

GAO

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

July 2010

MANAGEMENT REPORT

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



GAO

Accountability * Integrity * Reliability



Highlights of [GAO-10-757](#), 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 GAO's work have prevented GAO from expressing an opinion on the consolidated financial statements, other than the Statement of Social Insurance (accrual-based consolidated financial statements). The Department of the Treasury (Treasury), in coordination with the Office of Management and Budget (OMB), is responsible for preparing the CFS. As part of the fiscal year 2009 CFS audit, GAO identified material weaknesses and other control deficiencies in Treasury's processes used to prepare the CFS that warrant management's attention and corrective action. The purpose of this report is to (1) provide details on new control deficiencies GAO identified during its audit of the fiscal year 2009 CFS that related to the preparation of the CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken to address GAO's previous 44 recommendations in this area.

What GAO Recommends

GAO is making 10 new recommendations to Treasury to address control deficiencies identified during the fiscal year 2009 CFS audit related to the processes used to prepare the CFS. In commenting on GAO's draft report, Treasury and OMB stated that they concurred with GAO's findings.

[View GAO-10-757](#) or [key components](#). For more information, contact Gary Engel at (202) 512-3406 or engelg@gao.gov.

MANAGEMENT REPORT

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

What GAO Found

During its audit of the fiscal year 2009 CFS, GAO identified continuing and new control deficiencies in the federal government's processes used to prepare the CFS. The control deficiencies GAO identified involved

- enhancing policies and procedures for identifying and analyzing federal entities' reported restatements and changes in accounting principles;
- establishing and documenting policies and procedures for disclosing significant accounting policies and related party transactions;
- establishing and documenting procedures to assure the accuracy of Treasury staff's work in three areas: (1) social insurance, (2) legal contingencies, and (3) analytical procedures; and
- various other control deficiencies identified in previous years' audits (see app. I for related recommendations).

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 entities; (2) ensure that the accrual-based consolidated financial statements were consistent with the underlying audited entities' 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 Treasury's records, which are 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 entities' financial statements and underlying financial information and records. As a result of these and other material weaknesses, the federal government did not have effective internal control over financial reporting.

Of the 44 open recommendations GAO reported in April 2009, 2 were closed and 42 remained open as of February 19, 2010, the date of GAO's report on its audit of the fiscal year 2009 CFS. GAO will continue to monitor the status of corrective actions taken to address the 10 new recommendations as well as the 42 open recommendations from prior years (see app. I).

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Abbreviations

| | |
|-------|--|
| CFS | consolidated financial statements of the U.S. government |
| GAAP | Generally accepted accounting principles |
| GFRS | Governmentwide Financial Report System |
| HHS | Department of Health and Human Services |
| MD&A | Management's Discussion and Analysis |
| OMB | Office of Management and Budget |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SOP | Standard Operating Procedure |
| SSA | Social Security Administration |
| STAR | Treasury's Central Accounting and Reporting System |
| VA | Department of Veterans Affairs |

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United States Government Accountability Office
Washington, DC 20548

July 30, 2010

The Honorable Timothy F. Geithner
The Secretary of the Treasury

The Honorable Peter Orszag
Director, Office of Management and Budget

In our report dated February 19, 2010,¹ we disclaimed an opinion on the consolidated financial statements of the U.S. government (CFS) for the fiscal years ended September 30, 2009 and 2008,² except for the 2009, 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 resulted in conditions that prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements.³ These include material weaknesses that relate to the federal government's processes used to prepare the CFS. Such material weaknesses involve the federal government's inability to (1) adequately account for and reconcile intragovernmental activity and balances between federal entities; (2) ensure that the accrual-based consolidated financial statements were consistent with the underlying audited entities' 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 certain components of the budget deficit reported in the Department of the Treasury's (Treasury) records, which are used to prepare the Reconciliation of Net Operating

¹The fiscal year 2009 *Financial Report of the United States Government* includes our report and was issued by the Department of the Treasury (Treasury) on February 26, 2010, and is available through GAO's Web site at www.gao.gov/financial.html and Treasury's Web site at www.fms.treas.gov/fr/index.html.

²The consolidated financial statements for the fiscal years ended September 30, 2009 and 2008, 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.

³As used in this report, accrual-based consolidated financial statements refer to all of the consolidated financial statements and notes, except those related to the Statement of Social Insurance.

Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities, and related amounts reported in federal entities' financial statements and underlying financial information and records.

Treasury, in coordination with the Office of Management and Budget (OMB),⁴ prepares the CFS on behalf of the federal government. Many of the material weaknesses⁵ in internal control that have contributed to our continuing disclaimers of opinion were identified by other auditors during their audits of individual federal entities' financial statements and were reported in detail with recommendations to the entities in separate reports.

The purpose of this report is to provide (1) more detailed information on new control deficiencies that we identified during our audit of the fiscal year 2009 CFS that relate to the processes used to prepare the CFS, (2) 10 recommendations to address these control deficiencies, and (3) the status of corrective actions by Treasury and OMB to address the 44 recommendations relating to the processes used to prepare the CFS that were detailed in our previous reports that remained open at the end of the fiscal year 2008 audit (see app. I). We have discussed each of the new control deficiencies identified during our fiscal year 2009 audit with your staff and have incorporated their comments as appropriate.

Scope and Methodology

As part of our audit of the fiscal years 2009 and 2008 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

⁴The 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).

⁵A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the agency's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

audit report on the fiscal year 2009 CFS, which is included in the fiscal year 2009 *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-based consolidated financial statements and our conclusion that the federal government did not have effective internal control over financial reporting. We performed our audit of the fiscal years 2009 and 2008 CFS in accordance with U.S. generally accepted government auditing standards. We believe that our audit provided a reasonable basis for our conclusions in this report.

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

New Internal Control Deficiencies

Standard Operating Procedures for Preparing the CFS

Over the past several years, Treasury has made progress in developing, documenting, and implementing internal control over the process for preparing the CFS through numerous standard operating procedures (SOP). However, we identified areas where SOPs were not developed, implemented, fully documented for fiscal year 2009, or a combination of these. Specifically, we found that SOPs were missing or inadequate in five key areas: (1) restatements and changes in accounting principles, (2) summary of significant accounting policies, (3) social insurance, (4) legal contingencies, and (5) analytical procedures. In connection with its role as preparer of the CFS, Treasury management is responsible for developing and documenting detailed policies, procedures, and practices for preparing the CFS and ensuring that internal control is built into and is an integral part of the CFS compilation process. *Standards for Internal Control in the Federal Government* calls for clear documentation of

policies and procedures.⁶ Missing or inadequate policies and procedures increase the risk that errors in the compilation process could go undetected and result in misstatements in the financial statements or incomplete and inaccurate disclosure of information within the Financial Report.

Restatements and Changes in Accounting Principles

Treasury's SOP entitled "Analyzing Agency Restatements," which is intended to document Treasury's procedures regarding prior period adjustments (i.e., restatements and changes in accounting principles) at the governmentwide level, was not adequate to help assure that prior period adjustments are properly identified and reported in the CFS. Specifically, we found that (1) not all procedures Treasury performs to identify, analyze, and report restated closing package data and changes in accounting principles in the CFS were fully documented in the SOP; (2) for some steps listed in the SOP, it was unclear who was responsible for performing the procedures; and (3) the SOP did not require an analysis of the overall impact of entities' restatements on the CFS or documentation of the analysis and related conclusion.

Recommendations for Executive Action

To help assure that prior period adjustments are properly identified and reported in the CFS, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to enhance the SOP entitled "Analyzing Agency Restatements" to (1) fully document all procedures related to identifying, analyzing, and reporting restated closing package data as well as changes in accounting principles; (2) clarify who is responsible for performing the procedures contained in the SOP; and (3) include procedures for analyzing the overall impact of entities' restatements on the CFS and documenting the analysis and related conclusion.

Significant Accounting Policies

Treasury did not have written policies and procedures to help assure that all significant accounting policies and related party transactions were properly identified and disclosed in Note 1 – Summary of Significant Accounting Policies (Note 1) to the CFS. Statement of Federal Financial Accounting Standards (SFFAS) No. 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and*

⁶GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). These standards define the minimum level of quality acceptable for internal control in the government and provide the basis against which internal control is to be evaluated.

Qualitative Characteristics for the Consolidated Financial Report of the United States Government”, requires that significant accounting policies be disclosed within Note 1 to the financial statements.

In accordance with SFFAS No. 32, Note 1 should, among other things, “Summarize the accounting principles and methods of applying those principles that management has concluded are appropriate for presenting fairly the agencies’ assets, liabilities, net cost of operations, and changes in net position. Disclosure of accounting policies should identify and describe the accounting principles followed by the reporting agency and the methods of applying those principles. In general, the disclosure should encompass important judgments as to the valuation, recognition, and allocation of assets, liabilities, expenses, revenues and other financing sources.”

However, we identified significant accounting policies that were not disclosed in Note 1 to the draft CFS, including accounting policies regarding federal debt securities held by the public, beneficial interest in trust, and certain securities and investments. In addition, Treasury had not disclosed that certain federal entities—primarily Treasury and the Federal Deposit Insurance Corporation along with the Board of Governors of the Federal Reserve System and the Federal Reserve Banks—engaged in a related party transaction involving concurrent actions, coordinated actions, or both to help stabilize the financial system and the housing market. We communicated these omissions to Treasury officials who included these disclosures in Note 1 to the fiscal year 2009 CFS.

Recommendation for Executive Action

To help assure complete and accurate disclosure of significant accounting policies and related party transactions in Note 1 to the CFS, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop, implement, and document procedures for identifying, analyzing, compiling, and reporting all significant accounting policies and related party transactions at the governmentwide level.

Social Insurance Information

Treasury did not have adequate procedures to assure the accuracy of staff’s work performed in accordance with Treasury’s SOP entitled “Statement of Social Insurance, Social Insurance Note, and Required Supplementary Information.” The SOP provides detailed procedures for Treasury personnel to perform related to the reporting and disclosure of social insurance information. However, the SOP did not include adequate procedures to be performed to assure the accuracy of staff’s work and we identified several errors made by Treasury personnel in preparing the social insurance sections of the CFS.

Specifically, when reviewing the Statement of Social Insurance–related note in the draft fiscal year 2009 CFS, we found instances where certain social insurance–related information was inconsistent with the related information provided by the federal entities through the Governmentwide Financial Report System (GFRS).⁷ For example, the Department of Health and Human Services (HHS) and the Social Security Administration (SSA) both submitted demographic data in GFRS showing that the ultimate fertility rate was assumed to be reached in 2033; however, the draft CFS reported 2032. Additionally, the beneficiary-to-worker ratio reported in GFRS by HHS and SSA for Medicare and the Old-Age and Survivors, and Disability Insurance programs did not agree to the amounts reported in the draft CFS prepared by Treasury personnel. These inconsistencies were not identified through Treasury’s process to prepare the social insurance information for the CFS. We communicated these matters to Treasury officials who corrected this information for disclosure in the fiscal year 2009 CFS.

Recommendations for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to (1) enhance the SOP entitled “Statement of Social Insurance, Social Insurance Note, and Required Supplementary Information” to include procedures for assuring the accuracy of staff’s work related to preparing the social insurance information for the CFS and (2) implement and document such procedures.

Legal Contingencies

Treasury did not have adequate procedures to assure the accuracy of staff’s work performed in accordance with Treasury’s SOP entitled “Federal Agency Legal Letter Analysis.” The SOP has detailed procedures for Treasury staff to perform with regard to reviewing and analyzing entities’ legal representation letters and related management schedules.⁸ As part of the legal representation letter process, the SOP requires Treasury staff to compare the entities’ and the Department of Justice (Justice) lawyer’s assessments of the major cases and document any

⁷Treasury developed GFRS to collect federal entities’ audited financial statement information to prepare the CFS. The goal of GFRS is to be able to directly link information from federal entities’ audited financial statements to amounts reported in the CFS.

⁸Generally accepted government auditing standards require that the entity auditors obtain written legal representations as part of the audit. Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, OMB-07-04 (amended Aug. 25, 2008), requires each entity chief financial officer to prepare a management schedule that documents how the information obtained in the legal counsel’s response was considered in preparing the entity’s financial statements.

differences on a Schedule of Differences. The schedule is to be used by Treasury to identify, research, and resolve significant inconsistencies and also to make any adjustments to the CFS to help assure complete and accurate reporting of legal contingencies. However, the SOP did not include adequate procedures to be performed to assure the accuracy of staff's work and we identified several errors made by Treasury personnel in preparing the Schedule of Differences.

Specifically, our review of the Schedule of Differences identified nine additional cases in fiscal year 2009 where there were significant differences between the entities' and Justice's assessments, but such differences were not documented on the Schedule of Differences. Treasury did not have adequate procedures to detect that the Treasury staff had not identified these differences. Lack of identification and follow-up on inconsistent assessments by Justice and entity legal counsels impairs Treasury's ability to determine the proper accounting treatment in the CFS for the related legal cases. We communicated these matters to Treasury officials who subsequently corrected some of these inconsistencies in the fiscal year 2009 Schedule of Differences.

Recommendations for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to (1) enhance the SOP entitled "Federal Agency Legal Letter Analysis" to include procedures for assuring the accuracy of staff's work related to preparing the Schedule of Differences and (2) implement and document such procedures.

Analytical Procedures

Treasury's SOP entitled "Preparing the Financial Report of the U.S. Government" provides that Treasury staff are to perform an overall analysis of the balances reported in the CFS, including a review for reasonableness of changes from the prior year to the current year. The analysis should assist Treasury in identifying any significant changes in balances from year to year that should be disclosed in the Financial Report. The SOP did not include adequate procedures to be performed to assure the accuracy of the overall analysis, and we identified errors in the formulas used in the analysis and inadequacies in the explanations provided by Treasury personnel through performance of the analytical procedures.

Our review of the overall line item analysis covering the Balance Sheets, Statements of Net Cost, Statements of Operations and Changes in Net

Position, and related notes identified incorrect formulas used to calculate the percentage change from year to year.⁹ Specifically, Treasury calculated the change using the current year balances, rather than the prior year balances, as the denominator for the calculation. This error in the formulas resulted in incorrect percentage changes being used for the analysis. For example, the percentage change between years determined for the Investments in Government Sponsored Enterprises line item, was calculated as 89 percent, when the actual change was 824 percent. We communicated the formula errors to Treasury officials who took action to correct the errors. We also noted that Treasury staff's documented explanations for certain significant fluctuations were inadequate. For example, the Department of Veterans Affairs' (VA) gross costs in the CFS Statements of Net Cost changed from \$435 billion in 2008 to (\$39) billion in 2009, a change of over \$473 billion and more than 100 percent. The significant decrease in gross cost was primarily attributable to VA's reestimation of its actuarial liability for, and anticipated cost of, veterans' compensation benefits. However, the explanation provided for this change by Treasury in its documentation of the analysis included a discussion of VA's and several other federal entities' changes in costs and did not specifically explain the primary reasons for the significant decrease in VA's gross cost. As a result of incorrect formulas used in the overall analysis and inadequate explanations of changes, the risk of Treasury failing to properly report in the Financial Report significant changes in certain balances is increased.

Recommendations for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to (1) enhance the SOP entitled "Preparing the Financial Report of the U.S. Government" to include procedures for assuring the accuracy of staff's work related to performing analytical procedures and (2) implement and document such procedures.

⁹Percentage change represents the change in particular accounts or line items in the financial statements from the prior year to the current year. It represents the change between the old value and the new one divided by the old value. For example, if the prior year's balance for the cash line item was \$100,000 and the current year's balance is \$125,000 then the percentage change for the cash line item would be 25 percent (i.e., \$25,000 divided by \$100,000).

Status of Recommendations from Prior Reports

As part of our audit of the fiscal years 2009 and 2008 CFS, we determined the status of corrective actions by Treasury and OMB to address open recommendations detailed in our previous reports. Of the 44 recommendations that are listed in appendix I, 2 were closed and 42 remained open as of February 19, 2010, the date of our report on the audit of the fiscal year 2009 CFS.

Appendix I includes the status of recommendations from seven prior reports¹⁰ that were open at the beginning of our fiscal year 2009 audit. Recommendations from these reports that were closed in prior years are not included in this appendix. Appendix I includes the status according to Treasury and 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.

Agency Comments

OMB Comments

In oral comments on a draft of this report, OMB stated that it concurred with the new findings and related recommendations in this report.

Treasury Comments

In July 21, 2010, written comments on a draft of this report, which are reprinted in appendix II, Treasury's Fiscal Assistant Secretary concurred

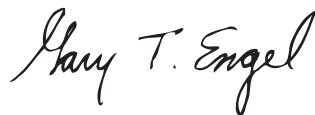
¹⁰GAO, *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Improvement*, [GAO-04-45](#) (Washington, D.C.: Oct. 30, 2003); *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Further Improvement*, [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); *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); and *Financial Audit: Material Weaknesses in Internal Control Continue to Impact Preparation of the Consolidated Financial Statements of the U.S. Government*, [GAO-09-387](#) (Washington, D.C.: Apr. 21, 2009).

with our findings and noted that the agency has already made significant progress in improving its policies and procedures for the CFS preparation since the issuance of the report. Further, Treasury stated that it expects to implement additional recommendations by the end of fiscal year 2010, and that it will use GAO's findings to focus its efforts on improving the central accounting and compilation activities associated with the CFS. Also, while noting that they may take several years to provide measurable reductions, Treasury cited plans it has initiated to address long-standing material issues, including the development of an infrastructure for General Fund accounting and plans for automating the interagency agreement process.

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 our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and to the House Committee on Oversight and Government Reform not later than 60 days after the date of this report. A written statement must also be sent to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of that report.

We are sending copies of this report to interested congressional committees, the Fiscal Assistant Secretary of the Treasury, the Deputy Director for Management and Chief Performance Officer of OMB, and the Controller of OMB's Office of Federal Financial Management. This report also is 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 at (202) 512-3406 or engelg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Gary T. Engel
Director
Financial Management and Assurance

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

| Count | No. | Recommendation | Status of recommendation ^a | |
|---|------|---|--|---|
| | | | Per Treasury and OMB | Per GAO |
| GAO-04-45 (results of the fiscal year 2002 audit) | | | | |
| 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 2009, a new Treasury Task Group was formed to develop the financial statements for the General Fund, with the goal to prepare them for financial audit. In the interim, Treasury continues to separately identify General Fund transactions to facilitate their agency reconciliation on a quarterly basis. Also throughout fiscal year 2009, Treasury continued 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 entities related to appropriation and other intragovernmental transactions. The ability to reconcile these transactions is hampered because only some of the General Fund transactions are reported in Treasury's financial statements. |
| 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. | OMB will continue its efforts to implement this recommendation. | Open. |
| 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 its efforts to implement this recommendation. | 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 ^a | |
|-------|-------|---|---|---|
| | | | 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 status of 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 2009 compilation process. For example, there are hundreds of billions of dollars of unreconciled differences between the General Fund and federal entities related to appropriation and other intragovernmental transactions. These amounts are not eliminated by Treasury's formal consolidating and elimination accounting entries because Treasury's ability to reconcile these transactions is hampered because not all General Fund transactions are reported in Treasury's financial statements. |
| 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 special and trust fund appropriations and nonexpenditure transfers for the agencies' use in reconciling with this centrally reported data. The agencies were required to reconcile with this information in fiscal year 2009 on a quarterly basis. In addition, in fiscal year 2010, the agencies will also be required to reconcile their fund balance with Treasury and appropriations received against STAR on a quarterly basis. | Open. Although Treasury's analysis of agencies' transactions with the General Fund is ongoing, the ability to reconcile these transactions is hampered because only some of the General Fund transactions are reported in 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 ^a | |
|-------|-------|---|--|---|
| | | | Per Treasury and OMB | Per GAO |
| 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. |
| 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 2010. | Open. Treasury has not implemented a process that demonstrates the amount, if any, of unmatched transactions and balances that 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. Treasury has not fully developed a process 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 ^a | |
|-------|-------|---|--|---------|
| | | | 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. | Treasury will continue to update and revise its materiality policy in fiscal year 2010 to address remaining GAO concerns. | 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 continue working on these material areas in fiscal year 2010. | 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. |
| 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 2010. 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 ^a | |
|-------|-------|---|---|--|
| | | | Per Treasury and OMB | Per GAO |
| 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 2009, Treasury made significant progress with identifying and documenting the larger differences between budgetary receipts and net operating revenue and automated a portion of this reconciliation in the Governmentwide Financial Report System (GFRS). | Open. OMB and Treasury continue to work toward establishing effective processes and procedures for identifying, resolving, and explaining material differences in net outlays and other components of the deficit between Treasury's central accounting records and information reported in entity financial statements and underlying entity financial information and records. |
| 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. 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 developed a reporting entity policy in fiscal year 2009. Treasury will continue to revise the policy in fiscal year 2010 to address remaining GAO concerns. | Open. |
| 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. |

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

| Count | No. | Recommendation | Status of recommendation ^a | |
|-------|-------|---|---|---|
| | | | 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. |
| 17 | 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 2010, Treasury and OMB will continue to work with federal agencies to help better ensure that adequate information is provided in the legal representation letters regarding the expected outcomes of the cases. | Open. |
| 18 | 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). | OMB and Treasury undertook a number of corrective actions in fiscal year 2009 that resulted in published policy guidance in OMB Circular A-136 and procedural guidance in the <i>Treasury Financial Manual</i> regarding the proper reporting and disclosure of treaties. OMB and Treasury will continue to work with federal agencies in fiscal year 2010 to help ensure proper and complete recognition and disclosure of contingencies related to treaties and other international agreements. | Open. As noted in Note 22, Contingencies, a comprehensive analysis to determine any financial obligation or possible exposure to loss and its related effect on the CFS has not yet been performed. |
| 19 | 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. See status of recommendation no. 02-37. |

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

| Count | No. | Recommendation | Status of recommendation ^a | |
|-------|-------|--|---|---|
| | | | Per Treasury and OMB | Per GAO |
| 20 | 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. See status of recommendation no. 02-37. |
| 21 | 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. See status of recommendation no. 02-37. |
| 22 | 02-41 | The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies take steps to prevent major treaties and other international agreements that are classified as remote from being recorded or disclosed as probable or reasonably possible in the CFS. | See status of recommendation no. 02-37. | Open. See status of recommendation no. 02-37. |

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

| Count | No. | Recommendation | Status of recommendation ^a | |
|--|--------|---|---|--|
| | | | Per Treasury and OMB | Per GAO |
| 23 | 02-129 | The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stewardship responsibilities related to the risk assumed for federal insurance and guarantee programs meets the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 5, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 106, which requires that when financial information pursuant to Financial Accounting Standards Board standards on federal insurance and guarantee programs conducted by government corporations is incorporated in general purpose financial reports of a larger federal reporting entity, the entity should report as required supplementary information what amounts and periodic change in those amounts would be reported under the "risk assumed" approach. | This required information was requested from federal agencies for disclosure in the required supplementary information (risk assumed) section of the fiscal year 2009 CFS. In addition, Treasury completed an analysis of the risk assumed reporting by the agencies to document agency compliance with the applicable reporting requirements. Treasury will continue working with the federal agencies to ensure proper and complete disclosure of this information in fiscal year 2010. | Open. Treasury's reporting in this area is not complete. The CFS should include all major federal insurance programs in the risk assumed reporting and analysis. Also, since future events are uncertain, risk assumed information should include indicators of the range of uncertainty around expected estimates, including indicators of the sensitivity of the estimate to changes in major assumptions. |
| GAO-04-866 (results of the fiscal year 2003 audit) | | | | |
| 24 | 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 2009, Treasury disclosed the change in cash balances as reported on the Balance Sheet on the Statement of Changes in Cash Balance. | Open. Treasury has not developed a process that will allow full reporting of the changes in cash balance. For example, Treasury had not identified some of the significant changes in cash that we had noted as needing to be reported in the fiscal year 2009 Statement of Changes in Cash Balance. |
| 25 | 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, working with Treasury, Justice, and certain other agencies, will continue working to address this recommendation. | Open. |

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

| Count | No. | Recommendation | Status of recommendation ^a | |
|--|-------|---|---|---|
| | | | Per Treasury and OMB | Per GAO |
| 26 | 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. |
| 27 | 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), along with additional Treasury analysis, are designed to link the CFS and agency note disclosures. | Open. Treasury's process for compiling the CFS demonstrated 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 also consistent with federal entities' financial statements prior to eliminating intragovernmental activity and balances. However, Treasury's process did not ensure that the information in the remaining three principal financial statements was fully consistent with the underlying information in federal entities' audited financial statements and other financial data. |
| GAO-05-407 (results of the fiscal year 2004 audit) | | | | |
| 28 | 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. | During fiscal year 2009, Treasury ensured that journal vouchers included appropriate supporting documentation. | Closed. |

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

| Count | No. | Recommendation | Status of recommendation ^a | |
|---|------|---|---|---|
| | | | Per Treasury and OMB | Per GAO |
| 29 | 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 ensure that all journal vouchers are communicated to the federal agencies before recording them in GFRS. | Open. We believe that Treasury should be required to contact federal entities to resolve any discrepancies between federal entities' audited closing packages and audited financial statements and discuss any other situations that require adjustments to federal entities' audited closing package data because Treasury could incorrectly adjust federal entities' audited information. |
| 30 | 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. | During fiscal year 2009, Treasury ensured that management reviews of procedures that resulted in data changes to the CFS were required and documented. | Closed. |
| 31 | 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 2009. Treasury has updated its documentation to help ensure that control procedures are in place at all critical areas of the CFS preparation process and is working to ensure that these controls are adequately monitored and assessed each year. | Open. Treasury has not completed an assessment to ensure that 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. |
| GAO-06-415 (results of the fiscal year 2005 audit) | | | | |
| 32 | 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 requirements for any verifying agency in future years, such as Tennessee Valley Authority (TVA). | OMB will continue working with TVA so that it submits its audited closing package by the required financial reporting deadline. Of note, TVA moved closer to submitting its closing package by the required year-end reporting deadline during fiscal year 2009. | Open. OMB has not yet reasonably ensured that audit assurance is provided over all federal agencies' closing package information. |

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| Count | No. | Recommendation | Status of recommendation ^a | |
|--|------|--|---|---|
| | | | Per Treasury and OMB | Per GAO |
| 33 | 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. | Treasury has designed a process to identify and execute the actions necessary to address GAO audit findings. Efforts will continue in fiscal 2010 to track and resolve audit findings. | Open. Although Treasury has developed a process, the process did not ensure that corrective action plans were appropriately updated and monitored to help ensure effective resolution of audit findings within established time frames. |
| GAO-07-805 (results of the fiscal year 2006 audit) | | | | |
| 34 | 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. | Treasury, in coordination with OMB, will continue working to establish effective processes and procedures to ensure that appropriate information regarding litigation and claims is included in the governmentwide legal representation letter. | Open. The federal government was unable to provide us with adequate legal representation regarding the accrual-based consolidated financial statements for fiscal year 2009. |

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

| Count | No. | Recommendation | Status of recommendation ^a | |
|--|------|---|--|---|
| | | | Per Treasury and OMB | Per GAO |
| 35 | 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 2009, 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, (4) the potential outcome of such steps, and (5) additional information related to their intragovernmental differences that would allow Treasury to correct these differences within GFRS. This effort will continue in fiscal year 2010, including following up with any federal agencies that either did not comply or provided incomplete information related to this new requirement. | Open. While Treasury continued to take action in this area, we identified instances in which the procedures that Treasury designed to monitor intragovernmental transactions and balances had not been implemented consistently. For example, some review accountants did not follow up for additional explanations as necessary with agencies that either did not respond or had incomplete responses. |
| GAO-08-748 (results of the fiscal year 2007 audit) | | | | |
| 36 | 07-1 | The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance and fully document all practices referred to in the standard operating procedure (SOP) entitled "Preparing the Financial Report of the U.S. Government" to better ensure that practices are proper and complete and can be consistently applied by staff members. | In fiscal year 2009, 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 work to ensure full compliance with this SOP, as well as all other significant policies, during fiscal year 2010, to address remaining GAO concerns. | Open. Although Treasury made improvements to this SOP, key practices and procedures—including those related to preparing the budget statements—were excluded. |
| 37 | 07-2 | The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance Treasury's 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 2009, 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 2010, as necessary, to comply with federal GAAP. | Open. Although Treasury made significant improvements in documenting its assessment of agency information, we found that the assessment was not complete. |

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| Count | No. | Recommendation | Status of recommendation ^a | |
|--|-------|--|---|---------|
| | | | Per Treasury and OMB | Per GAO |
| 38 | 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, working jointly with Treasury, will enhance its efforts to implement this recommendation. | Open. |
| 39 | 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 revising its internal control procedures to formalize monitoring and assessment of the effectiveness of internal control over the preparation of the CFS. | Open. |
| 40 | 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. |
| GAO-09-387 (results of the fiscal year 2008 audit) | | | | |
| 41 | 08-01 | The Secretary of the Treasury should direct the Fiscal Assistant Secretary to design, document, and implement policies and procedures to identify and eliminate intragovernmental payroll tax amounts at the governmentwide level when compiling the CFS. | During fiscal year 2009, Treasury began documenting its procedures for identifying and eliminating intragovernmental payroll tax amounts at the governmentwide level. Treasury will continue to update and revise the policy in fiscal year 2010 to address remaining GAO concerns. | Open. |

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| Count | No. | Recommendation | Status of recommendation ^a | |
|-------|-------|---|--|--|
| | | | Per Treasury and OMB | Per GAO |
| 42 | 08-02 | The Secretary of the Treasury should 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 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" sections of the <i>Financial Report of the U.S. Government</i> (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. | During fiscal year 2009, Treasury prepared a new SOP pertaining to preparation of the MD&A section of the Financial Report and the Citizen's Guide (Guide). Treasury noted that new steps and processes were being implemented during fiscal year 2009 to improve the efficiency and integrity of financial analysis in the MD&A and the Guide and that it was likely that the SOP was going to have to evolve as those steps were put into practice and refined. During fiscal year 2010, Treasury will be working with GAO to resolve its comments received in fiscal year 2009. These changes notwithstanding, the SOP will have to further evolve to accommodate the phased, 3-year implementation of SFFAS No. 36, <i>Reporting Comprehensive, Long-Term Fiscal Projections for the U.S. Government</i> . The steps that the government will be taking to comply with SFFAS No. 36, which will ultimately be reflected in the SOP, remain under discussion. | Open. |
| 43 | 08-03 | The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to 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. | During fiscal year 2009, Treasury documented its criteria for identifying significant entities. Treasury and OMB will revise the criteria to address remaining GAO concerns. | Open. The criteria developed by Treasury are in conflict with criteria developed and implemented by OMB for identifying significant entities. In addition, implementation of the policy as currently designed will not result in obtaining, in a timely manner, audit assurance over the information reported by newly identified significant entities for use in the CFS. |
| 44 | 08-04 | The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement policies and procedures for assessing and documenting, on an annual basis, which entities meet the criteria established for identifying federal entities as significant to the CFS. | During fiscal year 2009, Treasury documented its procedures for identifying significant entities based on the criteria for these entities. Treasury will document and implement the policies related to significant entities based on the revised criteria from recommendation no. 08-03. | Open. See status of recommendation no. 08-03 |

Source: GAO.

^aThe status of the recommendations listed in app. I is as of February 19, 2010, the date of our report on the audit of the fiscal year 2009 CFS.

Appendix II: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

July 21, 2010

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) 2009 audit, GAO-10-757, *MANAGEMENT REPORT: Improvements Needed in Controls Over the Preparation of the U.S. Consolidated Financial Statements*.

The 2009 draft report identifies ten new recommendations for improving the Consolidated Financial Statements (CFS) preparation process through changes to documented policies and enhancements to standard operating procedures. We have made significant progress in improving our policies and procedures since the issuance of the report and we expect to implement additional recommendations by the end of FY 2010. We concur with the GAO findings and will use them to focus our efforts on improving the central accounting and compilation activities associated with the Consolidated Statements.

Although the FY 2009 Consolidated Report and this associated report were issued later than normal, we continued to make progress in improving the preparation of the CFS, leading to the closing of two of 44 recommendations outstanding from the previous CFS audit reports. We are making steady improvement on our data analysis capabilities and improvements in the procedural and automated changes to our reporting processes. We also strengthened the internal controls related to the preparation of the CFS. Our efforts included improved Financial Report disclosures, enhanced internal control processes and procedures and development of more detailed corrective actions to address these recommendations. This year we initiated two efforts aimed at addressing long standing material items. We have initiated plans to: (1) develop a General Fund accounting infrastructure and (2) automate the interagency agreement process. While these efforts may take several years to provide measurable reductions they are significant efforts towards resolving a major cause of the annual disclaimer and numerous report findings.

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

Sincerely,



Richard L. Gregg
Fiscal Assistant Secretary

cc: Daniel Werfel, Comptroller, OMB

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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

Acknowledgments

In addition to the contact named above, the following individuals made key contributions to this report: Louise DiBenedetto, Assistant Director; John Ahern; Shawkat Ahmed; William Boutboul; Darryl Chang; Malissa Livingston; Susan Mata; Thanomsri Piyapongroj; Taya Tasse; and Cindy Tsao.

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