

GAO

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

April 2006

FINANCIAL AUDIT

Significant Internal Control Weaknesses Remain in Preparing the Consolidated Financial Statements of the U.S. Government





Highlights of [GAO-06-415](#), 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 9 years, since our 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 resulted in conditions that prevented GAO from expressing an opinion on the CFS. Specifically, GAO has reported that the U.S. government did not have adequate systems, controls, and procedures to properly prepare the CFS. Included with GAO's December 2005 disclaimer of opinion on the fiscal year 2005 CFS was its discussion of continuing weaknesses relating to the Department of the Treasury's (Treasury) preparation of the CFS. The purpose of this report is to (1) provide details of those additional weaknesses, (2) recommend improvements, and (3) describe the status of corrective actions on GAO's previous 154 recommendations.

What GAO Recommends

GAO is making 12 new recommendations to address compilation and reporting weaknesses identified during the fiscal year 2005 CFS audit. The Office of Management and Budget stated that it generally agreed with the new findings in this report. Treasury stated that it concurs with 11 of our recommendations. For the twelfth recommendation, Treasury offered an alternative solution that we believe should address our concern if it is effectively implemented.

www.gao.gov/cgi-bin/getrpt?GAO-06-415.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gary T. Engel at (202) 512-3406 or engelg@gao.gov.

FINANCIAL AUDIT

Significant Internal Control Weaknesses Remain in Preparing the Consolidated Financial Statements of the U.S. Government

What GAO Found

GAO identified weaknesses during its tests of Treasury's process for preparing the fiscal year 2005 CFS. Such weaknesses in the CFS preparation process impair the U.S. government's ability to ensure that the CFS is consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles.

The weaknesses GAO identified during the fiscal year 2005 CFS audit involved the following areas:

- directly linking audited federal agency financial statements to the CFS,
- comparability of financial statements,
- audit assurance over certain federal agencies' closing packages,
- internal control monitoring,
- consolidated reporting guidance to federal agencies,
- reconciling of intragovernmental activity and balances, and
- various other internal control weaknesses that were identified in previous years' audits but remained in fiscal year 2005 (see app. D).

Of the 154 recommendations GAO reported in May 2005 regarding the process for preparing the CFS, 131 remained open as of December 2, 2005, when GAO completed its fieldwork for the audit of the fiscal year 2005 CFS. However, 76 of these 131 recommendations relate to specific disclosures required under U.S. generally accepted accounting principles. Treasury has submitted a proposal to the Federal Accounting Standards Advisory Board (FASAB) seeking to amend previously issued standards and eliminate or lessen the disclosure requirements for the consolidated financial statements so that U.S. generally accepted accounting principles would no longer require certain of the information Treasury has not been reporting. Comments on the exposure draft of a proposed FASAB standard, based on the Treasury proposal, were due March 1, 2006. GAO will continue to monitor the status of corrective actions to address open recommendations during its fiscal year 2006 audit of the CFS.

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United States Government Accountability Office
Washington, D.C. 20548

April 21, 2006

The Honorable John W. Snow
The Secretary of the Treasury

The Honorable Clay Johnson III
Acting Director, Office of Management and Budget

In our report dated December 2, 2005, we disclaimed an opinion on the consolidated financial statements of the U.S. government (CFS) for the fiscal years ended September 30, 2005, and 2004.¹ For the past 9 years, certain material weaknesses in internal control and in selected accounting and financial reporting practices resulted in conditions that prevented us from expressing an opinion on the CFS. Specifically, we have reported that the federal government did not have adequate systems, controls, and procedures to properly prepare its consolidated financial statements. Many of these weaknesses in internal control that contributed to our continuing disclaimers of opinion were identified by agency financial statement auditors during their audits of federal agencies' financial statements and were reported in detail with recommendations to the agencies in separate reports. However, some of the internal control weaknesses were identified during our tests of the Department of the Treasury's (Treasury) process for preparing the CFS.

The purpose of this report is to (1) discuss the details of the additional weaknesses we identified during our audit of the fiscal year 2005 CFS regarding financial reporting procedures and internal control over the process for preparing the CFS, (2) recommend improvements to address those weaknesses, and (3) provide the status of corrective actions on the recommendations detailed in our prior reports and listed in appendix I. We have discussed each of the new weaknesses identified during our fiscal year 2005 audit with your staff and have incorporated their comments as appropriate. We also assessed Treasury's ongoing effort to develop and implement the Governmentwide Financial Report System (GFRS) and are

¹The fiscal year 2005 *Financial Report of the United States Government* includes our report and was completed by the Department of the Treasury (Treasury) on December 15, 2005, 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.

providing the results of our assessment along with our recommendations in a separate report.²

Results in Brief

We identified weaknesses in the compilation and reporting processes during our audit of the fiscal year 2005 CFS. Such weaknesses impair the federal government's ability to ensure that the CFS are consistent with the underlying audited agency financial statements, balanced, and in conformity with U.S. generally accepted accounting principles (GAAP). Consequently, these weaknesses also contributed to our inability to render an opinion on the CFS. Specifically, we found that

- Treasury's process for compiling the CFS does not yet fully ensure that financial information from federal agencies' audited financial statements and other financial data directly link to amounts reported in the CFS.
- Treasury lacked a process to ensure that fiscal years 2005 and 2004 consolidated financial statements and notes were comparable.
- Treasury and the Office of Management and Budget (OMB) did not have audit assurance on closing packages received from 4 of the 35 agencies that they have identified as significant to the CFS.
- Treasury, in coordination with OMB, had not developed policies and procedures for monitoring internal control or provided us with adequate documentation evidencing 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 process for preparing the CFS, which may result in the findings of audits not being properly and timely resolved and internal control weaknesses continuing to exist.
- Treasury did not provide clear guidance to federal agencies about certain financial information that agencies were required to provide in the closing package and as a result agencies reported certain financial

²GAO, *Financial Management Systems: Lack of Disciplined Processes Puts Effective Implementation of FMS' Governmentwide Financial Report System at Risk*, [GAO-06-413](#) (Washington, D.C.: Apr. 21, 2006).

information inconsistently, which increased the risk of incomplete and inaccurate summarization of data in the CFS.

- As part of the intragovernmental reconciliation reporting process, Treasury and OMB have not provided sufficiently clear guidance for selecting the “confirmed reporting” category of the intragovernmental reconciliation report and do not have an effective process to obtain clarification for inconsistent explanations provided by federal agencies in this category. Also, Treasury and OMB did not require federal agencies’ Inspectors General (IGs) to complete and report on the results of intragovernmental agreed-upon procedures until over 2 weeks after federal agencies’ audited financial statements were required to be issued to OMB, which did not optimize their value to the preparation of the agencies’ financial statements or the CFS.
- Various other internal control weaknesses identified in previous years’ audits still existed during fiscal year 2005 (see app. I).

This report includes 12 new recommendations to address the additional weaknesses we identified during our audit of the fiscal year 2005 CFS. Appendix I of this report reflects the status of actions taken as of December 2, 2005, the date of completion of our fieldwork on our audit of the fiscal year 2005 CFS, to address the recommendations from our previous reports. Our work showed that 131 recommendations contained in our prior reports remained open and 23 were closed. Of the 131 open recommendations, 76 relate to specific disclosures required under GAAP. Treasury has submitted a proposal to the Federal Accounting Standards Advisory Board (FASAB) seeking to amend previously issued standards and eliminate or lessen the disclosure requirements for the consolidated financial statements so that GAAP would no longer require certain of the information Treasury has not been reporting. Comments on the exposure draft of a proposed FASAB standard, based on the Treasury proposal, were due March 1, 2006. Treasury stated that it is waiting for FASAB approval and issuance of this proposed standard to determine the disclosures that will be required in future consolidated financial statements. We will continue to determine the status of corrective actions on our open recommendations during our fiscal year 2006 audit of the CFS.

In commenting on a draft of this report, OMB stated that it generally agreed with the new findings and related recommendations in this report. Treasury stated that it concurs with all of the new recommendations in this report except for the recommendation to accelerate the due date for IGs to

complete the agreed-upon procedures on the intragovernmental activity and balances. For fiscal year 2006, Treasury does not plan to accelerate the due date for completing these intragovernmental agreed-upon procedures. However, Treasury stated that for fiscal year 2006, it plans to expand the audit coverage for intragovernmental activity and balances by requiring the IGs to opine on such information in their audit of the closing package, which is due to Treasury by November 17, 2006. This is an appropriate alternative solution to accelerating the due date for the IGs to complete the intragovernmental agreed-upon procedures. We have modified our recommendation to also include developing an alternative solution to address this finding.

Scope and Methodology

As part of our audit of the fiscal years 2005 and 2004 CFS, we evaluated Treasury's financial reporting procedures and related internal control, and we followed up on the status of Treasury and OMB corrective actions to address open recommendations regarding the process for preparing the CFS that were in our prior years' reports. In our disclaimer of opinion on the fiscal year 2005 CFS, which is included in the fiscal year 2005 *Financial Report of the United States Government*, we discussed material deficiencies relating to Treasury's preparation of the CFS. These material deficiencies contributed to our disclaimer of opinion on the CFS and also constitute a material weakness in internal control, which contributed to our adverse opinion on internal control. We performed sufficient audit procedures to provide the disclaimer of opinion in accordance with U.S. generally accepted government auditing standards. This report provides the details of the additional weaknesses we identified in performing our fiscal year 2005 audit procedures related to the process for preparing the CFS and our recommendations to correct those weaknesses, as well as the status of corrective actions taken by Treasury and OMB to address recommendations in our prior 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 discussed in the Agency Comments and Our Evaluation section of this report. Treasury's comments are reprinted in appendix II and are also discussed in the Agency Comments and Our Evaluation section.

Directly Linking Audited Federal Agency Financial Statements to the CFS

As discussed in our fiscal year 2005 audit report, fiscal year 2005 was the second year that Treasury used GFRS to collect agency financial statement information taken directly from federal agencies' audited financial statements. The goal of GFRS is to be able to directly link information from federal agencies' audited financial statements to amounts reported in the consolidated financial statements and resolve many of the weaknesses we previously identified in the process for preparing the consolidated financial statements, a goal we strongly support. For both the fiscal year 2005 and 2004 reporting processes, GFRS was able to capture agency financial information submitted to Treasury, but GFRS is still under development and not at the stage that it could be used to fully compile the consolidated financial statements from the information captured.

As we have reported in the past, Treasury's process for compiling the CFS does not yet fully ensure that financial information from federal agencies' audited financial statements and other financial data directly link to amounts reported in the CFS. In our fiscal year 2005 audit report, we noted that Treasury made progress in demonstrating amounts in the Balance Sheet and the Statement of Net Cost were consistent with federal agencies' audited financial statements prior to eliminating intragovernmental activity and balances. However, about 25 percent of the significant³ federal agencies' auditors reported internal control weaknesses related to the processes the agencies perform to provide financial statement information to Treasury for preparing the consolidated financial statements.

In our prior report,⁴ we recommended that as Treasury continues to design and further implement its new process for compiling the CFS, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to modify Treasury's closing package to (1) require federal agencies to directly link their audited financial

³Treasury defines the verifying agencies as the 24 Chief Financial Officer (CFO) Act agencies, Export-Import Bank of the United States, Farm Credit System Insurance Corporation, Federal Communications Commission, Federal Deposit Insurance Corporation, National Credit Union Administration, U.S. Postal Service, Pension Benefit Guaranty Corporation, Railroad Retirement Board, Securities and Exchange Commission, Smithsonian Institution, and Tennessee Valley Authority. FMS considers the verifying agencies to be significant agencies to the CFS.

⁴GAO, *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).

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.

Progress was made during fiscal year 2005. Treasury has been continuing to design and further implement its new process for compiling the CFS with the development of GFRS. We continue, though, to be concerned that the disciplined processes necessary to reduce risks to acceptable levels have not yet been effectively implemented. For example, Treasury moved forward with the project before ensuring that certain key elements, such as a concept of operations, were developed or even defining and documenting the financial reporting weaknesses that were expected to be addressed by the system. Not effectively implementing such disciplined processes creates an unnecessary risk that the system will cost more and take longer than expected to deploy, while not providing all of the intended system functionality. The implementation of any major system, such as GFRS, is not without risk; however, organizations that follow and effectively implement accepted best practices in systems development and implementation have been shown to reduce these risks to acceptable levels. A more detailed discussion of our assessment of Treasury's ongoing effort to develop and implement GFRS, along with recommendations to reduce the risk noted above, can be found in a separate report.⁵

Comparability of Financial Statements

The CFS includes 2 years of financial information. Because comparative financial statements are intended to furnish useful data about the differences in activity and balances between the 2 years shown, consistency in how amounts are reported for the 2 years is a major factor in creating comparability. We found that Treasury lacked a process to ensure that consolidated financial statements and notes for fiscal years 2005 and 2004 were consistently reported and therefore comparable. During fiscal year 2005, Treasury requested that agencies resubmit fiscal year 2004 financial information along with their fiscal year 2005 financial information. Some agencies resubmitted fiscal year 2004 amounts in fiscal year 2005 that differed from what Treasury published in fiscal year 2004. Also, certain information reported for fiscal 2004 may have required reclassification to be comparable to the fiscal year 2005 amounts. Treasury

⁵GAO-06-413.

did not analyze the fiscal year 2004 information submitted in fiscal year 2005 or reclassify amounts within various financial statement line items and notes to achieve comparability and chose to continue to report what was published for fiscal year 2004. For example, the Reconciliations of Net Operating Cost and Unified Budget Deficit showed \$47.8 billion and \$.2 billion for property, plant, and equipment disposals and revaluations for fiscal years 2005 and 2004, respectively. However, based on the audited financial information provided by agencies to Treasury in GFRS in fiscal year 2005, the fiscal year 2004 amount should be \$25.4 billion, rather than \$.2 billion. The difference should have been reclassified from the Net Amount of All Other Differences line item on the Reconciliations of Net Operating Cost and Unified Budget Deficit.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop a process to help ensure that, for each reporting year, the 2 years of consolidated financial statements and note information presented are consistently and comparably reported, in all material respects.

Audit Assurance over Certain Federal Agencies' Closing Packages

Treasury and OMB did not require closing packages from 4 of the 35 verifying agencies to be audited. Specifically, the *Treasury Financial Manual* (TFM) states that the Inspector General or a contracted independent public accountant for each federal verifying agency—except those agencies whose fiscal year ends on a date other than September 30—must opine on the closing package data entered by the Chief Financial Officer into GFRS. Because of these year-end differences, the TFM does not require the Federal Deposit Insurance Corporation's Funds, National Credit Union Administration, and Farm Credit System Insurance Corporation—all of which have a year end other than September 30—to have their closing package data be audited. In addition, for fiscal years 2004 and 2005, OMB waived the closing package audit requirement for the Tennessee Valley Authority (TVA), which does have a September 30 fiscal year end.⁶ In these four cases, Treasury and OMB did not develop any alternative solutions that include the requirement for adequate audit procedures to be

⁶OMB stated that for fiscal year 2005 TVA was faced with challenges in obtaining an audit opinion on its closing package, and therefore OMB instead required TVA to perform agreed-upon procedures on TVA's closing package data. However, these procedures did not provide audit assurance over certain significant information included in the CFS for this agency.

performed over significant information included in the CFS. As a result, unaudited September 30 information was included in the CFS for 4 agencies that Treasury and OMB consider to be significant. Treasury, therefore, has less assurance that the information included in the CFS for these agencies is fairly stated and directly links to the agencies' audited financial statements.

Recommendation for Executive Action

We recommend that the Director of OMB 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 agencies.

We also recommend that the Director of OMB 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 TVA.

Internal Control Monitoring

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.⁷ Monitoring of internal control should include assessing the quality of performance over time and implementing policies and procedures for the timely follow-up and resolution of findings of audits and other reviews. The goal of these policies and procedures is to ensure that managers (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations; (2) determine proper actions in response to findings and recommendations from audits and reviews; and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention. However, Treasury, in coordination with OMB,

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 the federal government and provide the standards against which internal control is to be evaluated.

had not developed policies and procedures for monitoring internal control or provided us with adequate documentation evidencing 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 process for preparing the CFS. Without effective monitoring of internal control, findings of audits may not be resolved timely and properly.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury 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; and
- 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 process for preparing the CFS.

Consolidated Reporting Guidance to Federal Agencies

The TFM prescribes how federal agencies are to submit financial information to Treasury to be used in compiling the CFS. While our planned audit procedures were not to review the entire TFM to determine if its guidance to agencies was clear, we found several areas where the TFM did not give clear guidance to federal agencies about the information that they were required to provide to Treasury, GAO, and OMB. Specifically, we found that the TFM did not give clear guidance for (1) reporting note disclosures for restricted cash, (2) reporting note disclosures for accounts payable, (3) preparing summaries of unadjusted misstatements to be included with federal agencies' closing package management representation letters, and (4) certain information to be reported by OPM to Treasury that is used to allocate costs on the Statement of Net Cost. For example, the TFM defines restricted cash as "amounts of cash that an entity holds and does not have authority to spend" and cash that is not restricted as "amounts of cash that an entity holds for which it has the authority to spend." Although these definitions are accurate at the agency level, these definitions are not accurate at the CFS level. For example, an agency may hold cash that it does not have the authority to spend because

of a certain law or regulation, but when this cash is consolidated at the governmentwide level, the federal government as a whole may have the authority to spend the cash. Therefore, this cash would appropriately be restricted at the agency level, but not at the governmentwide level. As a result of the unclear guidance, agencies reported certain financial information inconsistently. This increases the risk of incomplete and inaccurate summarization of data in the CFS.

Recommendations for Executive Action

We recommend that the Secretary of the Treasury 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 in the following specific areas:

- restricted cash,
- accounts payable,
- summaries of unadjusted misstatements, and
- certain information reported by OPM that is used to allocate costs on the Statement of Net Cost.

Reconciling of Intragovernmental Activity and Balances

OMB and Treasury require federal agencies to reconcile selected intragovernmental activity and balances with their “trading partners”⁸ and report on the extent and results of the reconciliation efforts to Treasury. As part of the reconciliation report, federal agencies were required to categorize any material differences, as determined by Treasury, with their trading partners at fiscal year end within five categories: (1) confirmed reporting; (2) accounting methodology differences; (3) accounting or reporting errors; (4) timing difference—current year, timing difference—prior year; and (5) unknown/unreconciled. According to Treasury, confirmed reporting, the first category listed above, is intended to indicate that the agency has verified that the amount it has reported is accurate. The TFM requires a federal agency that selects the category “confirmed reporting” to provide a detailed explanation to support its response.

⁸Trading partners are U.S. government agencies, departments, or other components included in the CFS that do business with each other.

However, we found that in many cases where a federal agency selected the “confirmed reporting” category, the agency did not provide detailed explanations. We also found cases where both trading partners selected “confirmed reporting” for the same material difference and the agencies did not provide detailed explanations for how both trading partners’ amounts could be accurate when the material difference remained. When this situation occurs, we found that Treasury and OMB do not have an effective process to obtain clarification for inconsistent explanations provided and that agencies may be unclear as to when to select this category. Incorrect use of the confirmed reporting category and lack of detailed explanations may hinder efforts to identify and correct problems that federal agencies are experiencing in reconciling with their trading partners.

Further, Treasury received the closing packages that contained each agency’s intragovernmental activity and balances amounts on November 18, 2005, and provided agencies with reconciliation reports that showed material differences with their trading partners on November 21, 2005. Treasury and OMB also require federal agencies’ IGs to annually perform agreed-upon procedures on the intragovernmental activity and balances reported in the closing package. For fiscal year 2005, Treasury required agency IGs for the 35 verifying agencies to complete and report on these agreed-upon procedures by December 2, 2005. The timing of these procedures did not optimize their value because (1) this reporting date is over 2 weeks after federal agencies’ audited financial statements were required to be issued to OMB, and (2) did not allow Treasury sufficient time to review the results and make any necessary adjustments to the CFS.

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, to

- provide clear guidance to federal agencies as to when the “confirmed reporting” category in the intragovernmental reconciliation report should be selected,
- develop an effective process for obtaining clarification from federal agencies for inconsistent or incomplete explanations provided in all material difference categories, and
- accelerate the due date for IGs to complete and report on the results of agreed-upon procedures on the intragovernmental activity and balances or develop an alternative solution that would allow Treasury sufficient

time to review the results and make any necessary adjustments to the CFS.

Agency Comments and Our Evaluation

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. In addition, OMB provided some technical comments, which we have incorporated as appropriate.

Treasury Comments

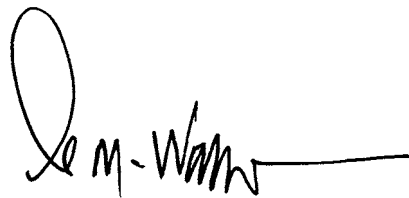
In written comments on a draft of this report, which are reprinted in appendix II, Treasury stated that it agrees that the preparation process still needs improvement and that it is addressing many of the recommendations in our previous reports. Treasury also stated that it concurs with all of the new recommendations in this report except for the recommendation to accelerate the due date for IGs to complete the agreed-upon procedures on the intragovernmental activity and balances. For fiscal year 2006, Treasury does not plan to accelerate the due date for completing these intragovernmental agreed-upon procedures. However, Treasury stated that for fiscal year 2006, it plans to expand the audit coverage for intragovernmental activity and balances by requiring the IGs to opine on such information in their audit of the closing package, which is due to Treasury by November 17, 2006. This is an appropriate alternative solution to accelerating the due date for the IGs to complete the intragovernmental agreed-upon procedures. We have modified our recommendation to also include developing an alternative solution to address this finding.

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 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 Minority Members of the Senate Committee on Homeland Security and Governmental Affairs; the Subcommittee on Federal Financial Management, Government Information, and International Security, Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Government Reform; and the Subcommittee on Government Management, Finance, and Accountability, House Committee on Government Reform. In addition, we are sending copies to the Fiscal Assistant Secretary of the Treasury and the Deputy Director for Management of OMB. 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 Jeffrey C. Steinhoff, Managing Director, Financial Management and Assurance, on (202) 512-2600, or Gary T. Engel, Director, Financial Management and Assurance, on (202) 512-3406. Staff contacts and other key contributors to this report are listed in appendix II.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

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

This appendix includes open recommendations from three of our prior 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); and *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).

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.

Of the 154 recommendations regarding the process for preparing the CFS that are listed in this appendix, 131 remained open as of December 2, 2005, the end of GAO's fieldwork for the audit of the fiscal year 2005 CFS. Of these 131 recommendations, 76 relate to specific disclosures required under U.S. generally accepted accounting principles (GAAP). Treasury has submitted a proposal to the Federal Accounting Standards Advisory Board (FASAB) seeking to amend previously issued standards and eliminate or lessen the disclosure requirements for the consolidated financial statements so that GAAP would no longer require certain of the information Treasury has not been reporting. Comments on the exposure draft of a proposed FASAB standard, based on the Treasury proposal, are due March 1, 2006. Treasury stated that it is waiting for FASAB approval and issuance of this proposed standard to determine the disclosures that will be required in future consolidated financial statements.

**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

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 2005 compilation process to ensure the propriety, accuracy, and consistency of application.	Open. Treasury needs to further document its policies and procedures.
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 (plugs) to net position, Treasury designed a process to eliminate, at the consolidated level, intragovernmental activity and balances using formal balanced accounting entries and developed a model to analyze unreconciled transactions that affected net position (i.e., contributed to the plug). Based on fiscal year 2005 data, the model disclosed the magnitude of the intragovernmental elimination differences, by reciprocal category that contributed to the net position elimination plug. In fiscal year 2005, Treasury also started an analysis to establish the reciprocal category for the General Fund.	Open.
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.	See status of recommendation No. 02-4.	Open.
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-03-01, <i>Business Rules for Intragovernmental Transactions</i> .	OMB, Treasury, and the Chief Financial Officers' Council are reviewing the business rules and are also performing additional analysis on several groupings of intragovernmental transactions. Upon the conclusion of the review and analysis, a determination will be made how best to proceed with and enforce the business rules.	Open.

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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 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.	Open.
6	02-8	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to implement the plan to require federal agencies to report in Treasury's new closing package, beginning with fiscal year 2004, intragovernmental activity and balances by trading partner and to indicate amounts that have not been reconciled with trading partners and amounts, if any, that are in dispute.	Beginning in fiscal year 2004, Treasury has continued to identify material differences on a quarterly basis and work with OMB and the agencies to resolve differences. Treasury has provided and discussed with OMB a list of items in dispute. Treasury is working with the agencies to resolve these differences. Also, the Chief Financial Officers Council Intragovernmental Subcommittee has begun efforts to identify and resolve or mitigate issues or practices that result in significant differences.	Closed.
7	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.	See status of recommendation No. 02-4.	Open.
8	02-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop solutions for intragovernmental activity and balance issues relating to federal agencies' accounting, reconciling, and reporting in areas other than those OMB now requires be reconciled, primarily areas relating to appropriations.	See status of recommendation No. 02-4.	Open.

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Count	No.	Recommendation	Status of recommendation	
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9	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.	See status of recommendation No. 02-4.	Open.
10	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 disagrees with this recommendation. Treasury's position is that the unknown nature of the plug argues for placement in net position, not net cost. Treasury also does not believe that these unreconciled transactions affecting the change in net position are also differences between the two (accrual and budget) bases of accounting being reconciled in this statement. Therefore, the "net unreconciled differences" plug should not be included as a separate reconciling item on this statement.	Open. Treasury currently reports on the Statement of Operations and Changes in Net Position the plug as part of net operating cost, not as a separate component of net position. In addition, the reconciliation statement begins with the net operating cost amount and ends with the budget deficit amount. As such, unless the plug is also part of the unified budget deficit, then the plug amount should be included as a reconciling item on the reconciliation statement.
11	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.

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12	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 communicated its disagreement with GAO on the need to report items at a lower level of detail. However, Treasury will consider the need for establishing a materiality threshold related to this statement as part of the overall process to eventually eliminate the "net amount of all other differences (plug)" included in this statement.	Open. Treasury disagrees with all of our recommendations regarding the Statement of Changes in Cash Balance from Unified Budget and Other Activities and the Reconciliations of Net Operating Cost and Unified Budget Deficit even though these statements include some amounts that Treasury cannot explain or fully support or for which Treasury cannot demonstrate that the amounts clearly link to agencies' audited financial statements. Treasury has not developed any alternative solutions. We continue to believe that implementation of our recommendations would result in the most efficient and effective manner for Treasury, as the preparer of the CFS, to obtain and demonstrate the necessary assurance on the significant amounts reported in the Statement of Changes in Cash Balance from Unified Budget and Other Activities and the Reconciliation of Net Operating Cost and Unified Budget Deficit. Consistent reporting throughout the federal government is an important goal.
13	02-15	If Treasury chooses to continue using information from both federal agencies' financial statements and the Central Accounting and Reporting System (STAR), Treasury should demonstrate how the amounts from STAR reconcile to federal agencies' financial statements.	Treasury has previously communicated its disagreement with GAO on the need for this reconciliation. Treasury does not use agency results in preparing this statement.	Open. See status of recommendation No. 02-14.
14	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 previously communicated its disagreement with GAO on the need for this reconciliation. Treasury does not use agency results in preparing this statement.	Open. See status of recommendation No. 02-14.

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15	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 agencies' audited financial statements.	Treasury has previously communicated its disagreement with GAO related to the use of data other than from STAR in the preparation of this statement. There are no material differences between outlays reported by us and those included in the President's Budget, nor is there a need to reconcile to agency financial statements. Also, GAAP does not require the disclosure of either receipts or outlays in this statement.	Open. GAO's recommendation does not dictate the source of data Treasury should use to compile the Statement of Changes in Cash Balance from Unified Budget and Other Activities, but does recommend Treasury ensure consistency in reporting between significant line items on the statement to agencies' audited financial statements. We agree that GAAP does not specifically require the disclosure of receipts and outlays in the Statement of Changes in Cash Balance from Unified Budget or Other Activities. In previous years, this statement reported budget outlays and budget receipts. However, beginning in fiscal year 2004, the federal government chose not to disclose budget outlays and budget receipts in this financial statement and only included the budget deficit. As we have reported since fiscal year 2003, we found material differences between the total net outlays reported in selected federal agencies' Statements of Budgetary Resources (SBR) and Treasury's central accounting record, which Treasury uses to prepare the Statement of Changes in Cash Balance from Unified Budget and Other Activities. Consistent reporting throughout the federal government is an important goal.

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16	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.	Treasury disagrees with GAO's recommendation to collect the agency SBR outlay data through the closing package process because Treasury already collects agency outlay data for budgetary reporting purposes. In addition, there is no requirement to disclose outlays in this statement. Treasury and OMB are working closely with the agencies to assure that the outlays reported in agency SBRs match the outlays reported to Treasury for budgetary reporting purposes.	Open. See status of recommendation No.'s 02-14 and 02-17.
17	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.'s 02-17 and 02-18.	Open. See status of recommendation No.'s 02-14 and 02-17.

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			Per Treasury and OMB	Per GAO
18	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.	See status of recommendation No.'s 02-17 and 02-18.	Open. See status of recommendation No.'s 02-14 and 02-17.
19	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.	Treasury disagrees with GAO as to the need to link all the items in the "other activities" section of this statement to other components of the CFS. With the exception of loan-related items and total operating cash, the source for these items is STAR, and Treasury believes that the use of any other data would be less accurate.	Open. See status of recommendation No.'s 02-14 and 02-17.
20	02-22	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to perform an assessment to define the reporting entity, including its specific components, in conformity with the criteria issued by the Federal Accounting Standards Advisory Board (FASAB). Key decisions made in this assessment should be documented, including the reason for including or excluding components and the basis for concluding on any issue. Particular emphasis should be placed on demonstrating that any financial information that should be included but is not included is immaterial.	Treasury defined and documented the reporting entity for fiscal year 2005.	Open. Documentation was not provided to GAO as part of the fiscal year 2005 audit. GAO plans to review such documentation during its audit of the fiscal year 2006 CFS.

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21	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 will implement changes to the reporting entity. See status of recommendation No. 02-22.	Open.
22	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.
23	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 GAAP. The process should timely identify GAAP requirements.	Treasury established a formal process and completed an analysis of fiscal year 2005 required agency financial statement and note disclosures and made the appropriate disclosures in the fiscal year 2005 CFS. For items not disclosed, Treasury will discuss with agency personnel and GAO any additional data needed to finalize the required disclosures. In addition, in October 2005, FASAB issued an exposure draft specific to the CFS that would result in the elimination or reduction for certain disclosures. Treasury plans no further action on these specific disclosures pending the outcome of this proposed standard.	Open. Treasury's fiscal year 2005 process did not completely analyze the fiscal year 2005 disclosures. Treasury stated that they planned no further action pending the outcome of a proposed FASAB standard.
24	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.	Open. See status of recommendation No. 02-25.

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25	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 impact of the omitted disclosures.	See status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
26	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.	Open. See status of recommendation No. 02-25.

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27	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's policy and procedures include 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. Any discrepancies found are listed as exceptions on an enclosure that is submitted with the governmentwide management representation letter.	Open. Treasury's policies and procedures are not adequate to identify all possible discrepancies between the agencies' management representation letters and the auditors' findings. Specifically, the policies and procedures only identify and report discrepancies that relate to material weaknesses. In addition, Treasury's policies and procedures state that items that resulted in an agency disclaimer of opinion or qualification will be included in an enclosure to the CFS management representation letter. However, the governmentwide representation letter prepared by Treasury is based primarily on the individual federal agency representation letters. Any identified discrepancies at the agency level, whether they affected the opinion or not, need to be considered so that Treasury and OMB can adequately provide us representations at the governmentwide level.

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28	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.	OMB Bulletin No. 01-02, <i>Audit Requirements for Federal Financial Statements</i> references the audit guidance on management representation letters provided in the AICPA auditing standard AU § 333, Management Representations; these are authoritative for audits of federal financial statements. The AU § 333.09 instructs that the management representation letters should be signed by management with the overall responsibility and knowledge about the items covered by the representations. Unless explicitly noted by an agency's auditor, Treasury and OMB infer from the auditors' acceptance of agencies' management representation letters that the proper signatures are included. Treasury and OMB's policy is to rely on the integrity of the agency audits, including the determination of the adequacy of the agencies' signatories.	Open. The policies and procedures discuss signatures on agency management representation letters, but do not include steps for Treasury's review of the signatures to determine if the 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. Letters that have not been appropriately signed impair Treasury's and OMB's ability to provide representation at the governmentwide level. In connection with our audit of the fiscal year 2004 CFS, we issued reports to 24 federal agencies discussing areas, including signatures, where the agencies' fiscal year 2004 management representation letters did not provide all the information necessary to support Treasury's and OMB's preparation of the CFS management representation letter. For example, in the report we issued to one of the significant agencies, we made a recommendation regarding signatures. In this agency's response to the report, it represented that it would include the appropriate signatures on future letters. However, the agency's fiscal year 2005 management representation letter did not include such signatures.

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29	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.	Neither OMB Bulletin No. 01-02, <i>Audit Requirements for Federal Financial Statements</i> , nor OMB Circular A-136, <i>Financial Reporting Requirements, Part B</i> , requires agencies to quantitatively disclose its materiality in the management representation letters; these are authoritative for audits of federal financial statements. This practice is consistent with the AICPA auditing standard AU § 333 <i>Management Representations</i> . Treasury continues to calculate the materiality threshold for the governmentwide management representation letter using the guidance provided in the <i>PCIE/GAO Financial Audit Manual (FAM)</i> . This guidance does not include consideration of component entities' materiality thresholds.	Open. In preparing the governmentwide management representation letter, Treasury and OMB limit certain representations in the letter to matters that are considered to be material. In doing so, OMB, Treasury, and GAO should confer on the materiality level to be used at the governmentwide level. Treasury and OMB need the agency thresholds in providing a materiality threshold for the governmentwide management representation letter to represent that all matters material to the CFS were properly considered and included. This situation contributed to our scope limitation relating to the fiscal year 2005 governmentwide management representation letter. Specifically, one of the significant federal entities used a materiality threshold in its management representation letter that far exceeded what would be in conformity with the FAM, which in turn negatively impacted Treasury's and OMB's ability to provide us with representations at the governmentwide level within the materiality threshold we had established for the governmentwide letter.

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30	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 impact, if any, of federal agencies' materiality thresholds on the management representations made at the governmentwide level.	See status of recommendation No. 02-31.	Open. See status of recommendation No. 02-31.
31	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.	OMB Bulletin No. 01-02, <i>Audit Requirements for Federal Financial Statements</i> references the audit guidance on management representation letters provided in the AICPA auditing standard AU § 333, <i>Management Representations</i> ; these are authoritative for audits of federal financial statements. The AU § 333.08 allows for the management representations to be limited to items that are material to the financial statements, with noted exceptions, provided that management has reached an understanding with its auditors on materiality. Unless explicitly noted by an agency's auditor, Treasury and OMB infer from the auditors' acceptance of agencies' management representation letters that the representations omitted from the agencies' letters are not material to the respective agencies' financial statements. It is Treasury and OMB's policy to rely on the integrity of the agency audits, including the determination of the adequacy of the agencies' management representation letters.	Open. Treasury's policies and procedures do not include steps to review the agencies' management representation letters for omitted or incomplete representations. In addition, the policies and procedures do not include steps to assess the impact of omitted or incomplete representations on the governmentwide management representation letter. When agencies do not provide all representations or include incomplete representations in their management representation letter, it impairs GAO's ability to audit the CFS and Treasury's and OMB's ability to make these types of representations in the governmentwide management representation letter. As noted above, we issued reports to 24 federal agencies in which we cited issues with such agencies' fiscal year 2004 management representation letters. These issues included omitted or incomplete representations.

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32	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 the 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 2005, Treasury updated the standard operating procedure (SOP) for the summaries of unadjusted misstatements.	Open. Although Treasury did update its SOP, it was not clear that these procedures called for Treasury to review both the summaries of unadjusted misstatements included with agencies' management representation letters and the summaries of unadjusted misstatements submitted with the agencies' closing packages. This analysis is necessary to ensure that all unadjusted misstatements applicable to the CFS are aggregated. In addition, Treasury did not include unadjusted misstatements for three significant agencies in its fiscal year 2005 analysis.
33	02-35	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to help ensure that agencies provide adequate information in their legal representation letters regarding the expected outcome of the cases.	OMB and Treasury will work with agencies to ensure that adequate information is provided in the legal representation letters regarding the expected outcome of the cases.	Open.
34	02-36	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to help ensure that agencies provide related management schedules.	OMB and Treasury will follow up with agencies that have not provided their management schedules to ensure they do so.	Open.

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35	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 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 <i>Treaties in Force</i>).	To ensure a reasonable approach, OMB will analyze the appropriateness of reporting "treaties" before developing specific corrective actions.	Open.
36	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 agencies classify all such scheduled major treaties and other international agreements as commitments or contingencies.	See status of recommendation No. 02-37.	Open.
37	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 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.

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38	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 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.
39	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 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.
40	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, first implemented in fiscal year 2004, to directly link agency audited financial statements to three of the five CFS principal statements. The exceptions are the Reconciliation of Net Operating Cost and Unified Budget Deficit (or Surplus) and the Statement of Changes in Cash Balance, which Treasury does not plan to link to agency financial statements. With regard to note disclosures, the revised compilation process included direct linkage between the CFS note disclosures and the related agencies' audited note disclosures.	Open. Treasury's process for compiling the consolidated financial statements did not ensure that the information in all of the five principal financial statements and notes were fully consistent with the underlying information in federal agencies' audited financial statements and other financial data. Treasury made progress in demonstrating amounts in the Balance Sheet and the Statement of Net Cost were consistent with federal agencies' audited financial statements prior to eliminating intragovernmental activity and balances.

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			Per Treasury and OMB	Per GAO
41	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 will continue to consider applicable recommendations as the current CFS compilation system is revised and enhanced.	Open.
42	02-44	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 91, which requires the reporting entity to disclose the valuation basis for foreclosed property.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
43	02-45	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 91, which requires the reporting entity to disclose the changes from the prior year's accounting methods, if any.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
44	02-46	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 91, which requires the reporting entity to disclose the restrictions on the use/disposal of property.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
45	02-47	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 91, which requires the reporting entity to disclose the balances by categories (i.e., pre-1992 and post-1991 foreclosed property).	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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46	02-48	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 91, which requires the reporting entity to disclose the number of properties held and average holding period by type or category.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
47	02-49	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 91, which requires the reporting entity to disclose the number of properties for which foreclosure proceedings are in process at the end of the period for foreclosed assets acquired in full or partial settlement of a direct or guaranteed loan.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
48	02-50	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, <i>Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i> , paragraph 9, which requires credit programs to reestimate the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees. There are two kinds of reestimates: (1) interest rate reestimates and (2) technical/default reestimates. Entities should measure and disclose each program's reestimates in these two components separately.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
49	02-51	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, <i>Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i> , paragraph 10, which requires the reporting entity to display in the notes to the financial statements a reconciliation between the beginning and ending balances of the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees reported on the entity's balance sheet.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
50	02-52	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, <i>Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i> , paragraph 11, which requires disclosure of the total amount of direct or guaranteed loans disbursed for the current reporting year and the preceding reporting year.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
51	02-53	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, <i>Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i> , paragraph 11, which requires disclosure of the subsidy expense by components, recognized for the direct or guaranteed loans disbursed in the current reporting year and the preceding reporting year.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
52	02-54	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, <i>Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i> , paragraph 11, which requires disclosure of the subsidy reestimates by components for the current reporting year and the preceding reporting year.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
53	02-55	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, <i>Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i> , paragraph 11, which requires disclosure, at the program level, of the subsidy rates for the total subsidy cost and its components for the interest subsidy costs, default costs (net of recoveries), fees and other collections, and other costs estimated for direct loans and loan guarantees in the current year's budget for the current year's cohorts.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
54	02-56	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for loans receivable and loan guarantee liabilities meets the requirements of SFFAS No. 18, <i>Amendments to Accounting Standards for Direct Loans and Loan Guarantees</i> , paragraph 11, which requires the reporting entity to disclose, discuss, and explain events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
55	02-57	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 30, which requires the difference between the carrying amount and the expected net realizable value to be recognized as a loss or gain and either separately reported or disclosed when inventory or operating materials and supplies are declared excess, obsolete, or unserviceable.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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56	02-58	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraphs 35 and 50, which require disclosure of inventory and operating materials and supplies general composition.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
57	02-59	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraphs 35 and 50, that require disclosure of any changes from the prior year in accounting methods for inventory and operating materials and supplies.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
58	02-60	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraphs 35 and 50, which require the disclosure of any restrictions on the sale of inventory and the use of operating materials and supplies.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
59	02-61	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for inventories and operating materials and supplies meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraphs 35 and 50, which requires disclosure of any changes in the criteria for categorizing inventory and operating materials and supplies.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
60	02-62	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 56, which requires disclosure of the basis for valuing stockpile material, including valuation method and any cost flow assumptions.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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			Per Treasury and OMB	Per GAO
61	02-63	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 56, which requires disclosure of any changes from the prior year's accounting methods.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
62	02-64	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 56, which requires disclosure of restrictions on the use of stockpile material.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
63	02-65	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 56, which requires disclosure of the balances in each category of stockpile material (i.e., stockpile material held and held for sale).	This required information was disclosed in Note 5, <i>Inventories and Related Property, Net</i> , in the fiscal year 2005 CFS.	Closed.
64	02-66	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 56, which requires disclosure of the criteria for grouping stockpile material held for sale.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
65	02-67	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 56, which requires disclosure of changes in criteria for categorizing stockpile material held for sale.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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			Per Treasury and OMB	Per GAO
66	02-68	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for stockpile material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 55, which requires disclosure of any difference between the carrying amount (i.e., purchase price or cost) of stockpile material held for sale and the estimated selling price of such assets.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
67	02-69	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for seized material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 66, which requires disclosure of the valuation method.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
68	02-70	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for seized material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 66, which requires disclosure of any changes from the prior year's accounting methods.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
69	02-71	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for seized material meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 66, which requires disclosure of the analysis of change in seized property (including dollar value and number of seized properties) that is on hand at the beginning of the year, seized during the year, disposed of during the year, and on hand at the end of the year, as well as known liens or other claims against the property. This information should be presented by type of seizure and method of disposition, when material.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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70	02-72	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for forfeited property meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 78, which requires disclosure of the valuation method.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
71	02-73	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for forfeited property meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 78, which requires disclosure of the analysis of the changes in forfeited property by type and dollar amount that includes (1) number of forfeitures on hand at the beginning of the year, (2) additions, (3) disposals and method of disposition, and (4) end-of-year balances.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
72	02-74	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for forfeited property meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 78, which requires disclosure of any restriction on the use or disposition of the property.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
73	02-75	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for forfeited property meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 78, which requires disclosure, if available, of an estimate of the value of property to be distributed to other federal, state, and local agencies in future reporting periods.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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74	02-76	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 98, which requires that if a contingent loss is not recognized because it is less than probable or it is not reasonably measurable, disclosure of the contingency shall be made if it is at least reasonably possible that a loss may occur.	See status of recommendation No. 02-25. In addition, this required information was requested from the agencies for inclusion in Note 19, <i>Contingencies</i> , in the fiscal year 2005 CFS. However, no related data were received in fiscal year 2005; therefore, there is no disclosure related to this requirement.	Open. See status of recommendation No. 02-25.
75	02-77	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 109, which requires disclosure of the basis for valuing commodities, including valuation method and cost flow assumptions.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
76	02-78	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 109, which requires disclosure of any changes from the prior year's accounting methods.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
77	02-79	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 109, which requires disclosure of any restrictions on the use, disposal, or sale of commodities.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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78	02-80	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for goods held under price support and stabilization programs meets the requirements of SFFAS No. 3, <i>Accounting for Inventory and Related Property</i> , paragraph 109, which requires disclosure of the analysis of the change in dollar amount and volume of commodities, including those (1) on hand at the beginning of the year, (2) acquired during the year, (3) disposed of during the year listed by method of disposition, (4) on hand at the end of the year, (5) on hand at year-end and estimated to be donated or transferred during the coming period, and (6) received as a result of surrender of collateral related to nonrecourse loans outstanding. The analysis should also show the dollar value and volume of purchase agreement commitments.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
79	02-81	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for property, plant, and equipment (PP&E) meets the disclosure requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , paragraph 45, which requires disclosure of the estimated useful lives for each major class of PP&E.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
80	02-82	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , paragraph 45, which requires disclosure of capitalization thresholds, including any changes in thresholds during the period.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
81	02-83	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , paragraph 45, which requires disclosure of restrictions on the use or convertibility of general PP&E.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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82	02-85	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 10, <i>Accounting for Internal Use Software</i> , paragraph 35, which requires disclosure of the estimated useful life for each major class of software for internal use software.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
83	02-86	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 10, <i>Accounting for Internal Use Software</i> , paragraph 35, which requires disclosure of the method of amortization for internal use software.	This required information was disclosed in Note 6, <i>Property, Plant, and Equipment, Net</i> , in the fiscal year 2005 CFS.	Closed.
84	02-87	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for PP&E meets the disclosure requirements of SFFAS No. 16, <i>Amendments to Accounting for Property, Plant, and Equipment</i> , paragraph 9, which requires an appropriate PP&E note disclosure to explain that "physical quantity" information for the multiuse heritage assets is included in supplemental stewardship reporting for heritage assets.	This information was disclosed in the required supplementary stewardship information section of the fiscal year 2005 CFS.	Closed.
85	02-88	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for federal employee and veteran benefits payable is completely and properly reported, specifically, that (1) it include a line for the valuation of plan amendments that occurred during the year and (2) the liability for military pensions and note disclosure related to the "change in actuarial accrued pension liability and components of related expenses" agree with the information presented in the Department of Defense's financial statements.	This required information was disclosed in Note 11, <i>Federal Employee and Veteran Benefits Payable</i> , in the fiscal year 2005 CFS.	Closed.

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86	02-89	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , which requires (1) estimation and recognition of cleanup costs associated with general PP&E at the time the PP&E is placed in service and (2) recognition of a liability for the portion of the estimated total cleanup cost attributable to that portion of the physical capacity used or that portion of the estimated useful life that has passed since the general PP&E was placed in service.	See status of recommendation No. 02-25. In addition, this required information was requested from the agencies for inclusion in Note 12, <i>Environmental and Disposal Liabilities</i> , in the fiscal year 2005 CFS. However, further data are needed from one agency with significant environmental and disposal liabilities as of September 30, 2005, to fully comply with this specific disclosure requirement.	Open.
87	02-90	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , which requires inclusion of material changes in total estimated cleanup costs due to changes in laws, technology, or plans.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
88	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 Federal Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 13, <i>Accounting for Leases</i> , 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.	See status of recommendation No. 02-25.	Open.

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89	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, <i>Accounting for Leases</i> , paragraph 16, which requires a summary of assets under capital lease by major asset category and the related total accumulated amortization.	See status of recommendation No. 02-25.	Open.
90	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, <i>Accounting for Leases</i> , 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.	See status of recommendation No. 02-25.	Open.
91	02-94	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for life insurance liabilities meets the requirements of SFFAS No. 5, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 117, which requires all federal reporting entities with whole life insurance programs to follow applicable standards as prescribed in the private sector standards when reporting the liability for future policy benefits: FASB SFAS No. 60, <i>Accounting and Reporting by Insurance Enterprises</i> ; SFAS No. 97, <i>Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments</i> ; SFAS No. 120, <i>Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts</i> ; and American Institute of Certified Public Accountants Statement of Position 95-1, <i>Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises</i> .	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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92	02-95	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for life insurance liabilities meets the requirements of SFFAS No. 5, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 121, which requires all components of the liability for future policy benefits (i.e., the net-level premium reserve for death and endowment policies and the liability for terminal dividends) to be separately disclosed in a footnote with a description of each amount and an explanation of its projected use and any other potential uses (e.g., reducing premiums, determining and declaring dividends available, and reducing federal support in the form of appropriations related to administrative cost or subsidies).	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
93	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 agencies' financial statements.	See status of recommendation No.'s 02-25 and 02-42. In addition, this required information was disclosed in Note 19, <i>Contingencies</i> , and Note 20, <i>Commitments</i> , in the fiscal year 2005 CFS.	Open. See status of recommendation No.'s 02-25 and 02-42.
94	02-97	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure on major commitments and contingencies discloses sufficient information (detailed discussion) regarding certain major commitments and contingencies.	See status of recommendation No. 02-96.	Closed.
95	02-99	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for collections and refunds of federal revenue meets the requirements of SFFAS No. 7, <i>Concepts for Reconciling Budgetary and Financial Accounting</i> , paragraph 69.2, which requires collecting entities to provide in the other accompanying information any relevant estimates of the annual tax gap that become available as a result of federal government surveys or studies.	This information was disclosed in the required supplementary information section of the fiscal year 2005 CFS.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
96	02-100	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for dedicated collections meets the requirements of SFFAS No. 7, Part I, <i>Accounting for Revenue and Other Financing Sources</i> , paragraph 85, which requires inclusion of condensed information about assets and liabilities showing investments in Treasury securities, other assets, liabilities due and payable to beneficiaries, other liabilities, and fund balance.	This required information was disclosed in Note 21, <i>Dedicated Collections</i> , in the fiscal year 2005 CFS.	Closed.
97	02-101	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for dedicated collections meets the requirements of SFFAS No. 7, Part I, <i>Accounting for Revenue and Other Financing Sources</i> , paragraph 85, which requires inclusion of 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.	This required information was disclosed in Note 21, <i>Dedicated Collections</i> , in the fiscal year 2005 CFS.	Closed.
98	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 SFFAS No. 7, Part I, <i>Accounting for Revenue and Other Financing Sources</i> , 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.	See status of recommendation No. 02-25. In addition, this required information was requested from the agencies for inclusion in Note 21, <i>Dedicated Collections</i> , in the fiscal year 2005 CFS. However, no data were received in fiscal year 2005, and therefore, no disclosure was needed related to this requirement.	Open. Treasury expected the required information from applicable agencies as requested in the TFM. When no disclosure information was provided by such agencies, Treasury did not have any policies and procedures for following up with agencies to determine why the information was not provided.
99	02-103	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, <i>Accounting for Revenue and Other Financing Sources</i> , paragraph 85, which requires a description of each fund's purpose, how the administrative entity accounts for and reports the fund, and its authority to use those collections.	See status of recommendation No. 02-25.	Open.

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100	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, <i>Accounting for Revenue and Other Financing Sources</i> , 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.	See status of recommendation No. 02-25.	Open.
101	02-105	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, <i>Accounting for Revenue and Other Financing Sources</i> , paragraph 85, which requires condensed information about assets and liabilities showing investments in Treasury securities, other assets, liabilities due and payable to beneficiaries, and other liabilities.	This required information was disclosed in Note 22, <i>Indian Trust Funds</i> , in the fiscal year 2005 CFS.	Closed.
102	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, <i>Accounting for Revenue and Other Financing Sources</i> , 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.	See status of recommendation No. 02-25.	Open.
103	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, <i>Accounting for Revenue and Other Financing Sources</i> , 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.	See status of recommendation No. 02-25.	Open.

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104	02-114	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for social insurance meets the requirements of SFFAS No. 17, <i>Accounting for Social Insurance</i> , paragraph 32(4), which requires individual program sensitivity analyses for projection period cash flow in present value dollars and annual cash flow in nominal dollars. The CFS includes only present value sensitivity analyses for Social Security and Hospital Insurance. Paragraph 32(4) states that at a minimum the summary should present Social Security, Hospital Insurance, and Supplementary Medical Insurance separately.	See status of recommendation No. 02-25.	Open.
105	02-115	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for social insurance meets the requirements of SFFAS No. 17, <i>Accounting for Social Insurance</i> , paragraph 27(4)(a), which requires the individual program sensitivity analyses for Social Security and Hospital Insurance to include an analysis of assumptions regarding net immigration.	This information was disclosed in the required supplementary stewardship information section of the fiscal year 2005 CFS.	Closed.

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106	02-118	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for nonfederal physical property included in stewardship information meets the requirements of SFFAS No. 8, <i>Supplementary Stewardship Reporting</i> , paragraph 87, which requires disclosure of the annual investment, including a description of federally owned physical property transferred to state and local governments. This information should be provided for the year ended on the balance sheet date as well as for each of the 4 preceding years. If data for additional years would provide a better indication of investment, reporting of the additional years' data is encouraged. Reporting should be at a meaningful category or level.	<p>Treasury reports stewardship assets and stewardship investments in accordance with SFFAS No. 8, paragraph 39 which requires the disclosure in the CFS of such "summary (stewardship) information or selected information <i>as is feasible</i>." Therefore, the component entity required reporting for stewardship assets and stewardship investments is not applicable to the CFS and the current CFS reporting of this stewardship information is in accordance with GAAP.</p> <p>Furthermore, SFFAS No. 24, <i>Selected Standards for the Consolidated Financial Report of the United States Government</i>, did not change this situation since SFFAS No. 24, paragraph 8 indicates that provisions for different accounting treatments made in current or subsequent SFFAS override the general rule of universal applicability. For example, until SFFAS No 29, <i>Heritage Assets and Stewardship Land</i>, becomes effective, CFS reporting for stewardship heritage assets will be done in accordance with the requirements of SFFAS No. 8, paragraph 39. Similarly, until FASAB provides specific CFS disclosure requirements for stewardship investments, CFR reporting for stewardship investments will be done in accordance with the requirements of SFFAS No. 8, paragraph 39.</p> <p>As Treasury has disclosed the stewardship information deemed feasible to present, no further related disclosure is required.</p>	Open. SFFAS No. 8, paragraph 39 also states that until further FASAB deliberations, the CFS should include such summary or selected information as is feasible and that experimentation is encouraged, as is the reporting of such additional information as will enhance the CFS. Treasury has not documented in its policies or procedures how stewardship information should be reported in the CFS or the basis for its determination that the disclosure of the stewardship information in accordance with the related paragraph in SFFAS No. 8 is not feasible. In addition, Treasury requests information on stewardship investments in the TFM and certain agencies report such information in their Performance and Accountability Reports.

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107	02-119	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for nonfederal physical property included in stewardship information meets the requirements of SFFAS No. 8, <i>Supplementary Stewardship Reporting</i> , paragraph 87, which requires a description of major programs involving federal investments in nonfederal physical property, including a description of programs or policies under which noncash assets are transferred to state and local governments.	See status of recommendation No. 02-118.	Open. See status of recommendation No. 02-118.
108	02-120	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for human capital included in stewardship information meets the requirements of SFFAS No. 8, <i>Supplementary Stewardship Reporting</i> , paragraph 94, which requires a narrative description and the full cost of the investment in human capital for the year being reported on as well as the preceding 4 years (if full cost data are not available, outlay data can be reported).	See status of recommendation No. 02-118.	Open. See status of recommendation No. 02-118.
109	02-121	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for human capital included in stewardship information meets the requirements of SFFAS No. 8, <i>Supplementary Stewardship Reporting</i> , paragraph 94, which requires the full cost or outlay data for investments in human capital at a meaningful category or level (e.g., by major program, agency, or department).	See status of recommendation No. 02-118.	Open. See status of recommendation No. 02-118.
110	02-122	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for human capital included in stewardship information meets the requirements of SFFAS No. 8, <i>Supplementary Stewardship Reporting</i> , paragraph 94, which requires a narrative description of major education and training programs considered federal investments in human capital.	See status of recommendation No. 02-118.	Open. See status of recommendation No. 02-118.

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111	02-123	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for research and development included in stewardship information meets the requirements of SFFAS No. 8, <i>Supplementary Stewardship Reporting</i> , paragraph 100, which requires reporting of the annual investment made in the year ended on the balance sheet date as well as in each of the 4 years preceding that year. (As defined in this standard, "annual investment" includes more than the annual expenditure reported by character class for budget execution. Full cost shall be measured and accounted for in accordance with SFFAS No. 4, <i>Managerial Cost Accounting Standards for the Federal Government</i> .) If data for additional years would provide a better indication of investment, reporting of the additional years' data is encouraged. In those unusual instances when entities have no historical data, only current reporting year data need be reported. Reporting must be at a meaningful category or level, for example, a major program or department.	See status of recommendation No. 02-118.	Open. See status of recommendation No. 02-118.
112	02-124	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for research and development included in stewardship information meets the requirements of SFFAS No. 8, <i>Supplementary Stewardship Reporting</i> , paragraph 100, which requires a narrative description of major research and development programs.	See status of recommendation No. 02-118.	Open. See status of recommendation No. 02-118.
113	02-125	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for deferred maintenance meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , paragraphs 83 and 84, which requires inclusion of the method of measuring deferred maintenance for each major class of PP&E.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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114	02-126	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for deferred maintenance meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , paragraphs 83 and 84, which requires that if the condition assessment survey method of measuring deferred maintenance is used, the following should be presented for each major class of PP&E: (1) description of requirements or standards for acceptable operating condition, (2) any changes in the condition requirements or standards, and (3) asset condition and a range estimate of the dollar amount of maintenance needed to return the asset to its acceptable operating condition.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
115	02-127	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for deferred maintenance meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , paragraphs 83 and 84, which requires that if the total life-cycle cost method is used, the following should be presented for each major class of PP&E: (1) the original date of the maintenance forecast and an explanation for any changes to the forecast; (2) prior year balance of the cumulative deferred maintenance amount; (3) the dollar amount of maintenance that was defined by the professionals who designed, built, or managed the PP&E as required maintenance for the reporting period; (4) the dollar amount of maintenance actually performed during the period; (5) the difference between the forecast and actual maintenance; (6) any adjustments to the scheduled amounts deemed necessary by the managers of the PP&E; and (7) the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

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116	02-128	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, to ensure that the note disclosure for deferred maintenance meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , paragraphs 83 and 84, which requires that if management elects to disclose critical and noncritical amounts, the disclosure is to include management's definition of these categories.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
117	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, <i>Accounting for Liabilities of the Federal Government</i> , 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.	See status of recommendation No. 02-25.	Open.
GAO-04-866 (results of the fiscal year 2003 audit)				
118	03-4	The Director of OMB should direct the Controller of OMB, in coordination with Treasury's Fiscal Assistant Secretary, to work with the federal agencies so that the differences between net outlays the 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.	Open. See status of recommendation No.'s 02-14 and 02-17.

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119	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 the 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.	Open. See status of recommendation No.'s 02-14 and 02-17.
120	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 disagrees with this recommendation. Total operating cash reported in the fiscal year 2005 CFS was linked to amounts reported in agencies' audited financial statements. The Statement of Changes in Cash Balance reconciles to Operating Cash. SFFAS No. 24, paragraphs 12 and 13, require reconciliation to the government's cash balance. It also references an illustration that is not prescriptive.	Open. We agree that SFFAS No. 24 requires the reconciliation of the federal government's cash balance. However, the Statement of Changes in Cash Balance reconciles to operating cash of \$28.3 billion rather than the cash reported on the Balance Sheet of \$85.8 billion, as of September 30, 2005.
121	03-7	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to report gross amounts for receipts and disbursements of cash related to direct loans and loan guarantees.	Treasury disagrees with this recommendation. SFFAS No. 24 shows gross receipt and disbursement amounts as an illustration, but does not require their disclosure.	Open. See status of recommendation No. 02-14.
122	03-8	The Director of OMB should direct the Controller of OMB, in coordination with Treasury's Fiscal Assistant Secretary, to work with Justice and certain other executive branch agencies to ensure that these 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 DOJ, Treasury, OMB, and the Administrative Office of the U.S. Courts. The task force continues to make progress in implementing new policies and procedures.	Open.
123	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 as it becomes available. See status of recommendation No. 03-08.	Open.
124	03-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to include in the new system a request for federal agencies to provide contingency loss information to assist Treasury in disclosing contingencies in the CFS in accordance with GAAP.	This required information was disclosed in Note 19, <i>Contingencies</i> , in the fiscal year 2005 CFS.	Closed.

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125	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.	See status of recommendation No. 02-42.	Open. See status of recommendation No. 02-42.
126	03-15	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for federal employees and veterans benefits payable meets the requirements of SFFAS No. 5, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 83, which requires the reporting entity to disclose the assumptions used for veterans compensation and burial benefits.	This required information was disclosed in Note 11, <i>Federal Employee and Veteran Benefits Payable</i> , in the fiscal year 2005 CFS.	Closed.
127	03-16	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for federal employees and veterans benefits payable meets the requirements of SFFAS No. 5, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 72, which requires the reporting entity to disclose prior service costs from plan amendments as a separate component.	This required information was disclosed in Note 11, <i>Federal Employee and Veteran Benefits Payable</i> , in the fiscal year 2005 CFS.	Closed.
128	03-17	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for federal employees and veterans benefits payable meets the requirements of SFFAS No. 5, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 88, which requires the reporting entity to disclose gains or losses due to a change in the medical inflation rate assumption for health benefits as a separate component.	This required information was disclosed in Note 11, <i>Federal Employee and Veteran Benefits Payable</i> , in the fiscal year 2005 CFS.	Closed.

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129	03-18	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , which requires the reporting entity to disclose the method for assigning estimated total cleanup costs to current operating periods.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
130	03-19	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , which requires the reporting entity to disclose, for cleanup costs associated with general property, plant, and equipment, the unrecognized portion of estimated total cleanup costs be disclosed.	See status of recommendation No. 02-25. In addition, this required information was requested from the agencies for inclusion in Note 12, <i>Environmental and Disposal Liabilities</i> , in the fiscal year 2005 CFS. However, further data are needed from one agency with significant environmental and disposal liabilities as of September 30, 2005, to fully comply with this specific disclosure requirement.	Open.
131	03-20	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for environmental and disposal liabilities meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , which requires the reporting entity to disclose the nature of estimates and information regarding possible changes to the estimates resulting from inflation, deflation, technology, or applicable laws and regulations.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
132	03-21	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to consider whether the reader would be interested in understanding why the environmental and disposal liabilities amount significantly changed during the year and include the explanation for the change in the note disclosure.	See status of recommendation No. 02-25. In addition, this required information was requested from the agencies for inclusion in Note 12, <i>Environmental and Disposal Liabilities</i> , in the fiscal year 2005 CFS. However, no data were received in fiscal year 2005, and therefore, there was no disclosure related to this requirement.	Open. Treasury expected the required information from applicable agencies as requested in the TFM. When no disclosure information was provided by such agencies, Treasury did not have any policies and procedures for following up with agencies to determine why the information was not provided.

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133	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, <i>Supplementary Stewardship Reporting</i> , 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.	See status of recommendation No. 02-118.	Open. See status of recommendation No. 02-118.
134	03-24	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the required supplemental information for deferred maintenance meets the requirements of SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> , paragraph 83, which requires the reporting entity to disclose the identification of each major class of asset (i.e., building and structures, furniture and fixtures, equipment, vehicles, and land) for which maintenance has been deferred.	This information was disclosed in the required supplementary information section of the fiscal year 2005 CFS.	Closed.
GAO-05-407 (results of the fiscal year 2004 audit)				
135	04-1	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to segregate the duties of individuals performing key functions in Treasury's processes for preparing governmentwide adjustments to the financial statements, making changes to Excel spreadsheets that contain audited agency financial information, and accessing federal agencies' closing package data in Treasury's new system.	Treasury further revised and documented its major procedures in fiscal year 2005 related to the CFS compilation process, including those related to the duties of the individuals with the capability to enter, change, and delete data within the GFRS database and the posting of adjustments to the CFS to address segregation of duties.	Open. Treasury's procedures were not effective for fiscal year 2005. Treasury was unable to explain why numerous GFRS users appeared to have inappropriate access to GFRS agency information or demonstrate that the appropriate segregation of duties exists.
136	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 standard operating procedure that includes maintaining documentation for all recorded journal vouchers, except in certain circumstances described in the status of recommendation 04-3.	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.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
137	04-3	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require that Treasury employees contact and document communications with agencies before recording journal vouchers to change agency audited closing package data.	Treasury policy is to notify agencies before making needed data changes. However, due to time constraints, Treasury needs the flexibility to make changes without prior agency contact. Nevertheless, as time permits, Treasury will make an effort to contact the agencies prior to making changes. Treasury believes that agency approval is not needed when making the following types of changes: (1) adjustments to agree closing packages to financial statements, (2) adjustments to ensure consistency of GAAP between agencies, and (3) adjustments to conform an agency to GAAP.	Open. We believe that Treasury should contact agencies to resolve any discrepancies between agencies' audited closing packages and audited financial statements and discuss any other situations that require adjustments to agencies' audited closing package data because Treasury could incorrectly adjust agencies' audited information.
138	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. Also, see status of recommendation No. 04-1.	Open. Treasury's procedures were not effective for fiscal year 2005. Undetected errors occurred in key templates used to compile the CFS.
139	04-5	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to configure the GFRS database to prevent Treasury personnel from altering data submitted by federal agencies and to use separate GFRS databases for testing and production.	Treasury revised its automated processes in fiscal year 2005 to prevent unauthorized changes to agency-submitted data.	Open. Information system weaknesses existed within the segments of GFRS that were used during the fiscal years 2005 and 2004 reporting processes. We found that the GFRS database (1) was not configured to prevent the alteration of data submitted by federal agencies and (2) was used for both production and testing during the reporting processes. Therefore, information submitted by federal agencies within GFRS is not adequately protected against unauthorized modification or loss.
140	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 has recruited and is currently recruiting highly qualified personnel to be trained in the CFS compilation process and in the associated internal controls related to the CFS compilation.	Open.

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

(Continued From Previous Page)

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
141	04-7	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to review the TFM and any other guidance to federal agencies to ensure that they provide clear instructions for reporting accurate data to Treasury in the area of loans receivable and loan guarantees.	Treasury updated the TFM in fiscal year 2005 related to the required GAAP disclosures to ensure accurate financial data reporting by federal agencies.	Closed.
142	04-8	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to review the TFM and any other guidance to federal agencies to ensure that they provide clear instructions for reporting accurate data to Treasury in the area of property, plant, and equipment.	See status of recommendation No. 04-7.	Closed.
143	04-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to review the TFM and any other guidance to federal agencies to ensure that they provide clear instructions for reporting accurate data to Treasury in the area of federal employee and veteran benefits payable.	See status of recommendation No. 04-7.	Open. The TFM continues to need updates in this area.
144	04-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to review the TFM and any other guidance to federal agencies to ensure that they provide clear instructions for reporting accurate data to Treasury in the area of contingencies.	See status of recommendation No. 04-7.	Closed.
145	04-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to review the TFM and any other guidance to federal agencies to ensure that they provide clear instructions for reporting accurate debit and credit amounts to Treasury.	See status of recommendation No. 04-7.	Closed.

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

(Continued From Previous Page)

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
146	04-12	The Director of OMB should direct the Controller of the Office of Federal Financial Management, in coordination with the Fiscal Assistant Secretary, to ensure that federal agencies submit to GAO a complete closing package, as required by the TFM as part of the consolidation process, consisting of the (1) special purpose audit opinion, (2) management representation letter for the closing package, (3) audit trail report (reclassification journal voucher report), (4) closing package financial statement reports, (5) trading partner summary reports, (6) notes reports, and (7) other data reports.	Treasury updated the TFM instructions requiring agencies to submit a complete closing package to GAO. OMB also referenced the TFM, in OMB Circular A-136, Part B, for a listing of the required documents to be submitted with the closing package.	Closed.
147	04-13	As Treasury continues to make strides to address issues related to intragovernmental transactions, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to require that federal agencies provide detailed explanations for all material differences identified in the intragovernmental reconciliations.	Treasury updated the TFM with instructions requiring agencies to provide detailed explanations for material differences.	Closed.
148	04-14	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 policies and procedures to determine the proper resolution and the appropriate legal representations to GAO at the governmentwide level when Justice's legal counsel and agencies' legal counsel provide inconsistent opinions.	OMB and Treasury will work with Department of Justice to discuss possible solutions to this issue.	Open.
149	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, <i>Accounting for Liabilities of the Federal Government</i> , 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.	See status of recommendation No. 02-25. In addition, this required information was requested from the agencies for inclusion in Note 11, <i>Federal Employee and Veteran Benefits Payable</i> , in the fiscal year 2005 CFS. However, no data were received in fiscal year 2005, and therefore, there was no disclosure related to this requirement. Treasury plans to discuss these disclosure requirements further with the agencies and with GAO during fiscal year 2006 to ensure that all relevant data are being received from the agencies.	Open.

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

(Continued From Previous Page)

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
150	04-16	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, <i>Accounting for Liabilities of the Federal Government</i> , paragraphs 117 and 118, which states that all federal reporting entities with whole life insurance programs should follow the standards as prescribed in the private sector standards when reporting the liability for future policy benefits, in addition to the following required disclosures: liability for future policy benefits relating to participating life insurance contracts should be equal to the sum of (1) the net level premium reserve for death and endowment policy benefits, (2) the liability for terminal dividends, and (3) any premium deficiency.	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
151	04-17	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, <i>Accounting for Liabilities of the Federal Government</i> , paragraph 121, which states that all components of the liability for future policy benefits (i.e., the net-level premium reserve for death and endowment policy and the liability for terminal dividends) 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 (e.g., reducing premiums, determining and declaring dividends available, or reducing federal support in the form of appropriations related to administrative cost or subsidies).	See status of recommendation No. 02-25. In addition, this disclosure would be directly affected by the implementation of the FASAB exposure draft mentioned in the status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

Appendix I
Status of Treasury's and OMB's Progress in
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Recommendations for Preparing the CFS

(Continued From Previous Page)

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
152	04-18	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for cash and other monetary assets meets the requirements of SFFAS No. 1, <i>Accounting for Selected Assets and Liabilities</i> , paragraph 30, which requires that financial reports disclose the reasons for and nature of restricted cash. SFFAS No. 1 defines restricted cash as restrictions usually imposed on cash deposits (in escrow or other special accounts) by law, regulation, or agreement.	This required information was disclosed in Note 2, <i>Cash and Other Monetary Assets</i> , in the fiscal year 2005 CFS.	Closed.
153	04-19	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that 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.	See status of recommendation No. 02-25. In addition, this required information was requested from the agencies for inclusion in Note 2, <i>Cash and Other Monetary Assets</i> , in the fiscal year 2005 CFS. Treasury plans to discuss these disclosure requirements further with the agencies and with GAO during fiscal year 2006 to ensure that all relevant data are being received from the agencies.	Open.
154	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.	See status of recommendation No. 02-25. In addition, this required information was requested from the agencies for inclusion in Note 15, <i>Other Liabilities</i> , in the fiscal year 2005 CFS. However, no data were received in fiscal year 2005, and therefore, there was no disclosure related to this requirement. Treasury plans to discuss these disclosure requirements further with the agencies and with GAO during fiscal year 2006 to ensure that all relevant data are being received from the agencies.	Open.

Source: GAO.

Comments from the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

April 3, 2006

Mr. Gary T. Engel
Director, Financial Management and Assurance
Government Accountability Office
Washington, D.C. 20548

Dear Mr. Engel:

Thank you for the opportunity to comment on GAO's draft management letter on the Fiscal Year 2005 audit, GAO-06-415, *Significant Internal Control Weaknesses Remain in Preparing the Consolidated Financial Statements of the U.S. Government*.

Your report clearly pointed out the issues we need to address in continuing to develop and deploy our closing package system to collect and consolidate the data for preparing the consolidated statements. While significant improvements have been made in the compilation process and the usefulness and accuracy of the FR, we agree that the preparation process still needs improvement. We have been addressing many of the recommendations in previous reports through procedural changes to address items such as documentation and management review.

The FY 2005 audit report offers 12 new recommendations for improving the internal control weaknesses in the preparation process. We concur with all of the new recommendations except the acceleration of the due date for the IGs to complete the agreed-upon procedures on the intragovernmental activity and balances. For FY06 reporting, the IGs will be required to submit their AUP reports on January 16, 2007. However, this year we plan to expand the audit coverage to intragovernmental transactions by requiring the IGs to opine upon the intragovernmental activity and balances in their audit of the closing package which is due November 17, 2006. We will continue to work with OMB and the agencies to adopt the other new recommendations and improve preparation and reporting practices. We have developed detailed corrective action plans to address the items in this report, some of which can be implemented in a short period of time while others will take longer than a year to resolve.

While we continue to disagree with some of your recommendations relating to the Statement of Changes in Cash Balance from Unified Budget and Other Activities, the Reconciliation of Net Operating Cost and Unified Budget Deficit, and the adjustment process, we will continue to work with your staff on alternative ways to satisfactorily address these recommendations.

See comment 1.

See comment 2.

Appendix II
Comments from the Department of the
Treasury

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We concur that a significant material weakness is the intragovernmental out-of-balance condition and have taken steps to work with the CFO Council to develop new “business rules” for intragovernmental transactions that we believe will bring about more consistent accounting transactions. In addition we have developed new steps for the agency auditors to review the out-of-balance condition between their agency and its trading partners in the hope that greater auditor involvement will encourage the agencies to accurately record these transactions and correct the imbalances.

In conclusion, we will continue to work with you on the items on which improvement needs to be made, and we will continue the dialogue to try to resolve those areas in which we differ with your recommended approach.

Sincerely,



Donald V. Hammond
Fiscal Assistant Secretary

cc: Linda Combs
Daniel Werfel

GAO Comments

1. See “Agency Comments and Our Evaluation” section.
2. We continue to believe that our recommendations relating to the Statement of Changes in Cash Balance from Unified Budget and Other Activities, Reconciliations of Net Operating Cost and Unified Budget Deficit, and the adjustment process are sound. Our recommendations are intended to allow flexibility in developing viable solutions to address the issues. We will consider any alternative action that Treasury may take to satisfactorily address the recommendations with which it has disagreed. See appendix I for the status of related recommendations.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to the above contact, the following individuals made key contributions to this report: Lynda Downing, Assistant Director; Keith Kronin; Katherine Schirano; and Taya Tasse.

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