



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](#).
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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).