

GAO

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

June 2008

FINANCIAL AUDIT

Material Weaknesses in Internal Control over the Processes Used to Prepare the Consolidated Financial Statements of the U.S. Government





Highlights of [GAO-08-748](#), a report to the Secretary of the Treasury and the Director of the Office of Management and Budget

Why GAO Did This Study

For the past 11 years, since GAO's first audit of the consolidated financial statements of the U.S. government (CFS), certain material weaknesses in internal control and in selected accounting and financial reporting practices have prevented GAO from expressing an opinion on the CFS. GAO has consistently reported that the U.S. government did not have adequate systems, controls, and procedures to properly prepare the CFS. GAO's December 2007 disclaimer of opinion on the fiscal year 2007 accrual basis consolidated financial statements included a discussion of continuing control deficiencies related to the preparation of the CFS. The purpose of this report is to (1) provide details of continuing material weaknesses, (2) recommend improvements, and (3) provide the status of corrective actions taken to address GAO's previous 81 recommendations related to the preparation of the CFS.

What GAO Recommends

GAO is making 10 new recommendations to address control deficiencies identified during the fiscal year 2007 CFS audit. The Department of the Treasury and the Office of Management and Budget generally agreed with the findings and recommendations in this report.

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Material Weaknesses in Internal Control over the Processes Used to Prepare the Consolidated Financial Statements of the U.S. Government

What GAO Found

GAO identified continuing and new control deficiencies during its audit of the fiscal year 2007 CFS that relate to the federal government's processes used to prepare the CFS. These control deficiencies contribute to material weaknesses in internal control regarding the U.S. government's inability to (1) adequately account for and reconcile intragovernmental activity and balances between federal agencies; (2) ensure that the CFS was consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles; and (3) identify and either resolve or explain material differences that exist between certain components of the budget deficit reported in the Department of the Treasury's records, used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities, and related amounts reported in federal agencies' financial statements and underlying financial information and records.

The control deficiencies GAO identified during its tests of the processes used to prepare the fiscal year 2007 CFS involved the following areas:

- documenting a key standard operating procedure for preparing the CFS,
- reporting in conformity with U.S. generally accepted accounting principles,
- reconciling distributed offsetting receipts,
- maintaining adequate control over spreadsheets used in preparing the CFS,
- monitoring internal control over the processes used to prepare the CFS,
- using interim financial information in the CFS preparation process, and
- various other control deficiencies that were identified in previous years' audits but remained in fiscal year 2007 (see app. I).

Of the 81 open recommendations GAO reported in July 2007 regarding the processes used to prepare the CFS, 35 were closed and 46 remained open as of December 10, 2007, the date of our report on our audit of the fiscal year 2007 CFS. GAO will continue to monitor the status of corrective actions taken to address the 10 new recommendations and the new remaining balance of 56 open recommendations during its fiscal year 2008 audit of the CFS.

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Abbreviations

CFOC	Chief Financial Officers' Council
CFS	consolidated financial statements of the U.S. government
DOD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GFRS	Governmentwide Financial Report System
IDRC	Intragovernmental Dispute Resolution Committee
Justice	Department of Justice
OMB	Office of Management and Budget
SBR	Statement of Budgetary Resources
SCONP	Statement of Changes in Operations and Net Position
SF	Standard Form
SFAS	Statement of Financial Accounting Standards
SFFAS	Statement of Federal Financial Accounting Standard
SOP	Standard Operating Procedure
STAR	Treasury's Central Accounting and Reporting System
TFM	Treasury Financial Manual
Treasury	Department of the Treasury
TVA	Tennessee Valley Authority

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United States Government Accountability Office
Washington, DC 20548

June 17, 2008

The Honorable Henry M. Paulson, Jr.
The Secretary of the Treasury

The Honorable Jim Nussle
Director, Office of Management and Budget

In our report dated December 10, 2007,¹ we disclaimed an opinion on the consolidated financial statements of the U.S. government (CFS) for the fiscal years ended September 30, 2007 and 2006,² except for the 2007 Statement of Social Insurance, which received an unqualified opinion.³ For the past 11 years, certain 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 basis consolidated financial statements.⁴ We have reported that the federal government did not have adequate systems, controls, and procedures for preparing the CFS. On behalf of the federal government, the Department of the Treasury (Treasury), in coordination with the Office of Management and Budget (OMB), prepares the CFS. Many of the

¹The fiscal year 2007 *Financial Report of the United States Government* includes our audit report and was issued by the Department of the Treasury (Treasury) on December 17, 2007, 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, 2007 and 2006 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.

³We disclaimed an opinion on the fiscal year 2006 consolidated financial statements, including the Statement of Social Insurance.

⁴As used in this report, accrual basis consolidated financial statements refer to all of the consolidated financial statements and notes, except for those related to the Statement of Social Insurance.

material weaknesses⁵ in internal control that have contributed to our continuing disclaimers of opinion were identified by auditors during their audits of federal agencies' financial statements and were reported in detail with recommendations to the agencies in separate reports. Additional material weaknesses were identified during our tests of the federal government's processes used to prepare the CFS.

The purpose of this report is to (1) discuss the details of the material weaknesses we identified during our audit of the fiscal year 2007 CFS relating to internal control over the processes used to prepare the CFS, (2) recommend improvements to address these weaknesses, and (3) provide the status of corrective actions taken by Treasury and OMB to address the 81 recommendations detailed in our previous reports (see app. D). We have discussed each of the new control deficiencies identified during our fiscal year 2007 audit with your staff and have incorporated their comments as appropriate.

Results in Brief

We identified continuing and new control deficiencies during our audit of the fiscal year 2007 CFS that relate to the federal government's processes used to prepare the CFS. These control deficiencies contribute to material weaknesses in internal control relating to the federal government's inability to (1) adequately account for and reconcile intragovernmental activity and balances between federal agencies; (2) ensure that the CFS was consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles (GAAP); and (3) identify and either resolve or explain material differences that exist between certain components of the budget deficit reported in Treasury's records, used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other

⁵A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Activities, and related amounts reported in federal agencies' financial statements and underlying financial information and records.

These material weaknesses in internal control contributed to our inability to render an opinion on the accrual basis consolidated financial statements. During our tests of the processes used to prepare the fiscal year 2007 CFS, we found that

- Treasury had not fully documented its practices in its “Standard Operating Procedures for Preparing the Financial Report of the U.S. Government”;
- Treasury had not established a process for adequately documenting its (1) timely assessment of the relevance, usefulness, or materiality of information reported by the federal agencies for use at the governmentwide level; (2) consideration of relevant accounting standards other than those issued by the Federal Accounting Standards Advisory Board (FASAB); and (3) final decisions regarding the inclusion or exclusion of federal agencies' disclosure information in the existing notes to the CFS;
- Treasury and OMB had not established effective processes and procedures for reconciling distributed offsetting receipt amounts included in the net outlay calculation of federal agencies' Statements of Budgetary Resources (SBR) and the amounts included in the computation of the budget deficit in the CFS;
- Treasury had not established adequate control over the spreadsheets it uses to summarize and array financial data for presentation in the CFS;
- Treasury and OMB had not established processes for monitoring and assessing the effectiveness of internal control over the preparation of the CFS; and
- Treasury had not established procedures necessary to obtain and use interim agency financial information to ensure that it could provide the final fiscal year 2007 accrual basis consolidated financial statements and certain supporting documentation in time for us to complete all of our planned audit procedures related to the compilation of these financial statements.

This report includes 10 new recommendations to address control deficiencies we identified during our audit of the fiscal year 2007 CFS. Appendix I of this report reflects the status of corrective actions taken by Treasury and OMB as of the date of our fiscal year 2007 CFS audit report

(Dec. 10, 2007), to address 81 open recommendations from our previous reports.⁶ Our work showed that 35 recommendations were closed and 46 recommendations contained in our previous reports remained open. Therefore, a total of 56 recommendations were open as of the end of our fiscal year 2007 CFS audit. We will continue to monitor the status of corrective actions to address our open recommendations during our fiscal year 2008 audit of the CFS.

In commenting on a draft of this report, OMB and Treasury stated that they generally agreed with the new findings and related recommendations in this report.

Scope and Methodology

As part of our audit of the fiscal years 2007 and 2006 CFS, we evaluated the federal government's financial reporting procedures and related internal control, and we followed up on the status of corrective actions taken by Treasury and OMB to address open recommendations relating to the processes used to prepare the CFS that were in our previous reports. In our audit report on the fiscal year 2007 CFS, which is included in the fiscal year 2007 Financial Report of the United States Government, we discussed the material weaknesses related to the federal government's processes used to prepare the CFS. These material weaknesses contributed to our disclaimer of opinion on the accrual basis consolidated financial statements and also contributed to our adverse opinion on internal control. We performed sufficient audit procedures to provide the disclaimer of opinion on the accrual basis consolidated financial statements in accordance with U.S. generally accepted government auditing standards. This report provides the details of the material weaknesses we identified in performing our fiscal year 2007 audit procedures related to the processes used to prepare the CFS and our recommendations to correct these weaknesses, as well as the status of corrective actions taken by Treasury and OMB to address recommendations in our previous reports.

We requested comments on a draft of this report from the Director of OMB and the Secretary of the Treasury or their designees. OMB provided oral comments, which are described in the Agency Comments section of this

⁶GAO, *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).

report. Treasury's comments are reprinted in appendix II and are also described in the Agency Comments section.

Standard Operating Procedures for Preparing the CFS

Over the past several years, Treasury has developed and documented numerous standard operating procedures (SOP) for preparing the CFS, which have substantially addressed GAO's recommendation for Treasury to develop and document policies and procedures for preparing the CFS. However, one of Treasury's SOPs entitled "Standard Operating Procedures for Preparing the Financial Report of the U.S. Government" is incomplete. For example, certain steps Treasury performs to prepare the CFS are not documented in this SOP and, for the key practices that are documented, the SOP is unclear as to who is responsible for performing the 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 related process. GAO's Standards for Internal Control in the Federal Government calls for clear documentation of policies and procedures.⁷ Without adequately documented policies and procedures, standards and practices may not be consistently followed or followed at all. This potential for inconsistency increases the risk that errors in the compilation process could go undetected and could result in an incomplete and inaccurate summarization of data within the CFS.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to enhance and fully document all practices referred to in the SOP entitled "Standard Operating Procedures for Preparing the Financial Report of the U.S. Government" to better ensure that practices are proper, complete, and can be consistently applied by staff members.

Conformity with GAAP

For many years, we have reported that Treasury had not established a formal process to ensure that the financial statements, related notes, stewardship information and supplemental information in the CFS were presented in conformity with GAAP. Over the past several years, Treasury has developed a formal process that has significantly improved its ability

⁷GAO, *Internal Control: 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 government and provide the basis against which internal control is to be evaluated.

to timely identify GAAP requirements, modify its closing package requirements to obtain information needed, assess the effect of omitted disclosures, and document decisions reached and the rationale for such decisions. However, there continue to be some instances where disclosures are not presented in conformity with GAAP. A contributing factor to the continued instances of nonconformity with GAAP is that the process Treasury developed to compile the CFS does not include adequately documenting its (1) timely assessment of the relevance, usefulness, or materiality of information reported by the federal agencies for use at the governmentwide level, (2) consideration of relevant accounting standards other than those issued by FASAB,⁸ and (3) final decisions regarding the inclusion or exclusion of federal agencies' disclosure information in the existing notes to the CFS.

As part of the process Treasury developed, it created a checklist containing FASAB requirements for use as a tool to help determine if disclosures in the CFS are in conformity with GAAP. Due to the way the checklist was designed, Treasury primarily used it as a planning tool to ensure that it requested in the closing package the data that Treasury would need from federal agencies to report in compliance with GAAP. Although this is a useful and important first step, we found that Treasury's checklist was limited by its design and was not used by staff to help ensure that the published CFS was in conformity with GAAP in all material respects. As a result, the checklist did not adequately assist Treasury in ensuring that all GAAP required disclosures were adequately disclosed in the CFS or documenting why certain disclosures were excluded.

Recommendations for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to enhance its checklist or design an alternative and use it to adequately and timely document Treasury's (1) assessment of the relevance, usefulness, or materiality of information reported by the federal agencies for use at the governmentwide level; (2) consideration of relevant accounting standards other than those issued by FASAB; and (3) final decisions regarding the inclusion or exclusion of federal agencies' disclosure information in the existing notes to the CFS.

⁸The American Institute of Certified Public Accountants' hierarchy of GAAP in Statement of Auditing Standards No. 91, *The Federal GAAP Hierarchy*, governs what constitutes GAAP for U.S. government reporting entities. The hierarchy lists the priority sequence of sources that an entity looks to for accounting and reporting guidance (<http://www.fasab.gov/accepted.html>).

Reconciling Distributed Offsetting Receipts

The federal government reports a unified budget deficit⁹ (budget deficit) in the Reconciliation of Net Operating Cost and the Unified Budget Deficit and in the Statement of Changes in Cash Balance from Unified Budget and Other Activities. The budget deficit is calculated by subtracting actual budget outlays from actual budget receipts.¹⁰ Budget outlays consist of federal agencies' outlay amounts, that is, gross outlays net of offsetting collections and distributed offsetting receipts¹¹ at the agency level, and undistributed offsetting receipts¹² at the governmentwide level. Federal agencies also report net outlays in their SBRs.¹³ Both the net outlays as a component of the budget deficit reported in the CFS and as reported in the federal agencies' SBRs should generally match the budget outlays reported in the Budget of the United States Government.

For several years, we have reported material unreconciled differences between the total net outlays reported in selected federal agencies' SBRs and Treasury's central accounting records used to compute the budget deficit reported in the CFS.¹⁴ OMB and Treasury have continued to work

⁹Unified budget deficit is the amount by which the government's on-budget and off-budget outlays (budget outlays) exceed the sum of its on-budget and off-budget receipts (budget receipts) for a given period, usually a fiscal year. Off-budget refers to those budgetary accounts (either federal or trust funds) designated by law as excluded from budget totals. Conversely, on-budget refers to all budgetary accounts other than those designated by law as off-budget.

¹⁰The budget deficit, receipt, and outlay amounts are reported in Treasury's *Monthly Treasury Statement* and the annual *Budget of the United States Government*.

¹¹Distributed offsetting receipts are collections by the federal government that are offset against outlays at the agency or subfunction level.

¹²Undistributed offsetting receipts are deducted from total outlays for the government as a whole rather than from a single agency or subfunction in order to avoid distortion of agency or subfunction totals. Certain offsetting receipts that are undistributed in both agency and functional tables include collections of employer share of employee retirement payments. Interest received by federal trust funds is undistributed in the agency tables but distributed in the functional tables.

¹³The SBR provides information about how budgetary resources were made available (i.e., appropriations, contract authority, spending authority from offsetting collections, etc.) as well as the status of such resources (obligated or unobligated). It also provides information regarding obligated balances at the end of, and outlays for, the fiscal year.

¹⁴See GAO's audit report on its audit of the federal government's fiscal year 2007 financial statements that was incorporated in the *2007 Financial Report of the U.S. Government* published by Treasury. Also, see GAO, *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).

with federal agencies to reduce these material unreconciled differences. However, in fiscal year 2007, billions of dollars of unreconciled differences still existed in this and other components of the budget deficit. One way OMB has been working with federal agencies has been to require the agencies, beginning with the first quarter in fiscal year 2007, to submit to OMB an analysis and reconciliation, based on certain criteria, of any material differences between the federal agency's quarterly unaudited SBR and the agency's related quarterly Standard Form (SF) 133 Report on Budget Execution and Budgetary Resources (SBR to SF 133 reconciliations). Agencies' SF 133s are submitted to Treasury and serve as the main source for the CFS budget reporting and reconciliation. Material unreconciled differences remained at the end of fiscal year 2007 between the agencies' SBRs and their related SF 133s. OMB conducted further analysis on the agencies' quarterly SBR to SF 133 reconciliations and determined that many of these differences related to the recording of distributed offsetting receipts. Although distributed offsetting receipts are included in the net outlay calculation in federal agencies' SBRs, as well as in the computation of the budget deficit in the CFS, they are not included as part of the SF 133s, and as such are not being identified and addressed by the agencies in the quarterly reconciliation process.

OMB is aware that the reporting of distributed offsetting receipts contributes to many of the material differences in net outlays and is currently determining how to reconcile distributed offsetting receipts included in the net outlay calculation of federal agencies' SBRs and the amounts included in the computation of the budget deficit in the CFS. Until the federal government has effective processes and procedures in place for identifying and resolving material differences between the total net outlays reported in federal agencies' SBRs and the records used to prepare the CFS, the actual extent of such differences and their effect on the CFS will be unknown.

Recommendation for Executive Action

We recommend that the Director of OMB 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' SBRs and the amounts included in the computation of the budget deficit in the CFS.

Control over Spreadsheets Used to Prepare the CFS

Treasury developed the Governmentwide Financial Report System (GFRS) to collect federal agencies' audited financial statement information to prepare the CFS. Federal agencies enter their audited financial information into GFRS, and Treasury exports the data into a database and then into various spreadsheets in order to compile the CFS. Treasury did not maintain adequate control over the spreadsheets used to summarize and array financial data for presentation in the CFS. Specifically, Treasury's processes and procedures for management and control of the spreadsheets were largely undocumented. In addition, Treasury had not established adequate controls to ensure that certain key spreadsheets were (1) protected from inadvertent change and (2) documented to facilitate detection and tracking of changes to key formulas and data. Further, the column headings within many spreadsheets were either not labeled or the labels were not aligned with the data contained in the column. GAO's Standards for Internal Control in the Federal Government calls for controls to be in place to safeguard financial information and help reduce the risk of errors, misuse, or unauthorized alteration.¹⁵ In addition, vendor documentation also provides guidance on maintaining and protecting spreadsheet integrity.¹⁶ OMB Circular No. A-127 requires that appropriate internal control be applied to all financial management system inputs, processing, and output.¹⁷ It also requires that financial management systems and associated instructions for maintenance and use be clearly documented in sufficient detail to permit an individual with appropriate background knowledge to obtain a comprehensive understanding of the

¹⁵ [GAO/AIMD-00-21.3.1](#)

¹⁶ Spreadsheet Compliance in the 2007 Microsoft Office System, April 2006.

¹⁷ OMB Circular No. A-127, *Financial Management Systems* (Washington, D.C.: July 23, 1993), §7(j), Internal Controls. The financial management systems shall include a system of internal controls that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports. Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system-related controls form a portion of the management control structure required by OMB Circular No. A-123.

entire operation of the system.¹⁸ Inadequate spreadsheet controls increase Treasury's risk that its financial reporting data will be inaccurate, and that these inaccuracies will not be prevented or detected in a timely manner.

Recommendations for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to establish effective internal control to ensure the spreadsheets used to compile the CFS are (1) protected from inadvertent change and (2) documented to facilitate detection and tracking of changes to key formulas and data. Further, we recommend that columns within key spreadsheets be labeled and properly aligned to reflect the data contained within.

Monitoring Internal Control over the CFS Preparation Process

Treasury, in coordination with OMB, has not established processes for monitoring and assessing the effectiveness of internal control over the processes used to prepare the CFS. According to OMB Circular No. A-123, management has a fundamental responsibility to develop and maintain effective internal control.¹⁹ Effective internal control provides reasonable assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the entity's ability to meet its objectives, would be prevented or detected in a timely manner. In addition, periodic reviews, reconciliations, or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the entity's operations. If an effective continuous monitoring program is in place, it can leverage the resources needed to maintain effective internal controls

¹⁸OMB Circular No. A-127, §7(i), Documentation. Agency financial management systems and processing instructions shall be clearly documented in hard copy or electronically in accordance with (a) the requirements contained in the Federal Financial Management Systems Requirements documents published by the Office of Federal Financial Management or (b) other applicable requirements. All documentation (software, system, operations, user manuals, operating procedures, etc.) shall be kept up-to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable of the agency's programs and of systems generally, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation such as requirements documents, systems specifications, and operating instructions shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.

¹⁹OMB Circular No. A-123, *Management's Responsibility for Internal Control* (Washington, D.C.: Dec. 21, 2004).

throughout the year. In addition, GAO's Standards for Internal Control in the Federal Government states that internal control is a major part of managing an organization and should include monitoring.²⁰ Without effective monitoring and assessment of internal control, there is a risk that errors in the compilation process could go undetected and could result in an incomplete and inaccurate summarization of data within the CFS.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury 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.

Use of Interim Financial Information to Compile the CFS

As indicated in our most recent audit report on the CFS, and since fiscal year 2003, there have been limitations on the scope of our work that contribute to our disclaimer of opinion on the accrual basis consolidated financial statements. Since fiscal year 2003, Treasury and OMB began accelerating the time frame for preparation of the CFS. Consequently, GAO in turn has accelerated the time frame to issue our reports on the audits of the CFS.

For fiscal year 2007, we reported that Treasury was unable to provide the final accrual basis consolidated financial statements and certain supporting documentation in time for us to complete all of our planned auditing procedures related to the compilation of these financial statements. We also reported that personnel at Treasury's Financial Management Service had excessive workloads that required an extraordinary amount of effort and dedication to compile the CFS and that quarterly compilations were not performed at the governmentwide level. This leads to almost all the compilation effort being performed during a condensed time period at the end of the year.

²⁰GAO/AIMD-00-21.3.1. These standards define the minimum level of quality acceptable for internal control in the federal government and provide the basis against which internal control is to be evaluated.

Federal agencies are required to produce unaudited quarterly financial statements and remit them to OMB;²¹ however, Treasury does not use these quarterly financial statements or request any other interim financial information that would enable it to perform some of the compilation effort before the end of the year. For example, if a federal agency changed the manner in which it was reporting certain information in its financial statements, by obtaining and utilizing the agency's quarterly financial statements, Treasury would be aware of this change and could evaluate any effect this might have on the CFS during the year rather than during the condensed time period at the end of the year.

Until such time that interim financial information is obtained and utilized in some capacity to assist Treasury in overcoming the existing resource and time constraints, we believe that Treasury will continue to face significant challenges in being able to provide accrual basis consolidated financial statements and supporting documentation in time for us to complete our planned auditing procedures.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury 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.

Agency Comments

OMB Comments

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

Treasury Comments

In written comments on a draft of this report, which are reprinted in appendix II, Treasury stated that it agrees with the new findings and related recommendations.

²¹OMB Circular No. A-136, *Financial Reporting Requirements* (Washington, D.C.: June 29, 2007). Agencies shall submit unaudited interim financial statements to OMB 21 days after the end of each of the first three quarters of the fiscal year.

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 these recommendations. You should submit your statement to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform within 60 days of the date of this report. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Homeland Security and Governmental Affairs; the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Oversight and Government Reform; and the Subcommittee on Government Management, Organization, and Procurement, House Committee on Oversight and Government Reform. In addition, we are sending copies to the Fiscal Assistant Secretary of the Treasury, the Deputy Director for Management of OMB, and the Acting Controller of OMB's Office of Federal Financial Management. Copies will be made available to others upon request. 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 on (202) 512-3406 or engelg@gao.gov. Key contributors 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

This appendix includes recommendations that were open at the beginning of our fiscal year 2007 audit from five of our previous reports:

- *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); and
- *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).

Recommendations that were closed in prior reports are not included in this appendix. This appendix includes the status of the recommendations according to the Department of the Treasury (Treasury) and the Office of Management and Budget (OMB) as well as our own assessments. Explanations are included in the status of recommendations per GAO when Treasury and OMB disagreed with our recommendation or the status of a recommendation.

Of the 81 recommendations relating to the processes used to prepare the consolidated financial statements of the U.S. government (CFS) that are listed in this appendix, 35 were closed and 46 remained open as of December 10, 2007, the date of our report on the audit of the fiscal year 2007 CFS.

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

Table 1: Status of Treasury's and OMB's Progress in Addressing GAO's Prior Year Recommendations for Preparing the CFS (as of Dec. 10, 2007)

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
GAO-04-45 (results of the fiscal year 2002 audit)				
1	02-2	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in connection with Treasury's current compilation process and the development of Treasury's new compilation system and process, to develop and fully document policies and procedures for the CFS preparation process so that they are proper, complete, and consistently applied by staff members.	Treasury further revised and documented all of its major policies and procedures for the fiscal year 2007 compilation process to ensure the propriety, accuracy, and consistency of application.	Closed. Over the past several years, Treasury has developed and documented numerous policies and procedures for preparing the CFS. As such, Treasury has substantially addressed this recommendation. However, one key standard operating procedure (SOP) needs to be completed. See the body of this report for a discussion of this SOP and related recommendation.
2	02-4	As 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 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. Treasury's analysis of the reciprocal category for the General Fund (RC29) is still continuing and in fiscal year 2007, Treasury began to extract certain General Fund transactions into new reciprocal categories to facilitate agency reconciliation.	Open. Treasury has made progress towards developing reconciliation procedures that aid in understanding the net position balance.
3	02-5	As 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 OMB, to use balanced accounting entries to account for the change in net position rather than simple subtraction of liabilities from assets.	The process mentioned in No. 02-4 no longer involves the simple subtraction of liabilities from assets, as was previously done, but instead takes into account the intragovernmental balances and activities to compute the change in net position.	Closed. Treasury's process no longer simply subtracts liabilities from assets to account for the change in net position.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
4	02-6	As OMB continues to make strides to address issues related to intragovernmental transactions, the Director of OMB should direct the Controller of OMB to develop policies and procedures that document how OMB will enforce the business rules provided in OMB Memorandum M-07-03, Business Rules for Intragovernmental Transactions.	<p>The business rules were revised in fiscal year 2006 to expand and enhance the standard practices for how federal agencies do business with each other. The revised rules are published in Treasury Financial Manual (TFM) Bulletin 2007-03.</p> <p>OMB, Treasury, and the Chief Financial Officers' Council (CFOC) are distributing, quarterly, a "Watchlist" of the largest dollar imbalances between two federal agencies, or federal agencies not reporting a trading partner, or both. Federal agencies on the "Watchlist" meet with OMB and Treasury to discuss the root causes of the imbalances and come to resolution on how to mitigate the root causes. At the same time, OMB, Treasury, and the CFOC are continuing their efforts toward establishing the Intragovernmental Dispute Resolution Committee (IDRC), as referenced in the business rules. The IDRC will be a vehicle for resolving accounting disputes between federal agencies. The dispute resolution process is also predicated on the principle that federal agencies have implemented the business rules and will require the disputing federal agencies to provide evidence of compliance with the business rules during arbitration.</p>	Open.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
5	02-7	As OMB continues to make strides to address issues related to intragovernmental transactions, the Director of OMB should direct the Controller of OMB to require that significant differences noted between business partners be resolved and the resolution be documented.	OMB will continue to work with individual federal agencies to resolve imbalances that are referred to OMB on a case-by-case basis. As part of OMB's standard practice, resolutions reached will be communicated to all parties. As noted above, OMB, Treasury, and the CFOC are documenting the imbalances identified on the "Watchlist" and subsequent resolutions. OMB, Treasury, and the CFOC will continue to work toward establishing the IDRC, as referenced in the business rules, and it will be used as a vehicle for federal agencies to resolve their accounting disputes. The IDRC will incorporate a standard practice of documenting all resolutions and communicating the resolutions to all parties involved.	Open.
6	02-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to design procedures that will account for the difference in intragovernmental assets and liabilities throughout the compilation process by means of formal consolidating and elimination accounting entries.	Treasury has designed formal consolidating and eliminating procedures to account for these differences and has implemented them. See the status for recommendation No. 02-4.	Open. Treasury was unable to provide GAO with evidence of formal consolidating and eliminating accounting entries in fiscal year 2007.
7	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.	During fiscal year 2007, Treasury made available to federal agencies information from its Central Accounting and Reporting System (STAR) related to appropriations, transfers, and fund balance with Treasury for their use in reconciling this data.	Open. Treasury and OMB did not provide federal agencies instructions on how to reconcile and report to Treasury any differences between their records and Treasury's central accounting records. Further, as noted by Treasury in the status of recommendation No. 02-4, Treasury's analysis of the reciprocal category for the General Fund is ongoing.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
8	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 accounts for differences caused by asset capitalization and agency advances or deferred revenue. Given current intragovernmental differences, asset capitalization and recognition of advances and deferred revenue may be incorrect. However, the current reconciliation analysis is expected to correctly report this activity once intragovernmental differences are materially resolved. See also the status of recommendation No. 02-4.	Open.
9	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.	Treasury's position is that unmatched transactions and balances cannot be placed with certainty either as a component of the Statement of Net Cost or as a component of the Statement of Operations and Changes in Net Position (SOCNP) and has chosen to reflect these unmatched transactions and balances in the SOCNP until these differences are resolved. However, based on its analyses of these unmatched transactions and balances, as disclosed in the supplementary information section of the fiscal year 2007 CFS, Treasury believes that these unmatched transactions and balances are primarily caused by unreconciled transactions that affect 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, because it is the reconciliation of the federal government's activity between two different bases of accounting (accrual vs. cash).	Open. Although Treasury was unsure if the plug (reported in fiscal year 2007 as "unmatched transactions and balances") was a component of the Statement of Net Cost or a component of the SOCNP, Treasury chose to reflect the plug in the SOCNP as a component of net operating cost. Therefore, the net operating cost included in the Reconciliation of Net Operating Cost and Unified Budget Deficit includes the "unmatched transactions and balances" plug and Treasury is unsure how much of this plug should be included as a separate reconciling activity.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
10	02-13	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should develop policies and procedures to ensure completeness of reporting and document how all the applicable components reported in the other consolidated financial statements (and related note disclosures included in the CFS) were properly reflected in the reconciliation statement.	Treasury will continue to improve the completeness and consistency of the information in this reconciliation statement and will continue to resolve significant inconsistencies, if any, to the applicable and related components reported in the other basic financial statements, and in the related note disclosures, included in the CFS.	Open. While Treasury has made progress in developing certain SOPs, it has not fully developed policies and procedures to ensure the completeness of reporting of information on the reconciliation statement and to document how all applicable components reported elsewhere in the CFS are properly reflected in the reconciliation statement.
11	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 establish a reporting materiality threshold related to this statement, to improve the usefulness and understandability of the information included in this statement.	Open.
12	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 will identify the material areas where STAR data should reconcile to federal agencies' financial statements.	Open. Once Treasury identifies material areas, it will need to demonstrate how the amounts from STAR for these areas reconcile to federal agencies' financial statements.
13	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.	Treasury has elected to continue to use information from STAR. Treasury will document the cause of significant differences as possible during fiscal year 2008. See also status of recommendation No. 02-15.	Open.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
14	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 2008. See also status of recommendation No. 02-15.	Open.
15	02-18	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 request, through its closing package, that federal agencies provide the net outlays reported in their Combined Statement of Budgetary Resources and explanations for any significant differences between net outlay amounts reported in the Combined Statement of Budgetary Resources and the budget of the U.S. government.	In accordance with the net outlays corrective action plan, OMB requires federal agencies to provide explanations for significant differences between the unaudited quarterly Statement of Budgetary Resources and the quarterly SF-133 (budget execution document). This requirement is intended to assist federal agencies in identifying and mitigating discrepancies between the two reports throughout the fiscal year rather than only at year-end. The number of federal agencies with significant discrepancies has decreased in the last couple of years, and OMB continues to work with federal agencies toward further reductions.	Closed. OMB has made significant progress in explaining and resolving significant differences between net outlay amounts reported in federal agencies' Statement of Budgetary Resources and the budget of the U.S. government. As such, OMB has substantially addressed this recommendation as well as recommendation Nos. 02-19, 03-4, and 03-5. However, some differences do remain. See the body of this report for further recommendations as OMB continues to work with federal agencies to reconcile quarterly SF 133 data.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
16	02-19	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 investigate the differences between net outlays reported in federal agencies' Combined Statement of Budgetary Resources and Treasury's records in STAR to ensure that the proper amounts are reported in the Statement of Changes in Cash Balance from Unified Budget and Other Activities.	See status of recommendation No. 02-18.	Closed. See status of recommendation No. 02-18.
17	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 begun in fiscal year 2007 to reconcile budgetary receipts to net operating revenue.	Open.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
18	02-21	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 provide support for how the line items in the "other activities" section of this statement relate to either the underlying Balance Sheet or related notes accompanying the CFS.	In fiscal year 2007, Treasury was able to provide additional support for the "other activities" section from the information provided by the underlying agency financial records.	Closed.
19	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.	In fiscal year 2007, Treasury implemented its policies and procedures to define and document the reporting entity and made corresponding changes to the reporting entity disclosure in the fiscal year 2007 CFS.	Open. Although Treasury began developing criteria to assess exclusion of certain entities, the reporting entity has not been adequately defined. In addition, documentation of decisions by the Fiscal Assistant Secretary and the Controller of OMB is needed regarding inclusion or exclusion of certain entities.
20	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.	Treasury implemented changes to the reporting entity in accordance with its related policies and procedures. See status of recommendation No. 02-22.	Open. See status of recommendation No. 02-22.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
21	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. 02-23.	Open. See status of recommendation No. 02-22.
22	02-25	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with generally accepted accounting principles (GAAP). The process should timely identify GAAP requirements.	Treasury enhanced the formal process established in fiscal year 2005 and performed an analysis of fiscal year 2007 required agency financial statement and note disclosures and included the appropriate disclosures in the fiscal year 2007 CFS.	Closed. Over the past several years, Treasury has established a formal process that has significantly improved its ability to present the CFS, including related notes, and stewardship and supplemental information, in conformity with GAAP. As such, Treasury has substantially addressed this recommendation as well as recommendation Nos. 02-26, 02-27, and 02-28. Despite Treasury's efforts, there continue to be some instances where disclosures are not presented as required by the standards. See the body of this report for a more detailed discussion of these matters and related recommendations.
23	02-26	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should make timely modifications to Treasury's closing package requirements to obtain information needed.	See status of recommendation No. 02-25.	Closed. See status of recommendation No. 02-25.

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Count	No.	Recommendation	Status of recommendation	
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24	02-27	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should assess, qualitatively and quantitatively, the effect of the omitted disclosures.	See status of recommendation No. 02-25.	Closed. See status of recommendation No. 02-25.
25	02-28	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should document decisions reached and the rationale for such decisions.	See status of recommendation No. 02-25.	Closed. See status of recommendation No. 02-25.
26	02-29	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an analysis of the agency management representations to determine if discrepancies exist between what the agency auditor reported and the representations made by the agency, including the resolution of such discrepancies.	Treasury and OMB will continue to revise their policies and procedures in order to improve internal control over this process.	Open.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
27	02-30	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require a determination that the agency management representation letters have been signed by the highest-level agency officials who are responsible for and knowledgeable about the matters included in the agency management representation letters.	Treasury and OMB revised their policies and procedures to address this finding in fiscal year 2007.	Closed.
28	02-31	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an assessment of the materiality thresholds used by federal agencies in their respective management representation letters.	Treasury and OMB revised their policies and procedures to address this finding in fiscal year 2007.	Closed.
29	02-32	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an assessment of the effect, if any, of federal agencies' materiality thresholds on the management representations made at the governmentwide level.	Treasury and OMB revised their policies and procedures to address this finding in fiscal year 2007.	Closed.

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30	02-33	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an evaluation and assessment of the omission of representations ordinarily included in agency management representation letters.	Treasury and OMB will continue to revise their policies and procedures in order to improve internal control over this process.	Open.
31	02-34	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an analysis and aggregation of federal agencies' summary of unadjusted misstatements to determine the completeness of the summaries and to ascertain the materiality, both individually and in the aggregate, of such unadjusted misstatements to the CFS taken as a whole.	In fiscal year 2007, Treasury updated the SOP for the aggregation and analysis of federal agencies' summary of unadjusted misstatements. Treasury also tracked federal agencies' submissions of this information and prepared a CFS-level summary that showed that federal agencies' unadjusted misstatements were immaterial in the aggregate to the CFS.	Open. Treasury provided its SOP to GAO for review. Our review indicated that additional changes were needed, which were communicated to Treasury. After the issuance of our audit report on the fiscal year 2007 CFS, Treasury provided us with its revised SOP.
32	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 2007, OMB and Treasury continued to work with federal agencies to ensure that adequate information was provided in the legal representation letters regarding the expected outcomes of the cases.	Open. OMB did not ensure that all federal agencies reported adequate information relating to expected outcomes of the cases.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
33	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).	To ensure a reasonable approach, OMB will analyze the appropriateness of reporting "treaties" before developing specific corrective actions. OMB has, however, analyzed the State Department's Treaties in Force and concluded that while it provides a comprehensive listing of treaties and international agreements, it is not the appropriate document from which to derive potential commitments or contingencies of the U.S. government. For fiscal year 2008, OMB will again look at Treaties in Force and has sought advice from GAO regarding this issue. OMB will continue working to develop a reasonable approach for this disclosure.	Open.
34	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.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
35	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.
36	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.
37	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.

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Count	No.	Recommendation	Status of recommendation	
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38	02-42	As Treasury is designing its new compilation process, which it expects to implement beginning with the fiscal year 2004 CFS, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to design the new compilation process to directly link information from federal agencies' audited financial statements to amounts reported in all the applicable consolidated financial statements and related footnotes.	Treasury used its revised CFS compilation process, the Governmentwide Financial Reporting System (GFRS), first implemented in fiscal year 2004, to provide more direct linkage from the agency audited financial statements to the CFS principal statements. With regard to note disclosures, GFRS note references (linkages) were supplemented by additional documentation describing in more detail the links between the CFS and agency note disclosures.	Closed. Treasury has made substantial progress in addressing this recommendation as demonstrated by its ability to show that amounts in the Statement of Social Insurance were consistent with the underlying federal agencies' audited financial statements and that the Balance Sheet and the Statement of Net Cost were consistent with federal agencies' financial statements prior to eliminating any applicable intragovernmental activity and balances. However, some of the principal consolidated financial statements and notes are still not directly linked to the underlying federal agencies' financial statements. As Treasury was designing the closing package process, we recommended that Treasury ensure that the closing package would demonstrate that all of the principal consolidated financial statements and footnotes are consistent with the underlying information in federal agencies' audited financial statements and other financial data. See status of recommendation No. 03-11.
39	02-43	As Treasury is designing its new compilation process, which it expects to implement beginning with the fiscal year 2004 CFS, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to consider the other applicable recommendations in this report when designing and implementing the new compilation process.	Treasury considered all applicable recommendations in the design, implementation, and subsequent revisions of GFRS.	Closed.

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40	02-91	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for capital leases meets the requirements of Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, paragraph 16, which requires future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the 5 succeeding fiscal years, with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments, and for the amount of the imputed interest necessary to reduce the net minimum lease payments to present value.	Based on analysis in fiscal year 2007, of this specific lease-related information, Treasury concluded that the amounts were immaterial to the CFS and therefore no related disclosures were included in the fiscal year 2007 CFS.	Closed.
41	02-92	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for capital leases meets the requirements of FASB, SFAS No. 13, Accounting for Leases, paragraph 16, which requires a summary of assets under capital lease by major asset category and the related total accumulated amortization.	Based on analysis in fiscal year 2007, of this specific lease-related information, Treasury concluded that the amounts were immaterial to the CFS and therefore no related disclosures were included in the fiscal year 2007 CFS.	Closed.
42	02-93	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for capital leases meets the requirements of FASB, SFAS No. 13, Accounting for Leases, paragraph 16, which requires a general description of the lessee's leasing arrangements, including but not limited to (1) the basis on which contingent rental payments are determined; (2) the existence and terms of renewal or purchase options and escalation clauses; and (3) restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing.	Based on analysis in fiscal year 2007, of this specific lease-related information, Treasury concluded that the amounts were immaterial to the CFS and therefore no related disclosures were included in the fiscal year 2007 CFS.	Closed.

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			Per Treasury and OMB	Per GAO
43	02-96	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure on major commitments and contingencies is consistent with disclosed information in individual federal agencies' financial statements.	The required information for these items was disclosed in Note 18, Contingencies, and Note 19, Commitments, in the fiscal year 2007 CFS.	Closed.
44	02-102	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for dedicated collections meets the requirements of Statement of Federal Financial Accounting Standard (SFFAS) No. 7, Part I, Accounting for Revenue and Other Financing Sources, paragraph 85, which requires inclusion of any revenues, other financing sources, or costs attributable to the fund under accounting standards but not legally allowable as credits or charges to the fund.	In fiscal years 2007 and 2006 dedicated collections information was immaterial to the CFS and, therefore, were not disclosed in the fiscal year 2007 CFS.	Closed.
45	02-104	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for Indian trust funds meets the requirements of SFFAS No. 7, Part I, Accounting for Revenue and Other Financing Sources, paragraph 85, which requires disclosure of the sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the government or the result of intragovernmental flows.	The required information for these items was disclosed in Note 21, Indian Trust Funds, in the fiscal year 2007 CFS.	Closed. Although all information required to be disclosed by SFFAS No. 7 was not presented in the note disclosure for Indian trust funds, Treasury assessed the effect of the omitted disclosures and documented its rationale for such decisions.
46	02-106	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for Indian trust funds meets the requirements of SFFAS No. 7, Part I, Accounting for Revenue and Other Financing Sources, paragraph 85, which requires condensed information on net cost and changes to fund balance, showing revenues by type (exchange/nonexchange), program expenses, other expenses, other financing sources, and other changes in fund balance.	The required information for these items was disclosed in Note 21, Indian Trust Funds, in the fiscal year 2007 CFS.	Closed. See status of recommendation No. 02-104.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
47	02-107	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for Indian trust funds meets the requirements of SFFAS No. 7, Part I, Accounting for Revenue and Other Financing Sources, paragraph 85, which requires disclosure of any revenues, other financing sources, or costs attributable to the fund under accounting standards, but not legally allowable as credits or charges to the fund.	The required information for these items was disclosed in Note 21, Indian Trust Funds, in the fiscal year 2007 CFS.	Closed. See status of recommendation No. 02-104.
48	02-129	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stewardship responsibilities related to the risk assumed for federal insurance and guarantee programs meets the requirements of SFFAS No. 5, Accounting for Liabilities of the Federal Government, paragraph 106, which requires that when financial information pursuant to FASB 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 2007 CFS. Further discussions with federal agencies will take place in fiscal year 2008 to ensure proper and complete disclosure of this information.	Open.
GAO-04-866 (results of the fiscal year 2003 audit)				
49	03-4	The Director of OMB should direct the Controller of OMB, in coordination with Treasury's Fiscal Assistant Secretary, to work with federal agencies so that the differences between net outlays federal agencies report in their Statement of Budgetary Resources and the net outlay records Treasury uses to prepare the Statement of Changes in Cash Balance are reconciled.	See status of recommendation No. 02-18.	Closed. See status of recommendation No. 02-18.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
50	03-5	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to determine and address the effects that any of the differences between net outlays federal agencies report in their Statement of Budgetary Resources and Treasury's net outlay records may have on the CFS.	See status of recommendation No. 02-18.	Closed. See status of recommendation No. 02-18.
51	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.	Treasury intends to disclose the change in cash as reported on the Balance Sheet on the Statement of Changes in Cash Balance. Treasury will continue its analysis of the reconciling items from the unified budget deficit to the overall change in cash balance to ensure their accuracy, completeness, and consistency with federal agencies' financial information. See also status of recommendation No. 02-17.	Open.
52	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 GAAP in their financial statements and have such information subjected to audit.	An interagency task force has been established under the direction of the Attorney General and has developed a strategic plan for improving criminal debt collection and has provided the plan to Congress. The task force includes representatives from Justice, Treasury, OMB, and the Administrative Office of the U.S. Courts. OMB will work with Justice to develop a reasonable approach for the reporting or disclosure of this information.	Open.
53	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. 03-08.	Open.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
54	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 revised CFS compilation process, GFRS, to provide direct linkage from the agency audited financial statements to the CFS principal statements. See also status of recommendation No. 02-17. With regard to note disclosures, GFRS note references (linkages) have been supplemented by additional documentation describing in more detail the links between the CFS and agency note disclosures.	Open. Treasury has showed progress by demonstrating that amounts in the Statement of Social Insurance were consistent with the underlying federal agencies' audited financial statements and that the Balance Sheet and the Statement of Net Cost were consistent with federal agencies' financial statements prior to eliminating intragovernmental activity and balances. However, Treasury's closing package process did not ensure that the information in the remaining three principal financial statements and notes were fully consistent with the underlying information in federal agencies' audited financial statements and other financial data.
55	03-22	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the information in stewardship information for research and development meets the requirements of SFFAS No. 8, Supplementary Stewardship Reporting, paragraph 99, which requires the reporting entity to include a narrative discussion of the major results achieved by the program along the lines of basic research, applied research, and development.	The required information on stewardship investments related to the reporting on major results achieved by selected basic research, applied research, or development program(s), was disclosed in the Stewardship Investments section of the fiscal year 2007 CFS.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
GAO-05-407 (results of the fiscal year 2004 audit)				
56	04-2	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require and maintain appropriate supporting documentation for all journal vouchers recorded in the CFS.	Treasury will follow its SOP that includes maintaining documentation for all recorded journal vouchers, including notification and approval of changes from affected federal agencies. Except in certain circumstances described below, Treasury will seek approval from federal agencies before making data changes. However, because of year-end time constraints, Treasury will make changes without agency contact or approval under the following circumstances: (1) adjustments to agree closing packages to financial statements, (2) adjustments to ensure consistency of GAAP between federal agencies, and (3) adjustments to conform an agency to GAAP.	Open. Treasury did not have appropriate supporting documentation for all transactions recorded in the CFS. Recording transactions in the financial statements without adequate underlying support increases the risk that inappropriate adjustments to balances in the financial statements could be made. We believe that Treasury should contact federal agencies to resolve any discrepancies between federal agencies' audited closing packages and audited financial statements and discuss any other situations that require adjustments to federal agencies' audited closing package data because Treasury could incorrectly adjust federal agencies' audited information.
57	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's policy related to the notification of federal agencies before making needed data changes is described in status of recommendation No. 04-2. Treasury agrees that changes to closing package information should be accurate and fully supported. Where agency clarification is needed related to complex disclosures, Treasury will continue to document these discussions to ensure that the CFS is consistent with agency financial statements and note disclosures.	Open. See status of recommendation No. 04-2.
58	04-4	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require and document management reviews of all procedures that result in data changes to the CFS.	Treasury further revised its procedures to ensure management reviews of data changes to the CFS.	Open. Certain of Treasury's procedures were not effective for fiscal year 2007.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
59	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 made various improvements to its infrastructure during fiscal year 2007, including streamlining the compilation process to automate the production of certain items, continuing its recruitment of qualified personnel, and providing them with appropriate training related to the CFS compilation process and associated internal controls, revising its policies and procedures to improve documentation of management reviews and approvals, and continuing cross-training on significant key compilation processes.	Open. For fiscal year 2007, as had been the case for fiscal year 2006, Treasury was unable to provide the final accrual basis consolidated financial statements and certain supporting documentation in time for us to complete all of our planned auditing procedures related to the compilation of these financial statements. In our view, a major contributing factor is that Treasury did not have enough personnel with specialized financial reporting experience to help ensure reliable financial reporting by the reporting date.
60	04-15	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for federal employee and veteran benefits payable meets the requirements of SFFAS No. 5, Accounting for Liabilities of the Federal Government, paragraph 110, table 9, which states that all components of the liability for future policy benefits should be separately disclosed in a footnote with a description of each amount and an explanation of its projected use and any other potential uses.	This required information was disclosed in Note 11, Federal Employees and Veteran Benefits Payable, in the fiscal year 2007 CFS.	Closed.
61	04-19	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that federal agencies designate in the note disclosure for cash and other monetary assets any amounts reported for the "other cash" line items that are restricted with respect to the federal government taken as a whole.	This required information was requested from federal agencies for inclusion in Note 2, Cash and Other Monetary Assets, in the fiscal year 2007 CFS. Further discussions with federal agencies will take place in fiscal year 2008 to ensure proper and complete disclosure of this information.	Open.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
62	04-20	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for other liabilities meets the requirements of SFFAS No. 5, paragraph 114, which requires the reporting of indicators of the range of uncertainty around insurance-related estimates and the sensitivity of the estimates to changes in major assumptions.	The required information was requested from federal agencies for disclosure in the required supplementary information (risk assumed) section of the fiscal year 2007 CFS. Further discussions with federal agencies will take place in fiscal year 2008 to ensure proper and complete disclosure of this information.	Open.
GAO-06-415 (results of the fiscal year 2005 audit)				
63	05-2	The Director of OMB should direct the Controller of the Office of Federal Financial Management, in coordination with the Treasury Fiscal Assistant Secretary, to develop an alternative solution for obtaining audit assurance related to the Federal Deposit Insurance Corporation's funds, National Credit Union Administration, and Farm Credit System Insurance Corporation, which includes the requirement for adequate audit procedures to be performed over significant information included in the CFS for these federal agencies.	OMB agrees with the recommendation and is committed to working with Treasury and the pertinent federal agencies to develop an alternative solution for obtaining audit assurance over the significant information included in the CFS for these federal agencies.	Open.
64	05-3	The Director of OMB should direct the Controller of the Office of Federal Financial Management to consider not waiving the closing package audit requirement for any verifying agency in future years, such as Tennessee Valley Authority (TVA).	OMB generally agrees with the recommendation; however, it will continue to weigh the costs against benefits of global requirements during extenuating circumstances.	Open. For fiscal year 2007, TVA did not meet the closing package requirements. OMB did not waive the closing package requirements for any verifying agency in fiscal year 2007, however, OMB did not ensure that TVA met the closing package requirements.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
65	05-4	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop policies and procedures for monitoring internal control to help ensure that (1) audit findings are promptly evaluated; (2) proper actions are determined in response to audit findings and recommendations, such as a documented plan of action with milestones for short-term and long-range solutions; and (3) all actions that correct or otherwise resolve the audit findings are completed within established time frames.	OMB concurs with the recommendation and is committed to improving the corrective action plans and monitoring progress against those plans.	Open.
66	05-5	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop an executable plan of action and milestones for short-term and long-range solutions for certain internal control weaknesses we have previously reported regarding the processes used to prepare the CFS.	OMB developed corrective action plans and will monitor the progress.	Closed. Treasury and OMB have developed corrective action plans for certain internal control weaknesses we have previously reported regarding the processes used to prepare the CFS. GAO will continue to monitor the implementation of these plans.
67	05-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the TFM and any other guidance to federal agencies provide clear instructions for providing reliable data to Treasury for restricted cash.	With regard to restricted cash, in fiscal year 2007, Treasury reviewed agency cash amounts designated as restricted to determine what, if any, restrictions applied at the governmentwide level. Treasury implemented changes based on this review to the restricted cash disclosures during fiscal year 2007 and disclosed these restricted cash amounts in Note 2, Cash and Other Monetary Assets, in the fiscal year 2007 CFS. Further discussions with federal agencies will take place in fiscal year 2008 to ensure proper and complete disclosure of this information.	Open. Treasury did not provide clear instructions to federal agencies for providing reliable data related to restricted cash.
68	05-8	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the TFM and any other guidance to federal agencies provide clear instructions for providing reliable data to Treasury for summaries of unadjusted misstatements.	Treasury updated the TFM in fiscal year 2007 related to the guidance to federal agencies concerning agency management representations and related summaries of unadjusted misstatements and will continue to revise them as necessary during fiscal year 2008.	Open. Treasury's updates to the TFM for fiscal year 2007 did not provide clear instructions to federal agencies for providing reliable data related to summaries of unadjusted misstatements.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
69	05-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to provide clear guidance to federal agencies as to when the "confirmed reporting" category in the intragovernmental reconciliation report should be selected.	In fiscal year 2007, Treasury revised its quarterly intragovernmental reporting process to provide clearer guidance to federal agencies related to their intragovernmental confirmations as well as to require that federal agencies prepare corrective action plans for continuing "confirmed" differences.	Closed. In addition to providing clearer guidance to federal agencies, Treasury also developed a process for obtaining clarification from federal agencies for inconsistent or incomplete explanations provided in the "confirmed reporting" category by requesting that federal agencies prepare corrective action plans for these differences.
70	05-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop an effective process for obtaining clarification from federal agencies for inconsistent or incomplete explanations provided in all material difference categories.	See status of recommendation No. 05-10.	Closed. See status of recommendation No. 05-10.
GAO-07-805 (results of the fiscal year 2006 audit)				
71	06-1	The Director of OMB and Secretary of the Treasury should direct the Controller of the Office of Federal Financial Management and Fiscal Assistant Secretary, respectively, to develop formal processes and procedures for identifying and either resolving or explaining any material differences in undistributed offsetting receipt amounts between Treasury's central accounting records and information reported in agency financial statements and underlying agency financial information and records.	Treasury has policies and procedures for identifying and either resolving or explaining any material differences in undistributed offsetting receipt amounts between Treasury's central accounting records and information reported in agency financial statements and underlying agency financial information and records, and will revise these policies and procedures as necessary during fiscal year 2008.	Open. Treasury's procedures remained incomplete as of December 10, 2007.
72	06-2	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop formal processes and procedures for ensuring that intragovernmental activity and balances, including intragovernmental interest, are fully eliminated in the calculation of the budget deficit.	Treasury does have formal processes and procedures for ensuring that intragovernmental activity and balances, including intragovernmental interest, are fully eliminated in the calculation of the budget deficit, and will revise these policies and procedures as necessary during fiscal year 2008.	Open. Treasury's procedures remained incomplete as of December 10, 2007.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
73	06-3	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 processes and procedures for collecting all the necessary information that would enable the proper reporting of unexpended budget balances in the CFS.	In fiscal year 2007, Treasury developed processes and procedures for collecting all the necessary information to enable the proper reporting of unexpended budget balances in the CFS.	Closed. During fiscal year 2007, Treasury changed its disclosure for unexpended budget balances in the CFS by reporting the fiscal years 2006 and 2005 actual amounts rather than reporting fiscal year 2006 actual amounts and estimating the fiscal year 2007 amounts.
74	06-4	The Director of OMB should direct the Controller of OMB's Office of Federal Financial Management to continue to work with federal agencies to resolve internal control issues regarding differences and the lack of effective reconciliation between the unexpended budget balances reported in federal agencies' financial statements and amounts reported in federal agencies' SF-133s.	See status of recommendation No. 06-3.	Closed. See status of recommendation No. 06-3.
75	06-5	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement processes and procedures for identifying and either resolving or explaining the differences that exist between operating cash reported in certain federal agencies' financial statements and the operating cash balance reported in the CFS.	With regard to operating cash, in fiscal year 2007, Treasury removed "operating cash" as a reporting category as such a category is not required by GAAP. Instead, Treasury ensured that agency cash amounts were categorized as either restricted or nonrestricted cash amounts, as only these two categories are required by GAAP. Treasury disclosed agency cash amounts in the two required cash categories in Note 2, Cash and Other Monetary Assets, in the fiscal year 2007 CFS.	Closed.
76	06-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to establish effective processes and procedures to ensure that appropriate information regarding litigation and claims is included in the governmentwide legal representation letter.	In fiscal year 2007, OMB informally discussed with GAO possible solutions for addressing this issue. As a result of these discussions, OMB started working with Justice on possible solutions. For fiscal year 2008, OMB will continue working with Justice to establish effective processes and procedures so that appropriate information regarding litigation and claims is included in the governmentwide legal representation letter. Finally, OMB will also continue its communications with GAO.	Open.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
77	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 2007, Treasury continued a process for obtaining sufficient information from federal agencies to enable Treasury and OMB to adequately monitor federal agencies' efforts to reconcile intragovernmental activity and balances with their trading partners. This information included (1) the nature and a detailed description of the significant differences that exist between trading partners' records of intragovernmental activity and balances, (2) detailed reasons why such differences exist, (3) details of steps taken or being taken to work with federal agencies' trading partners to resolve the differences, and (4) the potential outcome of such steps.	Open. Treasury and OMB's process did not provide them with sufficient information to adequately monitor federal agencies' efforts to reconcile intragovernmental activity and balances with their trading partners.
78	06-8	The Director of OMB should direct the Controller of the Office of Federal Financial Management, in coordination with the Treasury Fiscal Assistant Secretary, to establish additional procedures to ensure that federal agencies prepare their closing packages and have them audited in accordance with the requirements specified in the closing package instructions.	OMB will continue to work with federal agencies to ensure closing packages are prepared properly and audited in accordance with the requirements.	Closed. During fiscal year 2007, federal agencies prepared closing packages and had them audited in accordance with the requirements. The procedures OMB established should be used every year to ensure that federal agencies continue to follow these requirements.
79	06-9	The Director of OMB should direct the Controller of the Office of Federal Financial Management to work with the significant agency that did not provide in its closing package the required information that Treasury uses to allocate costs in the governmentwide Statement of Net Cost to ensure that such information is reported by the agency in future years.	See status of recommendation No. 06-8.	Closed. During fiscal year 2007, OMB ensured the significant agency provided the information required by Treasury.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
80	06-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish procedures to ensure that the CFS includes required consolidated totals in the Statement of Social Insurance or document the specific rationale for excluding such disclosure.	In fiscal year 2007, Treasury established procedures to ensure that the CFS included consolidated totals in the Statement of Social Insurance included in the fiscal year 2007 CFS.	Closed.
81	06-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to disclose the balance of foreign currencies held at fiscal year end in the Cash and Other Monetary Assets footnote to the CFS.	With regard to foreign currency balances, in fiscal year 2007, Treasury requested this information from federal agencies and presented these balances in Note 2, Cash and Other Monetary Assets, in the fiscal year 2007 CFS. Further discussions with federal agencies will take place in fiscal year 2008 to ensure proper and complete disclosure of this information.	Open.

Source: GAO.

Appendix II: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 10, 2008

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) 2007 audit report, GAO-08-748, *Material Weaknesses in Internal Control Over the Processes Used to Prepare the Consolidated Financial Statements of the U.S. Government*.

During FY 2007, we made considerable improvements, leading to the closure of 35 of 81 recommendations outstanding from previous CFS audit reports. In addition, the procedural and automated changes to our reporting processes implemented during the year not only improved the internal controls related to the preparation of the CFS, but also enabled us to make the CFS more meaningful and usable to its readers. While significant advancements were made in the preparation process, we concur with GAO that the process should be continually improved, and we look forward to working with your office in identifying and implementing such process improvements.

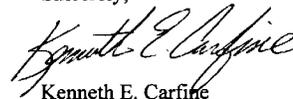
The FY 2007 draft report identifies 10 new findings and their related recommendations for improving the CFS process. We agree with GAO on these findings and recommendations. Regarding the recommendation to use agencies' quarterly financial information to compile the CFS, we need to work with OMB, with input from GAO staff, to determine the appropriate path forward for using this interim financial information in the CFS process. We will also explore other alternative solutions to facilitate the CFS preparation process.

We will continue to work with the agencies and OMB to address the material weakness related to intragovernmental differences. Although Treasury cannot solve this problem on its own, we will continue to provide assistance to the agencies in timely reconciling this activity and thereby reducing the out-of-balance condition.

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

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

Sincerely,



Kenneth E. Carfine
Fiscal Assistant Secretary

cc: Daniel Werfel, OMB

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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

Acknowledgments

In addition to the above contact, the following individuals made key contributions to this report: Lynda Downing, Assistant Director; Mickie Gray; David Hayes; Sharon Kittrell; Dragan Matic; Maria Morton; and Taya Tasse.

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