirements.

**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	
			Per Treasury and OMB	Per GAO
39	05-4	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop policies and procedures for monitoring internal control to help ensure that (1) audit findings are promptly evaluated; (2) proper actions are determined in response to audit findings and recommendations, such as a documented plan of action with milestones for short-term and long-range solutions; and (3) all actions that correct or otherwise resolve the audit findings are completed within established time frames.	OMB concurs with the recommendation and is committed to improving the corrective action plans and monitoring progress against those plans.	Open.
40	05-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the TFM and any other guidance to federal agencies provide clear instructions for providing reliable data to Treasury for restricted cash.	Treasury revised its guidance related to restricted cash and ensured that sufficient information was requested to determine these amounts at the governmentwide level.	Closed.
41	05-8	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the TFM and any other guidance to federal agencies provide clear instructions for providing reliable data to Treasury for summaries of unadjusted misstatements.	Treasury updated the TFM in fiscal year 2008 related to the guidance to federal agencies concerning agency management representations and related summaries of unadjusted misstatements.	Closed.

**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	
			Per Treasury and OMB	Per GAO
<b>GAO-07-805 (results of the fiscal year 2006 audit)</b>				
42	06-1	The Director of OMB and Secretary of the Treasury should direct the Controller of the Office of Federal Financial Management and Fiscal Assistant Secretary, respectively, to develop formal processes and procedures for identifying and either resolving or explaining any material differences in undistributed offsetting receipt amounts between Treasury's central accounting records and information reported in agency financial statements and underlying agency financial information and records.	Treasury has policies and procedures for identifying and either resolving or explaining any material differences in undistributed offsetting receipt amounts between Treasury's central accounting records and information reported in agency financial statements and underlying agency financial information and records, and demonstrated their effectiveness during fiscal year 2008.	Closed.
43	06-2	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop formal processes and procedures for ensuring that intragovernmental activity and balances related to undistributed offsetting receipts, including intragovernmental interest, are fully eliminated in the calculation of the budget deficit.	Treasury has processes and procedures for ensuring that intragovernmental activity and balances, including intragovernmental interest, are fully eliminated in the calculation of the budget deficit, and demonstrated their effectiveness during fiscal year 2008.	Closed.

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

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			Per Treasury and OMB	Per GAO
44	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 governmentwide legal representation letter.	In fiscal year 2008, GAO drafted an approach for addressing the recommendation and OMB tried to implement it via its governmentwide legal request letter it sends to Justice annually. Due to unintended circumstances, all parties were not able to come together to discuss the approach's additional requirements if it was to be implemented in fiscal year 2008. Thereafter, OMB held a meeting with GAO and Justice to discuss implementing the approach for fiscal year 2009. However, Justice concluded that the approach's requirements were not "executable" because it did not believe the approach was cost effective, given its resources. OMB plans to meet with GAO this year to discuss a workable solution for addressing this recommendation.	Open. Treasury, in coordination with OMB, has not established effective processes and procedures to ensure that appropriate information regarding litigation and claims is included in the governmentwide legal representation letter.

**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	
			Per Treasury and OMB	Per GAO
45	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.	During fiscal year 2008, Treasury continued 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 included (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. In addition, in fiscal year 2008, Treasury required the federal agencies to provide additional information related to their intragovernmental differences that would allow Treasury to correct these differences within GFRS. This effort will continue in fiscal year 2009 including following-up with any federal agencies that either did not comply or provided incomplete information related to this new requirement.	Open.
46	06-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to disclose the balance of foreign currencies held at fiscal year end in the Cash and Other Monetary Assets footnote to the CFS.	Treasury disclosed these balances in Note 2, Cash and Other Monetary Assets, in the fiscal year 2008 CFS.	Closed.

**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	
			Per Treasury and OMB	Per GAO
<b>GAO-08-748 (results of the fiscal year 2007 audit)</b>				
47	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 "Standard Operating Procedures for 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.	In fiscal year 2008, Treasury updated this SOP by significantly expanding the functions covered by this SOP and increasing the level of detail related to all the key procedures. Treasury will update this SOP during fiscal year 2009, as necessary.	Open. Although Treasury made significant improvements to this SOP during fiscal year 2008, we found that additional enhancements are needed to help ensure that all procedures referred to in the SOP are correctly performed and consistently applied by all staff members.
48	07-2	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance its checklist or design an alternative and use it to adequately and timely document Treasury's assessment of the relevance, usefulness, or materiality of information reported by the federal agencies for use at the governmentwide level.	During fiscal year 2008, Treasury enhanced its analysis procedures to take into account agency-specific disclosures and assess their impact at the governmentwide level. Treasury will update its checklist during fiscal year 2009, as necessary.	Open. Although Treasury made significant improvements in documenting its assessment of agency information, we found that the assessment and documentation were not adequately or timely completed.
49	07-3	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance its checklist or design an alternative and use it to adequately and timely document Treasury's consideration of relevant accounting standards other than those issued by FASAB.	Treasury's checklist was revised in fiscal year 2008 to address these concerns.	Closed.
50	07-4	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance its checklist or design an alternative and use it to adequately and timely document Treasury's final decisions regarding the inclusion or exclusion of federal agencies' disclosure information in the existing notes to the CFS.	Treasury's checklist was revised in fiscal year 2008 to address these concerns.	Closed.



**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	
			Per Treasury and OMB	Per GAO
51	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' Statement of Budgetary Resources and the amounts included in the computation of the budget deficit in the CFS.	OMB is currently updating its policies and procedures for identifying and resolving material differences in distributed offsetting receipt amounts. In addition, OMB worked with agencies on this issue throughout fiscal year 2008 and made significant progress.	Open.
52	07-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish effective internal control to ensure the spreadsheets used to compile the CFS are protected from inadvertent change.	Treasury revised its internal control policies and procedures to ensure that the spreadsheets were protected from inadvertent change.	Closed.
53	07-7	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish effective internal control to ensure the spreadsheets used to compile the CFS are documented to facilitate detection and tracking of changes to key formulas and data.	Treasury revised its internal control policies and procedures to ensure that the spreadsheets were documented to address these concerns.	Closed.
54	07-8	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that columns within key spreadsheets used to compile the CFS are labeled and properly aligned to reflect the data contained within.	Treasury revised its internal control policies and procedures to ensure that the spreadsheets were labeled and aligned to address these concerns.	Closed.

**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	
			Per Treasury and OMB	Per GAO
55	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.	Treasury is currently reviewing its internal control procedures to develop a formal mechanism for monitoring and assessing the effectiveness of internal control over the preparation of the CFS. See status of recommendation No. 04-6.	Open.
56	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.	Treasury will continue to consider what information can be obtained during the interim period to facilitate the year-end CFS preparation process.	Open.

Source: GAO.

# Appendix II: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

ASSISTANT SECRETARY

April 15, 2009

Mr. Gary T. Engel  
Director, Financial Management and Assurance  
Government Accountability Office  
Washington, DC 20548

Dear Mr. Engel:

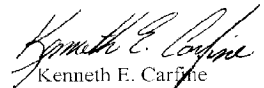
Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft report on the Fiscal Year (FY) 2008 audit, GAO-09-387, *Material Weaknesses in Internal Control Continue to Impact Preparation of the Consolidated Financial Statements of the U.S. Government*.

The FY 2008 draft report identifies four new recommendations for improving the Consolidated Financial Statements (CFS) preparation process through documented policies and standard operating procedures. We concur with GAO on these recommendations and expect to implement the recommendations by the end of FY 2009.

During FY 2008, we continued to make significant progress in improving the preparation of the CFS, leading to the closure of 16 of 56 recommendations outstanding from previous CFS audit reports. In addition, the procedural and automated changes to our reporting processes implemented during the year improved the internal controls related to the preparation of the CFS. Our efforts included improved Financial Report disclosures, new data reconciliations, and increased data security.

Thank you, again, for the opportunity to review and comment on the draft report. We look forward to working with you and your staff in making the CFS more meaningful and usable to its readers.

Sincerely,

  
Kenneth E. Carline  
Fiscal Assistant Secretary

Cc: Daniel Werfel, OMB

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Gary Engel, (202) 512-3406 or engelg@gao.gov

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## Acknowledgments

In addition to the above contact, the following individuals made key contributions to this report: Louise DiBenedetto, Assistant Director; Lynda Downing, Assistant Director; Cole Haase; Dragan Matic; Maria Morton; Thanomsri Piyamongroj; and Taya Tasse.

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