



Highlights of [GAO-04-45](#), 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 6 years, since GAO began auditing the consolidated financial statements of the U.S. government (CFS), GAO has been unable to express an opinion on them because of material weaknesses in internal control and financial reporting. Contributing to GAO's inability to express an opinion has been the federal government's lack of adequate systems, controls, and procedures to properly prepare its consolidated financial statements.

The purpose of this report is to discuss in greater detail weaknesses in financial reporting procedures and internal control over the process for preparing the CFS that GAO identified and to recommend improvements to address those weaknesses.

What GAO Recommends

GAO makes 44 recommendations to address weaknesses identified, including a recommendation that Treasury, in coordination with the Office of Management and Budget (OMB), design its new compilation process to directly link information from federal agencies' audited financial statements to amounts reported in the CFS. GAO also makes 16 recommendations that address CFS disclosures required by U.S. generally accepted accounting principles. Treasury and OMB stated that many of our recommendations will improve the usefulness and accuracy of the CFS, but disagreed with recommendations in two areas.

www.gao.gov/cgi-bin/getrpt?GAO-04-45.

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 Needs Improvement

What GAO Found

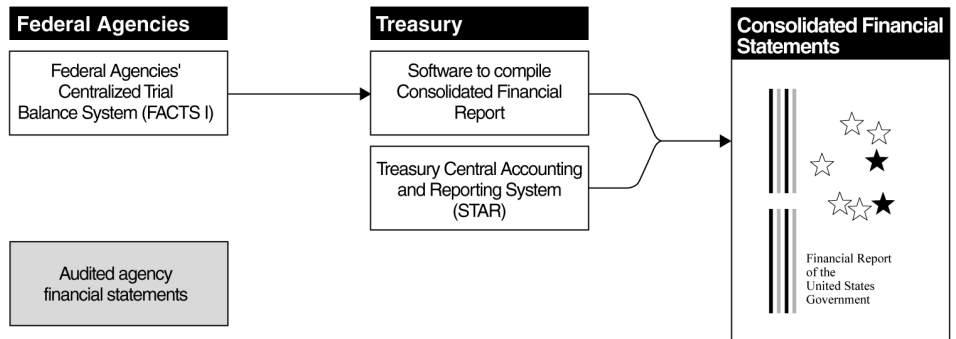
GAO found deficiencies in the compilation and reporting process in the following areas:

- controls over the compilation process,
- unreconciled transactions affecting the change in net position,
- reconciliation of intragovernmental activity and balances,
- elimination of intragovernmental activity and balances,
- reconciliation of net operating costs and unified budget surplus (or deficit),
- statements of changes in cash balance from unified budget and other activities,
- defining and documenting of the reporting entity, and
- conformity with U.S. generally accepted accounting principles.

Another key deficiency in the compilation and reporting process for the CFS was the failure of the Department of the Treasury's process for compiling the CFS to directly link information from federal agencies' audited financial statements to amounts reported in the CFS (see figure below). Without this direct link, the information in the CFS may not be reliable. The lack of a direct link also affects the efficiency and effectiveness of the CFS audit. Treasury is designing a new compilation process that it expects to directly link this information beginning with the fiscal year 2004 CFS.

GAO identified three additional areas related to the compilation and reporting process for the CFS that warrant the attention of Treasury and the Office of Management and Budget: (1) management representation letters, (2) legal representation letters, and (3) information on treaties and other international agreements.

Lack of Direct Link between Audited Agency Financial Statements and the CFS



Directly linked to Consolidated Financial Statements
 Not directly linked to Consolidated Financial Statements

Source: GAO.