

**GAO**

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

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May 2011

# MANAGEMENT REPORT

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



**G A O**

Accountability \* Integrity \* Reliability

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Highlights of [GAO-11-525](#), a report to the Secretary of the Treasury and the Director of the Office of Management and Budget

## Why GAO Did This Study

The Department of the Treasury (Treasury), in coordination with the Office of Management and Budget (OMB), is primarily responsible for preparing the financial report of the U.S. government, which contains the consolidated financial statements of the U.S. government (CFS). Since GAO's first audit of the fiscal year 1997 CFS, certain material weaknesses in internal control and other limitations on the scope of GAO's work have prevented GAO from expressing an opinion on the CFS, exclusive of the Statement of Social Insurance (SOSI). Also, GAO was unable to express an opinion on the 2010 SOSI because of significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2010 SOSI. As part of the fiscal year 2010 CFS audit, GAO identified material weaknesses and other control deficiencies in the processes used to prepare the CFS. The purpose of this report is to (1) provide details on new financial statement preparation control deficiencies GAO identified during its audit of the fiscal year 2010 CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken to address GAO's recommendations in this area that remained open at the end of the fiscal year 2009 audit.

## What GAO Recommends

GAO is making four recommendations—two each to Treasury and OMB—to address new control deficiencies. In commenting on GAO's draft report, Treasury and OMB generally concurred with GAO's findings.

View [GAO-11-525](#) or key components. For more information, contact Gary Engel at (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov).

May 2011

## 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 2010 CFS, GAO identified new and continuing control deficiencies in the federal government's processes used to prepare the CFS.

New control deficiencies GAO identified involved

- the need to enhance policies and procedures for carrying out and documenting that certain amounts and disclosures were reported consistently and in conformity with Statement of Federal Financial Accounting Standards No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, which became effective in fiscal year 2010; and
- the need to fully develop procedures for carrying out and documenting certain other information related to the federal government's financial management reported in appendixes to the *2010 Financial Report of the United States Government*.

In addition, GAO found that various other control deficiencies identified in previous years' audits with respect to the CFS preparation continued to exist, and the related recommendations are included in appendix I.

These control deficiencies contributed 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 federal government's 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 Treasury's central accounting records and related amounts reported in federal entities' financial statements and underlying financial information and records. The budget deficit reported in Treasury's central accounting records is used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit, the Statement of Changes in Cash Balance from Unified Budget and Other Activities, and the Fiscal Projections for the U.S. Government (included in Supplemental Information). As a result of these and other material weaknesses, the federal government did not have effective internal control over financial reporting.

As summarized in appendix I, of the 52 open recommendations GAO reported in July 2010, 6 were closed and 46 remained open as of December 13, 2010, the date of GAO's report on its audit of the fiscal year 2010 CFS. GAO will continue to monitor the status of corrective actions taken to address the 4 new recommendations as well as the 46 open recommendations from prior years as part of our fiscal year 2011 CFS audit.

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## Abbreviations

CFS	consolidated financial statements of the U.S. government
FASAB	Federal Accounting Standards Advisory Board
FEVBP	Federal Employee and Veteran Benefits Payable
Financial Report	Financial Report of the United States Government
FMFIA	Federal Managers' Financial Integrity Act
GAAP	generally accepted accounting principles
Justice	Department of Justice
MD&A	Management's Discussion and Analysis
OFAS	Office of the Fiscal Assistant Secretary
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
SOP	standard operating procedure
SOSI	Statement of Social Insurance
STAR	Treasury's central accounting and reporting system
Treasury	Department of the Treasury
TVA	Tennessee Valley Authority

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G A O

Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

May 26, 2011

The Honorable Timothy F. Geithner  
Secretary of the Treasury

The Honorable Jacob J. Lew  
Director  
Office of Management and Budget

In our report dated December 13, 2010,<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, 2010 and 2009,<sup>2</sup> except for the 2009, 2008, and 2007 Statements of Social Insurance (SOSI), which received unqualified opinions.<sup>3</sup> Since GAO's first audit of the fiscal year 1997 CFS, certain material weaknesses in internal control over 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.<sup>4</sup> 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

- adequately account for and reconcile intragovernmental activity and balances between federal entities;

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<sup>1</sup>The *2010 Financial Report of the United States Government* (Financial Report) includes our report and was issued by the Department of the Treasury (Treasury) on December 21, 2010, and is available through GAO's Web site at <http://www.gao.gov/financial.html> and Treasury's Web site at <http://www.fms.treas.gov/fr/index.html>.

<sup>2</sup>The CFS for the fiscal years ended September 30, 2010 and 2009, 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>GAO was unable to, and did not, express an opinion on the 2010 SOSI because of significant uncertainties discussed by management in the CFS, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2010 SOSI. We were, however, able to render unqualified opinions on the 2009, 2008, and 2007 SOSIs. In addition, we disclaimed an opinion on the fiscal year 2006 CFS, including the 2006 SOSI.

<sup>4</sup>As used in this report, accrual-based consolidated financial statements refer to all of the consolidated financial statements and notes, except for those related to the SOSI.

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- ensure that the federal government’s 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
  - identify and either resolve or explain material differences between (1) certain components of the budget deficit reported in the Department of the Treasury’s (Treasury) central accounting records that are used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit, the Statement of Changes in Cash Balance from Unified Budget and Other Activities, and the Fiscal Projections for the U.S. Government (included in Supplemental Information) and (2) 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), prepares the CFS on behalf of the federal government.<sup>5</sup> Many of the material weaknesses<sup>6</sup> 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 2010 CFS that relate to the processes used to prepare the CFS, (2) four recommendations to address these control deficiencies, and (3) the status of corrective actions by Treasury and OMB to address the 52 recommendations relating to the processes used to prepare the CFS detailed in our previous reports that remained open at the end of the fiscal year 2009 audit. Appendix I provides a summary of the status of actions

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<sup>5</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).

<sup>6</sup>A 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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. 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. 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.

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taken to address the open recommendations from our previous reporting. During our fiscal year 2010 audit, we communicated each of the new control deficiencies to your staff.

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## Scope and Methodology

As part of our audit of the fiscal years 2010 and 2009 CFS, we considered 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 2010 CFS, which is included in the *2010 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 federal government's accrual-based consolidated financial statements and our conclusion that the federal government did not have effective internal control over financial reporting. Based on the scope of our work and the effects of the other limitations on the scope of our audit noted throughout our audit report on the fiscal year 2010 CFS, our internal control work would not necessarily identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. We performed our audit of the fiscal year 2010 and 2009 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 Fiscal Assistant Secretary provided written comments on May 11, 2011, which are reprinted in their entirety in appendix II and are also summarized in the Agency Comments section.

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## New Internal Control Deficiencies

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### Standard Operating Procedures for Preparing the CFS

Over the past several years, Treasury has made progress in developing, documenting, and implementing internal control over financial reporting related to the process for preparing the CFS through numerous improvements to its standard operating procedures (SOP). However, in fiscal year 2010, we identified a control deficiency involving enhancing and documenting two SOPs. In connection with its role as preparer of the CFS,

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Treasury management is responsible for developing and documenting detailed policies, procedures, and practices for preparing the CFS and ensuring that appropriate 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.<sup>7</sup> Deficient 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.

Treasury's SOPs entitled "Preparing the Financial Report of the U.S. Government" and "Data Analysis" include procedures for Treasury staff to review the CFS Statement of Net Cost and the Federal Employee and Veteran Benefits Payable (FEVBP) note disclosure. However, the SOPs did not include steps for assuring that amounts and disclosures were in conformity with Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, which became effective in fiscal year 2010. SFFAS No. 33 requires that the governmentwide entity (1) display gains and losses related to changes in assumptions as a separate line item or line items on the statement of net cost and (2) disclose in the notes to the financial statements a reconciliation of the beginning and ending liability balances that provides the material components of the changes for pensions, other retirement benefits, and other postemployment benefits. We identified that the gains and losses reported on the draft statement of net cost were not consistent with the amounts disclosed in the draft FEVBP note for changes in assumptions. Specifically, the gains and losses reported on the draft statement of net cost, primarily for the Department of Veterans Affairs and Department of Defense, included amounts from other changes in the liability balance beyond those related to changes in assumptions. Treasury's SOPs did not include steps for reviewing and documenting amounts and disclosures for conformity with SFFAS No. 33. As a result, Treasury's compilation process did not identify inconsistencies in amounts reported by these agencies to Treasury for the draft statement of net cost and FEVBP note disclosure. In addition, the draft FEVBP note did not

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<sup>7</sup>GAO, *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.

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include the required disclosure of material components of the change in the veterans compensation and burial benefits liability. Treasury adjusted (1) the final statement of net cost to include only gains and losses related to changes in assumptions and to ensure consistency with amounts reported in the note disclosure, and (2) the final FEVBP note disclosure to include the material components of veterans compensation and burial benefits.

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### Recommendations for Executive Action

To help assure that FEVBP amounts are properly reported in the CFS, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to (1) enhance the applicable SOPs to include required steps for assuring conformity with SFFAS No. 33 and the consistency of amounts between the statement of net cost and the FEVBP note disclosure, and (2) implement and document such steps.

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### Process for Preparing Certain Other Accompanying Information

Beginning in the 2009 Financial Report, OMB has included several appendixes to the Financial Report related to the federal government's financial management, including information on (1) auditor-identified material weaknesses, (2) agency reporting under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act or FMFIA), (3) government corporations required to submit audited financial statements to OMB, (4) audit results of the Accountability of Tax Dollars Act agencies and selected components of the Chief Financial Officers Act agencies, and (5) agencies' compliance with the Federal Financial Management Improvement Act. However, we identified that OMB did not have an adequate process to assure the accuracy of the information provided in these appendixes.

As part of our audit of the fiscal year 2010 CFS, we reviewed the draft Financial Report appendixes to ensure that they were consistent with agency auditors' reporting and other information presented in the agencies' annual reports and the Financial Report. However, because OMB has not fully developed procedures for preparing this information, we identified errors in the draft appendixes that were not identified through OMB's process for preparing these appendixes. For example, we found several errors in the draft appendix related to FMFIA reporting. Specifically, we found instances where the FMFIA assurance results summarized in the draft appendixes were not consistent with those reported in the agencies' annual reports. We also found errors in the number and status of internal control material weaknesses reported by OMB regarding four agencies in comparison with the related auditors'



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reporting. For another agency, the FMFIA assurance statement on the effectiveness of the agency's internal control over operations reported in the draft appendix did not agree with the assurance statement reported in the agency's annual report. Additionally, we found errors in the calculation of FMFIA consolidated totals of agencies' material weaknesses related to management and system controls. Further, OMB procedures did not provide for maintaining documentation supporting the information presented in these appendixes. We communicated these matters to OMB, which corrected the information for the final 2010 Financial Report.

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## Recommendations for Executive Action

To help assure the accuracy of the appendixes to the Financial Report prepared by OMB, we recommend that the Director of OMB direct the Controller of OMB to enhance its procedures for preparing the appendixes to include required steps to (1) assure the accuracy and consistency of the accompanying information presented in the appendixes to the Financial Report related to the federal government's financial management, and (2) maintain documentation supporting such information.

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## Status of Recommendations from Prior Reports

Of our 52 recommendations open at the end of the fiscal year 2009 audit, 6 were closed and 46 remained open as of December 13, 2010, the date of our report on the audit of the fiscal year 2010 CFS.

Appendix I summarizes the status as of December 13, 2010, for the 52 open recommendations regarding control deficiencies in the CFS preparation process from prior years' reports. Specifically, 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's or OMB's status of recommendation needed further clarification. We will continue to monitor Treasury's and OMB's progress in addressing GAO's recommendations as part of our fiscal year 2011 CFS audit work.

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## Agency Comments

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### OMB Comments

In oral comments on a draft of this report, OMB generally concurred with the findings in this report. With respect to GAO's finding relating to certain financial management information included in appendixes to the Financial Report, OMB stated that it does not plan to include such appendixes in future Financial Reports.

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## Treasury Comments

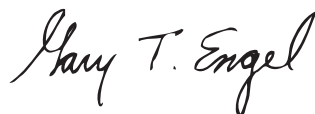
In written comments on a draft of this report, Treasury concurred with our findings and noted that the agency has made significant progress in improving its policies and procedures for the CFS preparation since the issuance of the report. Further, Treasury stated that it expects to implement additional recommendations by the end of fiscal year 2011, 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, Treasury stated that it has increased its commitment to resolving material intragovernmental differences, and plans to utilize multiple focus groups to identify and implement short- and long-term solutions to this issue.

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This report contains recommendations to the Secretary of the Treasury and the Director of OMB. 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 this report.

We are sending copies of this report to interested congressional committees, the Fiscal Assistant Secretary of the Treasury, the Deputy Director for Management of OMB and Federal Chief Performance Officer, and the 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 at (202) 512-3406 or [engelg@gao.gov](mailto:engelg@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.



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 <sup>a</sup>	
			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 consolidated financial statements of the U.S. government (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). A Treasury Task Group is currently developing the financial statements for the General Fund, with the goal to prepare them for financial audit in fiscal year 2012. In the interim, Treasury continues to separately identify certain General Fund transactions by providing agencies with monthly Centrally Reporting System data to facilitate reconciliation on a quarterly basis. Also, throughout fiscal year 2011, Treasury will continue to identify and resolve material differences related to fiduciary, employee benefits, buy/sell and transfer activity through the continued efforts of Focus Groups for each of these transaction categories.	Open.
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.	Treasury has published the updated Intragovernmental Business Rules which include dispute resolution procedures for trading partner agencies to follow. Treasury will continue to monitor the effectiveness of the revised rules and the dispute resolution process during fiscal year 2011. OMB, working with Treasury, 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 <sup>a</sup>	
			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.	See the status of recommendation no. 02-6.	Open.
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 and implemented formal consolidating and eliminating procedures with regard to intragovernmental assets and liabilities. Final resolution is contingent on resolving material intragovernmental differences. See status of recommendation no. 02-4.	Open.
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.	See the 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 <sup>a</sup>	
			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.	Treasury's consolidating procedures request information related to asset capitalization and agency advances or deferred revenue. However, final resolution is contingent on resolving material intragovernmental differences affecting revenues and receivables related to buy/sell transactions. During fiscal year 2011, a Focus Group will work on reconciling buy/sell differences. 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 only in the Statements of Operations and Changes in Net Position until intragovernmental differences are materially resolved. At that point, unresolved reconciling items, if any, needed to reconcile net operating cost to the unified budget deficit can be separately identified in the reconciliation statements. See status of recommendation no. 02-13.	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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
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 the reconciliation statements 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. Treasury will analyze certain budgetary amounts, like loan repayments and deposit fund transactions, and work on resolving the differences between how they contribute to the unified budget deficit and compare to the related amounts as reported in the agencies' financial statements. We will also work with GAO as Treasury finalizes the compilation approach for the CFS and the resolution of these differences.	Open.
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 2011, Treasury will continue to refine its reporting materiality policy and work with GAO to gain consensus on an approach to determine material vs. non-material items. See also status of recommendation no. 02-13.	Open.
10	02-15	If Treasury chooses to continue using information from both federal agencies' financial statements and Treasury's central accounting and reporting system (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 material areas where STAR data does not reconcile to federal agencies' financial statements. Treasury will work with GAO as Treasury develops an approach during fiscal year 2011 to resolve these reconciliation issues. See also status of recommendation no. 02-13.	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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
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. 02-13.	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 continue to document the consistency of the significant line items on this statement to federal agencies' audited financial statements as much as possible during fiscal year 2011. See status of recommendations no. 02-13 and 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 in fiscal year 2011. Treasury will again work with the agencies that contribute to the largest unreconciled differences to identify the causes of the differences and work with the agencies and with GAO as Treasury develops an approach for resolving these differences.	Open.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			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 will continue working in fiscal year 2011 to address GAO concerns about the reporting entity policy. Specifically, Treasury will address some of the specific points raised by GAO related to its Reporting Entity White Paper presented in 2009. Furthermore, Treasury acknowledges the work of FASAB in this area and is supporting and participating in those efforts to help gain clarity to this issue.	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.
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.



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

Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
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 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. This effort will continue in fiscal year 2011. During fiscal year 2011, Treasury will pursue talks with Department of Justice to determine if a global approach and solution is available.	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).	Treasury will consider performing further analysis on these contingencies building on the work undertaken jointly with OMB in 2009 depending on time and resources constraints. As part of this effort, Treasury will also discuss with OMB and the relevant agencies with material international agreements as to what steps they could do to enforce the existing requirements to register international agreements with the Department of State. Treasury will also discuss with OMB to consider the expansion and/or revision of agency audit requirements to test for registration of treaties and 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.

**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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
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.
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.

**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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
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 <sup>a</sup>	
			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, 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 information was requested from federal agencies for disclosure in the fiscal year 2010 CFS. Treasury will continue to work with agencies to improve the consistency of this disclosure in the fiscal year 2011 CFS.	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.
<b>GAO-04-866 (results of the fiscal year 2003 audit)</b>				
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 2010, Treasury disclosed the change in cash balances as reported on the Balance Sheet on the Statement of Changes in Cash Balance. Treasury will continue to analyze cash transactions, and work with its Cash Policy area to ensure consistent reporting of cash transactions, to ensure full reporting of the changes in the cash balance of the U.S. government.	Open. Treasury has not established and implemented effective processes and procedures for identifying and reporting all items needed to prepare the Statement of Changes in Cash Balance from Unified Budget and Other Activities.

**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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
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.
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, when it becomes available in the agencies' financial statements. See status of recommendation no. 03-8.	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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
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's current CFS compilation process provides for direct linkage from the 35 significant federal agencies audited financial statements to most of the CFS principal statements and to the related note disclosures. However, additional work is needed related to the two budgetary principal financial statements. Treasury will work with GAO as Treasury develops an approach during fiscal year 2011 to resolve long standing issues regarding these statements. See status of recommendation no. 02-15.	Open. Treasury's process for compiling the CFS generally demonstrated that amounts in the Statement of Social Insurance were consistent with the underlying federal entities' financial statements and that the Balance Sheet and the Statement of Net Cost were also consistent with the 35 significant 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 the 35 significant federal entities' audited financial statements and other financial data.
<b>GAO-05-407 (results of the fiscal year 2004 audit)</b>				
28	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.	During fiscal year 2011, Treasury will revise its journal voucher procedures to ensure that the communications to the agencies be included in the supporting documentation.	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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
29	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.	<p>During fiscal year 2010, Treasury hired a contractor to assist in areas requiring specialized expertise related to internal controls and certain financial reporting matters. With the assistance of this contractor, Treasury made improvements to its internal control infrastructure during fiscal year 2010. Treasury has updated, and will continue to revise and improve its documentation to help ensure 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.</p> <p>In addition, Treasury is in the process of restructuring the management of the organization responsible for the CFS compilation process to provide additional oversight and accountability over the year-end CFS process.</p> <p>Further, to assist Treasury during the year-end compilation and preparation of the fiscal year 2011 CFS, Treasury is considering obtaining personnel from other agencies, with additional financial reporting expertise, to assist with the year-end process.</p>	Open.
<b>GAO-06-415 (results of the fiscal year 2005 audit)</b>				
30	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. Over the last two fiscal years TVA has progressively moved closer to submitting its closing package by the required financial reporting deadline. According to OMB, for fiscal year 2010, it did not waive the closing package audit requirements for any verifying agencies.	Open. TVA continued to be unable to provide its audited closing package within the required financial reporting deadline. Until all verifying agencies are able to submit their audited closing package by the required financial reporting deadline, this recommendation will remain 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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
31	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 policies and procedures to identify and execute Treasury's and OMB's actions to address findings related to GAO's audit (or review performed by another entity reviewing the compilation and preparation of the CFS). In addition, Treasury will continue to track and resolve audit and/or other CFS review findings.	Closed.
<b>GAO-07-805 (results of the fiscal year 2006 audit)</b>				
32	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.



**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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
33	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 2010, 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. The information obtained 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 Governmentwide Financial Report System. This effort will continue in fiscal year 2011.	Open. Treasury continues to take steps to help resolve material differences in intragovernmental activity and balances. However, Treasury's and OMB's process did not provide them with sufficient information to adequately monitor federal agencies' efforts to reconcile intragovernmental activity and balances with trading partners. We noted that a significant number of Chief Financial Officers' were unable to adequately explain the reasons for the differences with their trading partners or did not provide adequate documentation to support responses related to year-end reconciliations.
<b>GAO-08-748 (results of the fiscal year 2007 audit)</b>				
34	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, complete, and can be consistently applied by staff members.	Treasury will meet with GAO to discuss in further detail their remaining concerns related to this SOP during fiscal year 2011, and will revise the SOP, as necessary, to address the outstanding issues.	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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
35	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.	Treasury will address remaining GAO concerns related to the checklist during fiscal year 2011, specifically the inclusion of disclosure items related to the principal financial statements and management's discussion and analysis.	Open.
36	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.	Treasury will work with OMB to perform this analysis and to develop policies and procedures to resolve these differences. OMB, working jointly with Treasury, will continue its efforts to implement this recommendation.	Open.
37	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 in the process of reviewing and revising its internal control procedures to formalize monitoring and assessment of the effectiveness of internal control over the preparation of the CFS. See status of recommendation no. 04-6.	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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
38	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.
<b>GAO-09-387 (results of the fiscal year 2008 audit)</b>				
39	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 2011, Treasury will continue to analyze and compare the amount of payroll taxes recorded centrally compared to the corresponding amounts reported by the agencies in their financial statements. Policies and procedures will be modified to reflect the results of the analysis.	Open.
40	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 Financial Report of the U.S. Government (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, the Office of the Fiscal Assistant Secretary (OFAS) drafted and in fiscal year 2010 enhanced standard operating procedures (SOP) concerning the preparation of the Management's Discussion & Analysis (MD&A) and Citizen's Guide. As a result of implementing the enhanced SOP in fiscal year 2010, instances of inaccuracies and inconsistency were lower during the fiscal year 2010 reporting process than it had been during prior years. During fiscal year 2011, OFAS will further enhance its SOP and focus on its implementation to assure that information reported in the MD&A and Citizen's Guide is complete, accurate and consistent with related information reported elsewhere in the Financial Report.	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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
41	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 2010, Treasury and OMB used its documented criteria to identify all federal entities that are significant to the CFS. Treasury and OMB are working with the significant agencies that have not submitted Closing Packages prior to fiscal year 2011 on the reporting and audit requirements related to their submission to Treasury. During fiscal year 2011, Treasury will address GAO's remaining concerns as to the impact on the CFS of the remaining agencies that would not be required to submit audited Closing Package data.	Open.
42	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 2011, Treasury will revise its policies and procedures for identifying entities that are significant to the CFS to require them to be performed on an annual basis.	Open.
<b>GAO-10-757 (results of the fiscal year 2009 audit)</b>				
43	09-01	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the SOP entitled "Analyzing Agency Restatements" to fully document all procedures related to identifying, analyzing, and reporting restated closing package data as well as changes in accounting principles.	During fiscal year 2010, Treasury fully documented its procedures related to identifying, analyzing and reporting restated closing package data as well as prior period adjustments due to changes in accounting principles.	Closed.
44	09-02	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the SOP entitled "Analyzing Agency Restatements" to clarify who is responsible for performing the procedures contained in the SOP.	During fiscal year 2010, Treasury ensured that its procedures related to identifying, analyzing and reporting restated closing package data as well as prior period adjustments due to changes in accounting principles, clarified the roles and responsibilities for the assigned Treasury staff.	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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
45	09-03	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the SOP entitled "Analyzing Agency Restatements" to include procedures for analyzing the overall impact of entities' restatements on the CFS and documenting the analysis and related conclusion.	During fiscal year 2010, Treasury fully enhanced its procedures for analyzing the impact of entities' restatements on the CFS and documenting its analysis and related conclusions. During fiscal year 2011, Treasury will ensure that the procedures are followed and the impact of the entities' restatements is correctly incorporated into the CFS.	Open.
46	09-04	The Secretary of the Treasury should 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.	Treasury will revise its procedures for identifying, analyzing, compiling, and reporting all significant accounting policies and related party transactions at the governmentwide level in fiscal year 2011 to address remaining GAO concerns concerning the completeness of these disclosures.	Open.
47	09-05	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to 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.	During fiscal year 2010, Treasury fully documented its procedures for assuring the accuracy of staff's work related to preparing the social insurance information for 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 <sup>a</sup>	
			Per Treasury and OMB	Per GAO
48	09-06	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to enhance the SOP entitled "Statement of Social Insurance, Social Insurance Note, and Required Supplementary Information" to implement and document procedures for assuring the accuracy of staff's work related to preparing the social insurance information for the CFS.	During fiscal year 2010, Treasury revised its procedures for assuring the accuracy of staff's work related to preparing the social insurance information for the CFS and clarified the roles and responsibilities for the assigned Treasury staff. However, there were inconsistencies between the draft of the fiscal year 2010 CFS and the Statement of Social Insurance-related information included in the social insurance reporting agencies' fiscal year 2010 Closing Packages. In fiscal year 2011, Treasury will ensure that the procedures in the enhanced Statement of Social Insurance SOP are effectively implemented and documented to ensure that all the social insurance information in the CFS is consistent with the agencies' social insurance information.	Open.
49	09-07	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to 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.	During fiscal year 2010, Treasury included procedures for assuring the accuracy of staff's work related to preparing the Schedule of Differences.	Closed.
50	09-08	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to implement and document procedures for assuring the accuracy of staff's work related to preparing the Schedule of Differences.	In fiscal year 2011, Treasury will improve the implementation and documentation of its procedures to help assure completeness and accuracy of documenting the inconsistencies between the amounts provided by the agencies.	Open.
51	09-09	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to 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.	During fiscal year 2010, Treasury included procedures for assuring the accuracy of staff's work related to performing analytical procedures.	Closed.

**Appendix I: Status of Treasury's and OMB's  
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Count	No.	Recommendation	Status of recommendation <sup>a</sup>	
			Per Treasury and OMB	Per GAO
52	09-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to implement and document procedures for assuring the accuracy of staff's work related to performing analytical procedures.	During fiscal year 2011 Treasury will improve the implementation and documentation of its procedures to address remaining GAO issues related to assuring the accuracy of staff's work related to performing analytical procedures, specifically strengthening the explanations for all significant variances found during the year-end analyses.	Open.

Source: GAO, Treasury, and OMB.

<sup>a</sup>The status of the recommendations listed in app. I is as of December 13, 2010, the date of our report on the audit of the fiscal year 2010 CFS.

# Appendix II: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON

May 11, 2011

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) 2010 audit, GAO-11-525, *MANAGEMENT REPORT: Improvements Needed in Controls Over the Preparation of the U.S. Consolidated Financial Statements*.

The draft Management Report for the FY 2010 audit identifies four new recommendations for improving the Consolidated Financial Statements (CFS) preparation process through changes to documented policies and enhancement 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 2011. We concur with GAO's findings and will use them to focus our efforts on improving the central accounting and compilation activities associated with the CFS.

During FY 2010 and FY 2011, we continued to make progress in improving the preparation of the CFS, leading to the closing of 6 of 52 recommendations outstanding from the previous CFS audit reports. We are making steady improvements in our data analysis capabilities and 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 CFS disclosures, enhanced internal control processes and procedures, and development of more detailed corrective actions to address the recommendations. This year, we have increased our commitment to resolving material intragovernmental differences. Our strategy entails utilizing multiple focus groups to identify and implement short- and long- term solutions to ensure that this material weakness can be closed as soon as possible. We expect that, within the next three years, we will remove this issue as a disclaimer.

In addition, we appreciate both OMB's and GAO's support during the past year in helping Treasury launch an enhanced, interactive, and more usable Financial Report website that facilitates navigation throughout the Report and Citizen's Guide, and enables users to easily access more detailed and additional information.



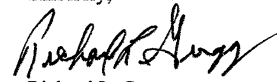
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**Appendix II: Comments from the Department  
of the Treasury**

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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

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