

GAO

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

July 2007

FINANCIAL AUDIT

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





Highlights of [GAO-07-805](#), 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 10 years, since GAO's first audit of the consolidated financial statements of the U.S. government (CFS), certain material weaknesses in internal control and in selected accounting and financial reporting practices have prevented GAO from expressing an opinion on the CFS. GAO has consistently reported that the U.S. government did not have adequate systems, controls, and procedures to properly prepare the CFS. GAO's December 2006 disclaimer of opinion on the fiscal year 2006 CFS included a discussion of continuing weaknesses related to the preparation of the CFS. The purpose of this report is to (1) provide details of continuing and new weaknesses, (2) recommend improvements, and (3) describe the status of corrective actions on GAO's previous 143 recommendations related to the preparation of the CFS.

What GAO Recommends

GAO is making 11 new recommendations to address weaknesses identified during the fiscal year 2006 CFS audit. Treasury and the Office of Management generally concurred with the findings and recommendations in this report; however, Treasury disagreed with the finding and recommendation related to reporting a consolidated total in the consolidated Statement of Social Insurance. GAO believes including a total provides increased transparency, and is meaningful to the users of the CFS.

www.gao.gov/cgi-bin/getrpt?GAO-07-805.

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 the Preparation of the Consolidated Financial Statements of the U.S. Government

What GAO Found

GAO identified continuing and new weaknesses during its audit of the federal government's process for preparing the fiscal year 2006 CFS. Such weaknesses 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 its tests of the fiscal year 2006 CFS preparation process involved the following areas:

- reconciling and reporting undistributed offsetting receipts (component of the budget deficit),
- directly linking audited federal agencies' financial statements to the CFS,
- reporting unexpended budget balances,
- reporting operating cash,
- reporting and disclosing legal contingencies,
- reconciling intragovernmental activity and balances,
- preparing and auditing certain information in federal agencies' closing packages,
- conformity with U.S. generally accepted accounting principles, and
- various other internal control weaknesses that were identified in previous years' audits but remained in fiscal year 2006 (see app. I).

Of the 143 open recommendations GAO reported in April 2006 regarding the process for preparing the CFS, 70 remained open as of December 1, 2006, when GAO completed its fieldwork for the audit of the fiscal year 2006 CFS. Of the 73 recommendations that were closed, 53 were closed based on the issuance in fiscal year 2006 of Statement of Federal Financial Accounting Standards No. 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government."* This standard eliminated or lessened the disclosure requirements for the consolidated financial statements related to certain information that the Department of the Treasury (Treasury) had not been reporting. GAO will continue to monitor the status of corrective actions to address the 11 new recommendations and the new remaining balance of 81 open recommendations during its fiscal year 2007 audit of the CFS.

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United States Government Accountability Office
Washington, DC 20548

Comptroller General
of the United States

July 23, 2007

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

The Honorable Robert J. Portman
Director, Office of Management and Budget

In our report dated December 1, 2006,¹ we disclaimed an opinion on the consolidated financial statements of the U.S. government (CFS) for the fiscal years ended September 30, 2006 and 2005.² For the past 10 years, certain material weaknesses in internal control and in selected accounting and financial reporting practices have resulted in conditions that prevented us from expressing an opinion on the CFS. We have reported that the federal government did not have adequate systems, controls, and procedures for preparing the CFS. On behalf of the federal government, the Department of the Treasury (Treasury), in coordination with the Office of Management and Budget (OMB), prepares the CFS. Many of the weaknesses in internal control that have contributed to our continuing disclaimers of opinion were identified by auditors during their audits of federal agencies' financial statements and were reported in detail with recommendations to the agencies in separate reports. Other internal control weaknesses were identified during our tests of the federal government's process for preparing the CFS.

The purpose of this report is to (1) discuss the details of the weaknesses we identified during our audit of the fiscal year 2006 CFS regarding financial reporting procedures and internal control over the process for preparing the CFS, (2) recommend improvements to address those

¹The fiscal year 2006 *Financial Report of the United States Government* includes our report and was completed by the Department of the Treasury (Treasury) on December 15, 2006, and is available through GAO's Web site at www.gao.gov/financial.html and Treasury's Web site at www.fms.treas.gov/fr/index.html.

²The consolidated financial statements for the fiscal years ended September 30, 2006 and 2005, consist of the Statements of Net Cost: Statements of Operations and Changes in Net Position: Reconciliations of Net Operating Cost and Unified Budget Deficit: Statements of Changes in Cash Balance from Unified Budget and Other Activities: Balance Sheets: and as of January 1, 2006, the Statement of Social Insurance, including the related notes to these financial statements.

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 2006 audit with your staff and have incorporated their comments as appropriate.

Results in Brief

We identified weaknesses in the processes used to compile and report the fiscal year 2006 CFS. These weaknesses impair the federal government's ability to ensure that the CFS are consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles (GAAP). Consequently, these weaknesses contributed to our inability to render an opinion on the CFS. Specifically, we found that

- Treasury lacked effective processes and procedures for (1) reconciling undistributed offsetting receipts³ to related information in federal agencies' financial statements and underlying agency information and records with Treasury's central accounting records and (2) demonstrating that undistributed offsetting receipts from intragovernmental interest were fully eliminated in the unified budget deficit reported in the CFS;
- 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 and required supplemental information;
- Treasury lacked effective processes and procedures for ensuring that unexpended balances of budget authority (unexpended budget balances⁴) are properly reported in the supplemental information section of the CFS;
- Treasury lacked effective processes and procedures for ensuring that the operating cash balance reported in the CFS and the related footnote to the financial statements was appropriate;
- the federal government lacked effective processes and procedures to ensure that appropriate information regarding litigation and claims is included in the governmentwide legal representation letter;

³Undistributed offsetting receipts are deducted from total outlays for the government as a whole rather than from a single agency or subfunction in order to avoid distortion of agency or subfunction totals. Certain offsetting receipts that are undistributed in both agency and functional tables include collections of employer share of employee retirement payments. Interests received by federal trust funds are undistributed in the agency tables but distributed in the functional tables.

⁴Unexpended budget balances represent budget authority that is the sum of unobligated and obligated, but not yet liquidated balances.

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- Treasury and OMB did not have effective processes and procedures in place for obtaining sufficient information from federal agencies to enable them to adequately monitor agencies' efforts to reconcile intragovernmental activity and balances with their trading partners;
 - auditors of several of the agencies identified by Treasury and OMB as significant⁵ to the CFS did not perform the required audit procedures on certain information in the footnotes to the respective agencies' closing packages.⁶ In addition, one of the significant agencies did not provide in its closing package the required cost allocation information used by Treasury in preparing the consolidated Statement of Net Cost;
 - Treasury continues to lack an adequate process to ensure that the financial statements, related notes, stewardship information, and supplemental information in the CFS are presented in conformity with GAAP; and
 - various other internal control weaknesses identified in previous years' audits still existed during fiscal year 2006 (see app. I).

This report includes 11 new recommendations to address weaknesses we identified during our audit of the fiscal year 2006 CFS. Appendix I of this report reflects the status of actions taken (as of December 1, 2006, the date of completion of our fieldwork on our audit of the fiscal year 2006 CFS) to address 143 open recommendations from our previous reports.⁷ Our work showed that 70 recommendations contained in our prior reports remained open and 73 were closed. Of the recommendations that were closed, 53 were closed based on the Federal Accounting Standards Advisory Board's (FASAB) issuance in fiscal year 2006 of Statement of Federal Financial Accounting Standard (SFFAS) No. 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4*

⁵Treasury refers to these agencies as verifying agencies and defines these agencies as the 24 Chief Financial Officer 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. In the CFS, Treasury also refers to the verifying agencies as significant agencies.

⁶The Governmentwide Financial Reporting System uses a closing package methodology that has been developed to capture each federal agency's information and link the agencies' audited financial statements to the CFS.

⁷GAO, *Financial Audit: Significant Internal Control Weaknesses Remain in Preparing the Consolidated Financial Statements of the U.S. Government*, [GAO-06-415](#) (Washington, D.C.: Apr. 21, 2006).

“Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government.” Specifically, this standard eliminated or lessened the disclosure requirements for the CFS related to certain information that Treasury had not been reporting. Overall, a total of 81 recommendations remained open as of the end of our fiscal year 2006 CFS audit. We will continue to monitor the status of corrective actions on our open recommendations during our fiscal year 2007 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 the new findings and related recommendations in this report with the exception of the nonconformity with GAAP finding and recommendation related to reporting a consolidated total in the consolidated Statement of Social Insurance (SOSI). Treasury stated that it does not believe that GAAP requires the reporting of a consolidated total in the consolidated SOSI or believe that doing so is especially meaningful. We do not agree with Treasury. In our view, GAAP requires the consolidated SOSI to include a consolidated total for all the social insurance programs. In addition, we believe that including a total is necessary to provide increased transparency and is meaningful to the users of the CFS.

Scope and Methodology

As part of our audit of the fiscal years 2006 and 2005 CFS, we evaluated the federal government’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 2006 CFS, which is included in the fiscal year 2006 *Financial Report of the United States Government*, we discussed material deficiencies related to the federal government’s process for preparing the CFS. These material deficiencies contributed to our disclaimer of opinion on the CFS and also constitute material weaknesses 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 weaknesses we identified in performing our fiscal year 2006 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.

Reconciling and Reporting Undistributed Offsetting Receipts (Component of the Budget Deficit)

The federal government reports a unified budget deficit⁸ (budget deficit) in the Reconciliation of Net Operating Cost and the Unified Budget Deficit and in the Statement of Changes in Cash Balance from Unified Budget and Other Activities. The budget deficit is calculated by subtracting actual budget outlays from actual budget receipts. Budget outlays consist of federal agencies' outlay amounts⁹ and undistributed offsetting receipts.¹⁰

For several years, we have been reporting material unreconciled differences between the total net outlays reported in selected federal agencies' Statements of Budgetary Resources (SBR) and Treasury's central accounting records used to compute the budget deficit¹¹ reported in the CFS. OMB and Treasury have been working with federal agencies to reduce these material unreconciled differences. Such efforts have resulted in significantly reducing the net outlay differences in fiscal year 2006. However, billions of dollars of differences still exist in this and other components of the budget deficit because the federal government does not

⁸Unified budget deficit is the amount by which the government's on-budget and off-budget outlays (budget outlays) exceed the sum of its on-budget and off-budget receipts (budget receipts) for a given period, usually a fiscal year. Off-budget refers to those budgetary accounts (either federal or trust funds) designated by law as excluded from budget totals. Conversely, on-budget refers to all budgetary accounts other than those designated by law as off-budget.

⁹Federal agencies also report this information in their Statements of Budgetary Resources (SBR) as net outlays. The SBR provides information about how budgetary resources were made available (i.e., appropriations, contract authority, spending authority from offsetting collections, etc.) as well as the status of such resources (obligated or unobligated). It also provides information regarding obligated balances at the end of and outlays for the fiscal year.

¹⁰See footnote 3.

¹¹See GAO's audit report on its audit of the federal government's fiscal year 2005 financial statements that was incorporated in the *2005 Financial Report of the U.S. Government* published by Treasury. Also, see GAO, *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Improvement*, [GAO-04-45](#) (Washington, D.C.: Oct. 30, 2003).

have effective processes and procedures for identifying and either resolving or explaining material differences in the components of the budget deficit between Treasury's central accounting records and information reported in agency financial statements and underlying agency financial information and records. For example, during our audit of the 2006 CFS, we found that undistributed offsetting receipts related to two intragovernmental activities¹²: both (1) federal employers' contributions to their employees' retirement and (2) interest received by federal trust funds did not always link to related amounts reported in federal agencies' financial statements. For fiscal year 2006, Treasury's central accounting records used to compute the budget deficit reported in the CFS showed (1) undistributed offsetting receipts for federal employers' contributions to their employees' retirement of \$60.9 billion and (2) \$169.3 billion of interest received by certain federal agencies' trust funds¹³ on Treasury's borrowings from the trust funds. These activities, which totaled \$230.2 billion, were material components of the budget deficit.

We compared components of undistributed offsetting receipts reflected in Treasury's central accounting records of about \$54.7 billion, or about 24 percent of the \$230.2 billion balance, to amounts reported in certain federal agency financial statement information and found differences. However, neither Treasury nor the respective federal agencies had identified that differences existed. In addition, we were not able to link the remainder of these undistributed offsetting receipts, \$175.5 billion, to related information in other federal agencies' financial statements because the information was not separately disclosed in such statements. Neither OMB nor Treasury was able to explain how undistributed offsetting receipts reflected in Treasury's central accounting records linked to related amounts reported in federal agency financial statements.

Consolidated financial statements are intended to present the results of operations and financial position of the components that make up a

¹²Both of these activities represent outlays and receipts of the federal government. Specifically, employers' share of employee retirement payments are reported as outlays of federal agencies and receipts of certain federal agencies that manage federal retirement trust funds. In addition, intragovernmental interest payments are reported as outlays of the Department of the Treasury and receipts of certain federal agencies' trust funds that hold the related Treasury securities.

¹³The federal government borrows money from agencies' trust funds and pays interest on these borrowings—receipts to the trust funds.

reporting entity as if the entity were a single enterprise. When preparing consolidated financial statements, the preparer must eliminate intragovernmental activity and balances between federal agencies. For fiscal year 2006, we found that Treasury was unable to demonstrate that it fully eliminated amounts related to intragovernmental interest from the reported budget deficit. As noted above, for fiscal year 2006, Treasury's central accounting records reflected \$169.3 billion of intragovernmental interest received by certain federal agencies' trust funds. Treasury's central accounting records also reflected outlays by Treasury to such trust funds for intragovernmental interest of \$187.4 billion. Treasury was unable to provide support to demonstrate where and how the \$18.1 billion difference between these two intragovernmental amounts was eliminated in the calculation of the budget deficit. Until these types of differences are timely reconciled by the federal government, their effect on the CFS will be unknown.

Recommendations for Executive Action

We recommend that the Director of OMB and Secretary of the Treasury direct the Controller of the Office of Federal Financial Management and Fiscal Assistant Secretary, respectively, to develop formal processes and procedures for identifying and either resolving or explaining any material differences in undistributed offsetting receipt amounts between Treasury's central accounting records and information reported in agency financial statements and underlying agency financial information and records.

We also recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop formal processes and procedures for ensuring that intragovernmental activity and balances, including intragovernmental interest, are fully eliminated in the calculation of the budget deficit.

Directly Linking Audited Federal Agencies' Financial Statements to the CFS

As discussed in our report on our audit of the fiscal year 2006 CFS, fiscal year 2006 was the third year that Treasury used the Governmentwide Financial Report System (GFRS) to collect agency financial statement information taken directly from federal agencies' audited financial statements. The goal of GFRS, which we strongly support, is to be able to directly link information from federal agencies' audited financial statements to amounts reported in the CFS and resolve many of the weaknesses we previously identified in the process for preparing the CFS. However, GFRS was still undergoing development and was not yet fully operational.

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 report on our audit of the fiscal year 2006 CFS, we noted that Treasury showed progress by demonstrating that amounts in the SOSI were consistent with the underlying federal agencies' audited financial statements and that the Balance Sheet and the Statement of Net Cost were consistent with federal agencies' audited financial statements prior to eliminating intragovernmental activity and balances. However, Treasury's process for compiling the CFS did not ensure that the information in the remaining three principal financial statements and notes was consistent with the underlying information in federal agencies' audited financial statements and other financial data.

We reaffirm the recommendation in our prior report¹⁴ that as Treasury continues to design and further implement its 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 statement notes to the CFS notes and (2) provide the necessary information to demonstrate that all of the six¹⁵ principal consolidated financial statements are consistent with the underlying information in federal agencies' audited financial statements and other financial data.

¹⁴GAO, *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).

¹⁵Beginning in fiscal year 2006 with the addition of the Statement of Social Insurance, there are six principal consolidated financial statements.

Reporting Unexpended Budget Balances

Treasury lacked effective processes and procedures for ensuring that unexpended balances of budget authority (unexpended budget balances¹⁶) are properly reported in the supplemental information section of the CFS.

Instead of obtaining federal agencies' unobligated and obligated amounts through the closing packages, Treasury reported estimated amounts for unobligated and obligated balances (which comprise the unexpended budget balances). Specifically, in the supplemental information section of the fiscal year 2006 CFS, Treasury noted that because the President's Budget with fiscal year 2006 actual amounts would not be published until February 2007, it used the estimated fiscal year 2006 amounts from the previous fiscal year's President's Budget, which was issued in February 2006, to report unobligated and obligated budget balances for fiscal year 2006. Subsequent to our fiscal year 2006 CFS audit, we compared the fiscal year 2006 unobligated and obligated budget balances reported in the fiscal year 2006 CFS to the fiscal year 2006 actual amounts reported in the President's Budget, issued in February 2007, and noted a material difference. Specifically, for fiscal year 2006, we identified an absolute difference of \$118.4 billion—an \$82.2 billion understatement in unobligated balances and a \$36.2 billion overstatement in obligated balances—between the estimated amounts reported by Treasury and the actual amounts reported in the President's Budget. Actual amounts reported in the President's Budget are compiled from amounts reported in agencies' SF-133s.¹⁷ The SBR is an agencywide report, which aggregates account-level information reported in the SF-133. Agency auditors have also reported internal control issues regarding differences and the lack of effective reconciliation between the unexpended budget balances reported in agencies' financial statements and amounts reported in agencies' SF-133s. To address these reporting issues, OMB recently issued requirements for agencies to reconcile these amounts quarterly. Until agencies fully

¹⁶Unexpended budget balances consist of unobligated and obligated, but unliquidated, budget balances. Unexpended budget balances generally result in the outlays of resources and are reported in (1) the CFS, as unaudited supplemental information; (2) the Budget of the U.S. Government (also referred to as the President's Budget); and (3) federal agencies' financial statements. Federal agencies report unobligated and obligated, but unliquidated, budget balances in the SBR, which is a basic financial statement that is required to be audited.

¹⁷The SF-133 is the report on budget execution and budgetary resources. The report provides detailed information for each appropriation account on how budgetary resources were made available to a reporting entity, the status of such resources—obligated or unobligated balances, and change in obligated balances, including gross disbursements and offsetting collections for the period.

implement corrective actions to resolve internal control issues regarding the reliability of recorded and reported budgetary information, and Treasury develops effective processes and procedures for obtaining federal agencies' obligated and unobligated amounts to assist Treasury in reporting unexpended budget balances in the supplemental information section of the CFS, the effect on the CFS will be unknown.

Recommendations for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB's Office of Federal Financial Management, to develop processes and procedures for collecting all the necessary information that would enable the proper reporting of unexpended budget balances in the CFS.

We also recommend that the Director of OMB direct the Controller of OMB's Office of Federal Financial Management to continue to work with federal agencies to resolve internal control issues regarding differences and the lack of effective reconciliation between the unexpended budget balances reported in agencies' financial statements and amounts reported in agencies' SF-133s.

Reporting Operating Cash

In the U.S. government's Statement of Changes in Cash Balance from Unified Budget and Other Activities for the Years Ended September 30, 2006 and 2005, the amounts reported as "Operating Cash" agreed to the amounts reported in the notes to Treasury's consolidated agency financial statements as "Operating Cash of the Federal Government." However, other federal agencies reported additional unrestricted cash balances totaling \$13.2 billion and \$10.5 billion for fiscal years 2006 and 2005, respectively. Treasury could not provide us with an adequate explanation of the rationale for excluding these amounts from the CFS "Operating Cash" balance.

For example, in fiscal year 2006, the Pension Benefit Guaranty Corporation (PBGC) reported \$8.5 billion in cash on hand, demand deposits, and cash equivalents with 1-day maturities in its Balance Sheet and as "Cash and cash equivalents" in its Statement of Cash Flows. PBGC prepares its financial statements in accordance with accounting principles promulgated by the Financial Accounting Standards Board (FASB).¹⁸

¹⁸FASB establishes standards of financial accounting and reporting for the private sector.

Accordingly, “Cash and cash equivalents” could be considered and would conform to the definition of “Operating Cash” for purposes of preparing the CFS.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to develop and implement processes and procedures for identifying and either resolving or explaining the differences that exist between operating cash reported in certain federal agencies’ financial statements and the operating cash balance reported in the CFS.

Reporting and Disclosing Legal Contingencies

The Department of Justice (Justice) is charged with, among other things, the supervision of litigation to which the U.S. government is a party and providing advice and opinions to the President and heads of executive departments when requested. The Accounting and Auditing Policy Committee (AAPC)¹⁹ guidance (Technical Release No. 1, *Audit Legal Letter Guidance*) clarifies FASAB Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, with respect to Justice’s role related to legal letters in cases in which Justice’s attorneys are handling legal matters on behalf of other federal reporting entities. This guidance states that a federal entity’s management, its legal counsel, or the auditor may consult with Justice as well as other outside legal counsel to ensure completeness and accuracy of the entity’s financial statements’ presentation of matters related to litigation, claims, and assessments. Such consultation may include requesting a list of pending litigation, claims, and assessments from Justice or other outside legal counsel or discussion of specific cases.

In the governmentwide legal representation letter, Justice represented to us that it provided us with an assessment for individual cases in which the potential for loss exceeded \$500 million individually and \$1 billion in the aggregate. The legal representation letter was limited to matters with which Justice had been engaged and to which Justice had devoted substantial attention on behalf of the U.S. government. In addition, we were provided legal representation letters for the 35 federal agencies that Treasury and OMB deemed significant to the CFS. However, the federal

¹⁹The AAPC is a permanent committee established by FASAB. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues within the framework of existing authoritative literature.

government was unable to provide us with sufficient evidence to determine that cases below the \$500 million individual case threshold were (1) considered by the agencies' legal counsels and, where appropriate, included in their legal representation letters and (2) in the aggregate, not material to the CFS. Until the federal government implements effective processes and procedures to ensure that all appropriate litigation and claims are included in the governmentwide legal representation letter and are appropriately considered for potential financial reporting, the adequacy of reporting and disclosing legal contingencies in the CFS will be unknown and the potential effect of these litigation claims on the financial condition of the federal government will likewise be unclear.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to establish effective processes and procedures to ensure that appropriate information regarding litigation and claims is included in the governmentwide legal representation letter.

Reconciling Intragovernmental Activity and Balances

The federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies has been a long-standing problem and major impediment to us being able to render an opinion on the CFS. Resolving this difficult challenge will require, among other things, strong leadership and oversight by Treasury and OMB.

Treasury and OMB require federal agencies to reconcile selected intragovernmental activity and balances with their "trading partners"²⁰ and report the extent and results of the reconciliation efforts to Treasury. However, in our view, federal agencies have not provided Treasury and OMB with sufficient information to enable them to adequately oversee and monitor agencies' efforts to reconcile intragovernmental activity and balances with their trading partners. Specifically, for fiscal year 2006, we found that federal agencies did not provide Treasury and OMB with (1) detailed information regarding the nature and description of the differences that exist between trading partners' records of

²⁰Trading partners are U.S. government agencies, departments, or other components included in the CFS that do business with each other.

intragovernmental activity and balances, (2) detailed reasons why such differences exist, (3) steps being taken to work with the agencies' trading partners to resolve the differences, and (4) the potential outcome of such steps.

Recommendation for Executive Action

We recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to develop a process for obtaining sufficient information from federal agencies to enable Treasury and OMB to adequately monitor agencies' efforts to reconcile intragovernmental activity and balances with their trading partners. This information should include (1) the nature and a detailed description of the significant differences that exist between trading partners' records of intragovernmental activity and balances, (2) detailed reasons why such differences exist, (3) details of steps taken or being taken to work with the agencies' trading partners to resolve the differences, and (4) the potential outcome of such steps.

Preparing and Auditing Certain Information in Federal Agencies' Closing Packages

OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, and the *Treasury Financial Manual* provide guidance to agencies for preparing and auditing their closing packages. As part of the closing package process, agencies are required to reclassify certain of their audited financial statement line items to the appropriate CFS line items and enter certain of their financial statement notes and other requested data into GFRS. The 35 federal agencies that Treasury and OMB determined to be significant to the CFS are required to have their closing packages audited and audit reports issued on such packages. However, auditors for several of these agencies did not perform the required audit procedures on certain information in the footnotes to the respective agencies' closing packages, including intragovernmental trading partner data, stewardship land information, and heritage assets information. In addition, one of the significant agencies did not provide in its closing package the required cost allocation information used by Treasury in preparing the consolidated Statement of Net Cost. As a result, Treasury's ability to prepare and our ability to audit the CFS were impaired.

Recommendations 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 establish additional procedures to ensure that agencies prepare their closing packages and have them

audited in accordance with the requirements specified in the closing package instructions.

We also recommend that the Director of OMB direct the Controller of the Office of Federal Financial Management to work with the significant agency that did not provide in its closing package the required information that Treasury uses to allocate costs in the consolidated Statement of Net Cost to ensure that such information is reported by the agency in future years.

Conformity with GAAP

As we have reported in previous years, and noted during our fiscal year 2006 audit, Treasury lacks an adequate process to ensure that the financial statements, related notes, stewardship information, and supplemental information in the CFS are presented in conformity with GAAP. In our prior report,²¹ we recommended that the Secretary of the Treasury direct the Fiscal Assistant Secretary to establish a formal process that will cause the financial statements, related notes, stewardship information, and supplemental information in the CFS to be presented in conformity with GAAP in all material respects. The process should

- timely identify GAAP requirements;
- make timely modifications to Treasury's closing package requirements to obtain information needed;
- assess, qualitatively and quantitatively, the impact of any omitted disclosures;²² and
- document decisions reached and the rationale for such decisions.

FASAB issued SFFAS No. 32 on September 28, 2006, which was effective for periods after September 30, 2005. This standard eliminated or lessened the disclosure requirements for the CFS related to certain information that Treasury had not been reporting. As a direct result of the requirements in SFFAS No. 32, 53 of the 76 disclosure-related recommendations from our previous reports were closed during fiscal year 2006.

²¹[GAO-04-45](#).

²²FASB defined materiality in its Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information, as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

However, there continued to be other disclosures required by GAAP that are not disclosed in the CFS. Specifically, 13 of our disclosure-related recommendations from previous years' audits have not yet been implemented by Treasury. In addition, during our fiscal year 2006 audit of the CFS, we identified an additional disclosure required by applicable standards related to including consolidated totals in the consolidated SOSI. Further, while there is no specific GAAP requirement to disclose foreign currencies in the CFS, we believe Treasury should separately disclose the balance of foreign currencies held at fiscal year end in the cash footnote to the CFS.

Consolidated Statement of Social Insurance

Beginning in fiscal year 2006, the SOSI became a principal financial statement. However, in our view, the fiscal year 2006 consolidated SOSI was not fully presented in conformity with GAAP. Specifically, for each social insurance program included in the consolidated SOSI, Treasury presented the "excess of the present value of future expenditures less future revenues." However, the fiscal year 2006 consolidated SOSI did not include a consolidated total for all of such programs.

Paragraph 32 (3) of SFFAS No. 17, *Accounting for Social Insurance*, as amended by SFFAS No. 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, requires a statement combining the entity statements for all programs, except Unemployment Insurance, including data for the current year and separate estimates for each of the 4 preceding years. In addition, the pro forma illustrations of the SOSI shown in Appendix B of SFFAS No. 17²³ and in OMB Circular No. A-136, *Financial Reporting Requirements*, include a total of the "excess of actuarial present values of future benefit payments over future contributions and tax income" summarized and consolidated in accordance with paragraph 32. Further, each of the applicable component entities' respective SOSI included a total of the excess of actuarial present values of future benefit payments over future contributions and tax income. Finally, Treasury reported the consolidated total of the excess of the present value of future expenditures less future revenues for the social insurance programs in the Management's Discussion and Analysis section of the CFS.

²³The Consolidated Governmentwide Entity Accounting and Reporting Standard section of SFFAS No. 17 states that the standard applicable to the component entities is also applicable to the consolidated governmentwide entity.

According to Treasury, a consolidated total was not presented on the consolidated SOSI because the Social Security, Medicare, Railroad Retirement, and Black Lung social insurance programs have different valuation dates, projection periods, and discount rates. However, our audit work found that (1) the most significant social insurance programs (Social Security and Medicare) have the same valuation dates and projection periods and (2) the key elements used in the projections for the social insurance programs were either displayed in the footnotes of the consolidated SOSI or disclosed in the notes to the CFS. The existence of differences among certain social insurance programs in the elements used in the projections is not, in our view, a relevant factor in deciding whether to present a consolidated total, especially since the elements are disclosed. In addition, we believe that including a consolidated total in the statement provides increased transparency.

Cash and Other Monetary Assets

While there is no specific GAAP requirement to disclose foreign currencies in the CFS, we believe that the balance of foreign currencies held at fiscal year end should be separately disclosed in the cash footnote to the CFS. In this regard, OMB Circular No. A-136 requires the disclosure of foreign currencies,²⁴ including the balance of foreign currencies held at fiscal year end, in the notes to federal agencies' financial statements. For fiscal year 2006, we found that the Cash and Other Monetary Assets note included a disclosure that international monetary assets included official reserves of foreign currency. However, the balance of such foreign currency was not disclosed. OMB Circular No. A-136 requirements do not specifically apply to the CFS. However, we believe that the balance of foreign currency holdings as of the fiscal year end should be disclosed in the CFS since (1) OMB has deemed this a necessary disclosure at the agency level; (2) foreign currencies constituted about \$11.7 billion, or 12 percent, of the reported fiscal year 2006 Cash and Other Monetary Assets in the CFS; (3) foreign currency information was readily available as certain federal agencies, including Treasury, disclosed foreign currencies in the notes to their respective financial statements; and (4) disclosing the dollar amount of the foreign currencies provides increased transparency.

²⁴Foreign currencies refer to the total U.S. dollar equivalent of nonpurchased foreign currencies held in foreign fund accounts.

Recommendations for Executive Action

We reaffirm our prior recommendation regarding the establishment of a formal process that will cause the financial statements, related notes, stewardship information, and supplemental information in the CFS to be presented in conformity with GAAP in all material respects. In addition, we recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to establish procedures to ensure that the CFS include required consolidated totals in the SOSI or document the specific rationale for excluding such disclosure.

We also recommend that the Secretary of the Treasury direct the Fiscal Assistant Secretary to disclose the balance of foreign currencies held at fiscal year end in the Cash and Other Monetary Assets footnote to the CFS.

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 concurs with the new findings and related recommendations with the exception of the nonconformity with GAAP finding and recommendation related to reporting a consolidated total in the consolidated SOSI. Treasury also stated that it concurs with GAO that the preparation process should continually be improved, and will continue to work with GAO on CFS matters where improvements need to be made.

With respect to the SOSI GAAP finding, Treasury stated that it does not believe that GAAP requires the reporting of a consolidated total in the consolidated SOSI. In addition, Treasury noted that because of differences in key assumptions and other criteria used in preparing the different sections of the SOSI, it does not believe that a consolidated total is especially meaningful.

We do not agree with Treasury on these matters. As stated earlier in the report, in our view, the consolidated SOSI was not fully presented in

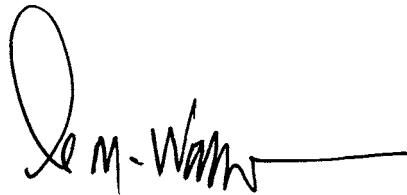
conformity with GAAP because it did not include a consolidated total for all the social insurance programs. In the body of the report, we noted that (1) the most significant social insurance programs (Social Security and Medicare) have the same valuation dates and projection periods, and (2) the key elements used in the projections for the social insurance programs were either displayed in the footnotes of the consolidated SOSI or disclosed in the notes to the CFS. We also noted that the existence of differences among certain social insurance programs in the elements used in the projections is not, in our view, a relevant factor in deciding whether to present a consolidated total, especially since the elements are disclosed. The consolidated SOSI is one of the principal financial statements included in the CFS and represents an important source for the consolidated information on federal social insurance programs. As such, we believe that including a total on the consolidated SOSI, as was included in the Management's Discussion and Analysis section of the CFS, is both necessary to provide increased transparency and is meaningful to the users of the CFS. Treasury also provided technical comments, which we have incorporated as appropriate.

This report contains recommendations to the Secretary of the Treasury and the Director of OMB. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on these recommendations. You should submit your statement to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform within 60 days of the date of this report. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Homeland Security and Governmental Affairs; the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Oversight and Government Reform; and the Subcommittee on Government Management, Organization, and Procurement, House Committee on Oversight and Government Reform. In addition, we are sending copies to the Fiscal Assistant Secretary of the Treasury, the Deputy Director for Management of OMB, and the Controller of OMB's Office of Federal Financial Management. Copies will be made available to others upon request. This

report is also available at no charge on GAO's Web site at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by Treasury and OMB during our audit. If you or your staff have any questions or wish to discuss this report, please contact 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. Key contributors to this report are listed in appendix III.

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

Appendix I: 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 four 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); *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); and *Financial Audit: Significant Internal Control Weaknesses Remain in Preparing the Consolidated Financial Statements of the U.S. Government*, [GAO-06-415](#) (Washington, D.C.: Apr. 21, 2006). 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 143 recommendations regarding the process for preparing the consolidated financial statements of the U.S. government (CFS) that are listed in this appendix, 70 remained open as of December 1, 2006, the end of GAO's fieldwork for the audit of the fiscal year 2006 CFS. Of the 73 recommendations that were closed, 53 were closed with the issuance of Statement of Federal Financial Accounting Standards No. 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government."* In fiscal year 2006, the Federal Accounting Standards Advisory Board issued this new standard, which eliminated or lessened the disclosure requirements for the CFS related to certain information that Treasury had not been reporting.

**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 2006 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 in fiscal year 2004 to eliminate, at the consolidated level, intragovernmental activity and balances using formal balanced accounting entries (via Reciprocal Categories) and developed a model to analyze unreconciled transactions that contributed to the plug. In fiscal year 2005, Treasury started an analysis to establish the reciprocal category for the General Fund (RC29) and that process is still continuing. Lastly, in fiscal year 2006, Treasury included the components contributing to the plug in the supplementary information section of the fiscal year 2006 CFS.	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.	The process mentioned in No. 02-4 no longer involves the simple subtraction of liabilities from assets, but instead takes into account the intragovernmental balances and activities to compute the change in net position. Because of continuing intragovernmental differences, intragovernmental balances and activity cannot be completely eliminated, leading to unbalanced entries that constitute the plug.	Open.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
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> .	<p>The business rules were revised in fiscal year 2006 to expand and enhance the standard practices for how federal agencies do business with each other. The revised rules are published in <i>Treasury Financial Manual</i> (TFM) Bulletin 2007-03.</p> <p>OMB, Treasury, and the Chief Financial Officers' Council continue working to establish a performance metric(s) to track agencies' progress toward effectively reconciling intragovernmental balances, which is predicated on agencies implementing the business rules. In addition, OMB, Treasury, and the Chief Financial Officers' Council are continuing their efforts toward establishing the Dispute Resolution Committee (DRC), as referenced in the business rules. The DRC will be a vehicle for resolving accounting disputes between federal agencies. The dispute resolution process is also predicated on the principle that agencies have implemented the business rules and will require the disputing agencies to provide evidence of compliance with the business rules during arbitration.</p>	Open. The revised business rules are effective beginning in fiscal year 2007. We plan to review the policies and procedures for enforcing these revised business rules as part of the fiscal year 2007 CFS audit.
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.	<p>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.</p> <p>As noted above, OMB, Treasury, and the Chief Financial Officers' Council are continuing to work toward establishing the DRC, as referenced in the business rules, and it will be used as a vehicle for agencies to resolve their accounting disputes. The DRC will incorporate a standard practice of documenting all resolutions and communicating the resolutions to all parties involved.</p>	Open. See status of recommendation No. 02-6.
6	02-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to design procedures that will account for the difference in intragovernmental assets and liabilities throughout the compilation process by means of formal consolidating and elimination accounting entries.	Treasury designed formal consolidating and eliminating procedures to account for these differences and has implemented these procedures since fiscal year 2004. See also the status for recommendations No. 02-4 and No. 02-5.	Open.

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

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
7	02-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop solutions for intragovernmental activity and balance issues relating to federal agencies' accounting, reconciling, and reporting in areas other than those OMB now requires be reconciled, primarily areas relating to appropriations.	During fiscal year 2006, Treasury forwarded information from its central accounting system (STAR) related to appropriations and fund balance with Treasury to the agencies for their use in reconciling these data. In fiscal year 2007 Treasury will start providing transfer information from STAR to the agencies to begin reconciling and reporting in the areas other than those OMB now requires be reconciled.	Open. Treasury will need to establish a mechanism for follow-up with the federal agencies to see if they are using the information Treasury will be providing to them. In addition, Treasury and OMB will need to provide federal agencies instructions on how to reconcile and report differences between their records and Treasury's central accounting records.
8	02-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to reconcile the change in intragovernmental assets and liabilities for the fiscal year, including the amount and nature of all changes in intragovernmental assets or liabilities not attributable to cost and revenue activity recognized during the fiscal year. Examples of these differences would include capitalized purchases, such as inventory or equipment, and deferred revenue.	The current reconciliation of intragovernmental activity accounts for differences caused by asset capitalization and agency advanced or deferred revenue. Given current intragovernmental differences, asset capitalization and recognition of advanced and deferred revenue may be incorrect. However, the current reconciliation analysis is expected to correctly report this activity once intragovernmental differences are materially resolved. See also the status of recommendation No. 02-4.	Open.

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

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
9	02-12	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should report "net unreconciled differences" included in the net operating results line item as a separate reconciling activity in the reconciliation statement.	In fiscal year 2006, Treasury revised how this reconciliation is performed so that all differences between the change in the proprietary basis balance sheet net position (i.e., the net operating revenue/cost) is reconciled to the change in the budgetary basis balance sheet net position (i.e., the unified budget deficit/surplus). Treasury's position is that the plug cannot be placed with certainty either as a component of the Statement of Net Cost or as a component of the Statement of Operations and Changes in Net Position (SOCNP) and has chosen to reflect the plug in the SOCNP until these differences are resolved. However, based on its analysis of the plug, as disclosed in the supplementary information section of the fiscal year 2006 CFS, Treasury believes that the plug is primarily caused by unreconciled transactions that affect the amounts reported on an accrual basis of accounting (net operating cost) and, therefore, the "net unreconciled differences" plug should not be included as a separate reconciling item on this statement, which is the reconciliation of the federal government's activity between two different bases of accounting.	Open. Although Treasury was unsure if the plug (reported in fiscal year 2006 as "unmatched transactions and balances") was a component of the Statement of Net Cost or a component of the SOCNP, Treasury chose to reflect the plug in the SOCNP as a component of net operating cost. The Reconciliation of Net Operating Cost and Unified Budget Deficit reconciles the net operating cost, which includes the "unmatched transactions and balances" plug, to the unified budget deficit. 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.
10	02-13	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should develop policies and procedures to ensure completeness of reporting and document how all the applicable components reported in the other consolidated financial statements (and related note disclosures included in the CFS) were properly reflected in the reconciliation statement.	Treasury will continue to improve the completeness and consistency of the information in this reconciliation statement and will continue to resolve significant inconsistencies, if any, to the applicable and related components reported in the other basic financial statements, and in the related note disclosures, included in the CFS.	Open.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
11	02-14	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to develop and implement a process that adequately identifies and reports items needed to reconcile net operating cost and unified budget surplus (or deficit). Treasury should establish reporting materiality thresholds for determining which agency financial statement activities to collect and report at the governmentwide level to assist in ensuring that the reconciliation statement is useful and conveys meaningful information.	As mentioned in the status of recommendation No. 02-12, Treasury revised the manner for producing this reconciliation and will continue to improve the completeness and accuracy of the various reconciliation items. Treasury will consider the need for establishing a reporting materiality threshold related to this statement, as necessary, as part of the overall process to improve the reliability of the information included in this statement.	Open.
12	02-15	If Treasury chooses to continue using information from both federal agencies' financial statements and the Central Accounting and Reporting System (STAR), Treasury should demonstrate how the amounts from STAR reconcile to federal agencies' financial statements.	As stated in status of recommendation No. 02-12, Treasury has revised the method for producing this reconciliation statement. In so doing, Treasury has elected to continue the use of information from STAR. Treasury will focus on the reliability of the information from STAR to address GAO's concerns related to its accuracy, completeness and consistency to the underlying agency financial records.	Open. Treasury needs to further develop its process for ensuring reliability of the information in STAR and the consistency of information in STAR with underlying agency financial statements, financial information, and records.
13	02-16	If Treasury chooses to continue using information from both federal agencies' financial statements and from STAR, Treasury should identify and document the cause of any significant differences, if any are noted.	For now, Treasury will concentrate on the reliability of the information within STAR. Treasury believes that with the agencies reconciling their records against the related information provided from the central accounting system (STAR), this will improve the reliability and accuracy of the information within STAR, as well as demonstrate the consistency to the underlying agency data. As this process matures, Treasury will determine what further steps are necessary to fully address GAO's consistency and accuracy concerns.	Open. OMB has been working with federal agencies to reduce previously reported unreconciled differences between the total net outlays reported in selected federal agencies' Statements of Budgetary Resources and Treasury's central accounting records in STAR used to compute the budget deficit reported in the CFS. Such efforts have resulted in significantly reducing the differences in net outlays in fiscal year 2006. However, billions of dollars of differences still exist between this and other components of the budget deficit.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
14	02-17	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should document the consistency of the significant line items on this statement to agencies' audited financial statements.	See planned direction of corrective steps in status of recommendation No. 02-16.	Open. See status of recommendation No. 02-16.
15	02-18	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should request, through its closing package, that federal agencies provide the net outlays reported in their Combined Statement of Budgetary Resources and explanations for any significant differences between net outlay amounts reported in the Combined Statement of Budgetary Resources and the budget of the U.S. government.	In accordance with the net outlays corrective action plan, OMB requires agencies to provide explanations for significant differences between the unaudited quarterly Statement of Budgetary Resources and the quarterly SF-133 (budget execution document). This requirement is intended to assist agencies in identifying and mitigating discrepancies between the two reports throughout the fiscal year rather than only at year-end. The number of federal agencies with significant discrepancies has decreased in the last couple of years, and OMB is working with the federal agencies toward further reductions this year.	Open. This requirement became effective in the first quarter of fiscal year 2007. We plan to review the implementation of the requirement as part of the fiscal year 2007 CFS audit.
16	02-19	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should investigate the differences between net outlays reported in federal agencies' Combined Statement of Budgetary Resources and Treasury's records in STAR to ensure that the proper amounts are reported in the Statement of Changes in Cash Balance from Unified Budget and Other Activities.	Treasury and OMB will consider this recommendation to determine further actions needed.	Open.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
17	02-20	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should explain and document the differences between the operating revenue amount reported on the Statement of Operations and Changes in Net Position and unified budget receipts reported on the Statement of Changes in Cash Balance from Unified Budget and Other Activities.	Treasury and OMB will consider this recommendation to determine further actions needed for the reconciliation of budgetary receipts and net operating revenue.	Open.
18	02-21	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop and implement a process to ensure that the Statement of Changes in Cash Balance from Unified Budget and Other Activities properly reflects the activities reported in federal agencies' audited financial statements. Treasury should provide support for how the line items in the "other activities" section of this statement relate to either the underlying Balance Sheet or related notes accompanying the CFS.	As referred to in status of recommendation No. 02-12, Treasury has revised the method for producing this statement. In so doing, Treasury has elected to continue the use of information from STAR. Treasury will focus on the reliability of the information from STAR to address GAO's concerns related to its accuracy, completeness, and consistency to the underlying agency financial records.	Open. See status of recommendation Nos. 02-15 and 02-16.
19	02-22	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to perform an assessment to define the reporting entity, including its specific components, in conformity with the criteria issued by the Federal Accounting Standards Advisory Board (FASAB). Key decisions made in this assessment should be documented, including the reason for including or excluding components and the basis for concluding on any issue. Particular emphasis should be placed on demonstrating that any financial information that should be included but is not included is immaterial.	In fiscal year 2006, Treasury drafted policies and procedures to define and document the reporting entity. These draft policies and procedures are still under Treasury review and any final changes are expected to be implemented in fiscal year 2007.	Open.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
20	02-23	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to provide in the financial statements all the financial information relevant to the defined reporting entity, in all material respects. Such information would include, for example, the reporting entity's assets, liabilities, and revenues.	Treasury will implement changes to the reporting entity once its related policies and procedures are finalized. See status of recommendation No. 02-22.	Open.
21	02-24	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to disclose in the financial statements all information that is necessary to inform users adequately about the reporting entity. Such disclosures should clearly describe the reporting entity and explain the reason for excluding any components that are not included in the defined reporting entity.	See status of recommendation No. 02-23.	Open.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
22	02-25	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should timely identify GAAP requirements.	<p>Treasury performed an analysis of fiscal year 2006 required agency financial statement and note disclosures and included the appropriate disclosures in the fiscal year 2006 CFS. For items not disclosed, Treasury will continue to analyze what additional data, if necessary, are needed to finalize these required disclosures.</p> <p>In addition, in September 2006, FASAB issued Statement of Federal Financial Accounting Standards (SFFAS) No. 32, <i>Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts No. 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government,"</i> that resulted in the elimination of or reduction for certain disclosures required by SFFAS issued prior to SFFAS No. 24, <i>Selected Standards for the Consolidated Financial Report of the United States Government</i>, and Statement of Federal Financial Accounting Concepts No. 4.</p> <p>Treasury reviewed the requirements of SFFAS No. 32 and ensured that the fiscal year 2006 CFS is in compliance with this new standard.</p>	Open. Treasury's fiscal year 2006 process did not completely analyze the fiscal year 2006 disclosures.
23	02-26	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should make timely modifications to Treasury's closing package requirements to obtain information needed.	See status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
24	02-27	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should assess, qualitatively and quantitatively, the impact of the omitted disclosures.	See status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
25	02-28	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to establish a formal process that will allow the financial statements, related notes, and stewardship and supplemental information in the CFS to be presented in conformity with GAAP. The process should document decisions reached and the rationale for such decisions.	See status of recommendation No. 02-25.	Open. See status of recommendation No. 02-25.
26	02-29	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an analysis of the agency management representations to determine if discrepancies exist between what the agency auditor reported and the representations made by the agency, including the resolution of such discrepancies.	Treasury and OMB are currently revising the policies and procedures related to governmentwide and agency management representation letters and, when finalized, will discuss with GAO these revisions which address its concerns.	Open.
27	02-30	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require a determination that the agency management representation letters have been signed by the highest-level agency officials who are responsible for and knowledgeable about the matters included in the agency management representation letters.	See status of recommendation No. 02-29.	Open.

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			Per Treasury and OMB	Per GAO
28	02-31	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an assessment of the materiality thresholds used by federal agencies in their respective management representation letters.	See status of recommendation No. 02-29.	Open.
29	02-32	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an assessment of the impact, if any, of federal agencies' materiality thresholds on the management representations made at the governmentwide level.	See status of recommendation No. 02-29.	Open.
30	02-33	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an evaluation and assessment of the omission of representations ordinarily included in agency management representation letters.	See status of recommendation No. 02-29.	Open.

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			Per Treasury and OMB	Per GAO
31	02-34	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures for preparing the governmentwide management representation letter to help ensure that it is properly prepared and contains sufficient representations. Specifically, these policies and procedures should require an analysis and aggregation of 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 2006, Treasury updated the standard operating procedure (SOP) for the agencies' summary of unadjusted misstatements.	Open. Certain federal agencies either did not provide a summary of unadjusted misstatements or did not provide a complete summary of unadjusted misstatements. The SOP should be further revised to address these issues.
32	02-35	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to help ensure that agencies provide adequate information in their legal representation letters regarding the expected outcomes of the cases.	During fiscal year 2006, OMB and Treasury continued to work with the agencies to ensure that adequate information was provided in the legal representation letters regarding the expected outcomes of the cases.	Open. Certain federal agencies did not report adequate information in their legal representation letters regarding the expected outcomes of certain pending cases.
33	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 followed up with agencies that had not provided their management schedules to ensure that they did so. Agreements are in place to receive all schedules in the future.	Closed.
34	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. OMB has, however, analyzed the State Department's <i>Treaties in Force</i> and concluded that while it provides a comprehensive listing of treaties and international agreements, it is not the appropriate document from which to derive potential commitments or contingencies of the U.S. government. OMB continues to analyze the issue.	Open.

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			Per Treasury and OMB	Per GAO
35	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.
36	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.
37	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.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
38	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.
39	02-42	As Treasury is designing its new compilation process, which it expects to implement beginning with the fiscal year 2004 CFS, the Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to design the new compilation process to directly link information from federal agencies' audited financial statements to amounts reported in all the applicable consolidated financial statements and related footnotes.	Treasury used its revised CFS compilation process, the Governmentwide Financial Reporting System (GFRS), first implemented in fiscal year 2004, to 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. Treasury does not currently plan to link these statements to agency financial statements (see also status of recommendation No. 02-15). With regard to note disclosures, GFRS included a direct link between the CFS note disclosures and the related agencies' audited note disclosures, for which the links were supplemented by additional documentation describing in more detail the links between the CFS and agency note disclosures.	Open. Treasury showed progress by demonstrating that amounts in the Statement of Social Insurance were consistent with the underlying federal agencies' audited financial statements and that the Balance Sheet and the Statement of Net Cost were consistent with federal agencies' financial statements prior to eliminating intragovernmental activity and balances. However, Treasury's process for compiling the CFS did not ensure that the information in the remaining three principal financial statements and notes were fully consistent with the underlying information in federal agencies' audited financial statements and other financial data. Also, see status of recommendation Nos. 02-15 and 02-16.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
40	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.
41	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 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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
42	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
43	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
44	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).	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.

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45	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
46	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
47	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.	The disclosures related to direct loans and loan guarantees with regard to subsidy expense is now governed by SFFAS No. 32 paragraph 27.f. As such, disclosure of the two kinds of subsidy reestimates is no longer required for the CFS; only the total subsidy expense is required to be disclosed, and it was disclosed in the fiscal year 2006 CFS.	Closed.

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			Per Treasury and OMB	Per GAO
48	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 15.a.	Closed.
49	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 15.b.	Closed.
50	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 15.b.	Closed.
51	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 15.b.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
52	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 15.b.	Closed.
53	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 15.b.	Closed.
54	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.	Beginning in fiscal year 2006, the disclosure of the differences between the carrying amounts of inventories and operating materials and their expected net realizable values is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.b.	Closed.

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55	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
56	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, which require disclosure of any changes from the prior year in accounting methods for inventory and operating materials and supplies.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
57	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
58	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 require disclosure of any changes in the criteria for categorizing inventory and operating materials and supplies.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
59	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
60	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
61	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
62	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
63	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
64	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.	Beginning in fiscal year 2006, the disclosure of the differences between the carrying amounts of stockpile materials held for sale and their estimated selling price is no longer required for the CFS per SFFAS No. 32, paragraph 10.c.	Closed.

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Count	No.	Recommendation	Status of recommendation	
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65	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
66	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
67	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
68	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.

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Count	No.	Recommendation	Status of recommendation	
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69	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
70	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
71	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.

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72	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.	This required information was requested from the agencies for inclusion in Note 18, Contingencies, in the fiscal year 2006 CFS. However, no related GFRS data were received in fiscal year 2006 or fiscal year 2005 from the Department of Agriculture (USDA), the only agency that has reported this type of inventory in both years. In addition, USDA also did not disclose such a contingency in its fiscal year 2006 or fiscal year 2005 audited financial statements. Therefore, no disclosure related to this requirement was necessary at the governmentwide level.	Closed. Beginning in fiscal year 2006, the disclosure requirement of SFFAS No. 3, relating to goods held under price support and stabilization programs, is no longer applicable to the CFS per SFFAS No. 32, paragraph 10. However, disclosure requirements related to major commitments and contingencies contained in SFFAS No. 5 were not affected by SFFAS No. 32. We continue to monitor the sufficiency and accuracy of disclosures in the CFS relating to major commitments and contingencies.
73	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
74	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
75	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
76	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 10.a.	Closed.
77	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 12.a.	Closed.
78	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 12.a.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
79	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 12.a.	Closed.
80	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 14.	Closed.
81	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.	This required information was disclosed in Note 12, <i>Environmental and Disposal Liabilities</i> , in the fiscal year 2006 CFS.	Closed. The requirements of SFFAS No. 6, as they apply to the note disclosure for environmental and disposal liabilities, were superseded by modified disclosure requirements contained in SFFAS No. 32. The disclosures provided in Note 12, <i>Environmental and Disposal Liabilities</i> , of the fiscal year 2006 CFS were in conformity with SFFAS No. 32 as they relate to cleanup costs associated with general PP&E.
82	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 12.g.	Closed.

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			Per Treasury and OMB	Per GAO
83	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 as to the need for further analysis of certain disclosures.	Open. See status of recommendation No. 02-25.
84	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 as to the need for further analysis of certain disclosures.	Open. See status of recommendation No. 02-25.
85	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 as to the need for further analysis of certain disclosures.	Open. See status of recommendation No. 02-25.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
86	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> .	Beginning in fiscal year 2006, the disclosures required by SFFAS No. 5, paragraph 117, are no longer applicable to the CFS per SFFAS No. 32, paragraph 11.a.	Closed.
87	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).	Beginning in fiscal year 2006, the disclosures required by SFFAS No. 5, paragraph 121, are no longer applicable to the CFS per SFFAS No. 32, paragraph 11.b.	Closed.
88	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 Nos. 02-25 and 02-42 as to the need for further analysis of certain disclosures. In addition, these items were disclosed in Note 18, <i>Contingencies</i> , and Note 19, <i>Commitments</i> , in the fiscal year 2006 CFS.	Open. See status of recommendation Nos. 02-25 and 02-42.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
89	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 as to the need for further analysis of certain disclosures. In addition, this required information was requested from the agencies for inclusion in Note 21, <i>Dedicated Collections</i> , in the fiscal year 2006 CFS. However, no data were received in fiscal years 2006 or 2005, and therefore, no disclosure was needed related to this requirement. In addition, fiscal year 2006 dedicated collections related to non-earmarked funds were immaterial and, therefore, were not disclosed in the fiscal year 2006 CFS.	Open. Treasury expected the required information from applicable agencies as requested in the TFM. However, when the information was not provided, Treasury did not have any policies and procedures for following up with agencies to determine why the information was not provided.
90	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.	This required information was disclosed in Note 22, <i>Indian Trust Funds</i> , in the fiscal year 2006 CFS.	Closed.
91	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 as to the need for further analysis of certain disclosures.	Open. See status of recommendation No. 02-25.
92	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 as to the need for further analysis of certain disclosures.	Open. See status of recommendation No. 02-25.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
93	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 as to the need for further analysis of certain disclosures.	Open. See status of recommendation No. 02-25.
94	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.	With the exception of the Black Lung program, sensitivity analyses for the significant social insurance programs—Social Security, Medicare Hospital Insurance (Part A), the Supplementary Medical Insurance Programs (Parts B and D), and the Railroad Retirement Program—were disclosed in the required supplementary information—social insurance section of the fiscal year 2006 CFS. Since the Black Lung program is immaterial in relation to the above social insurance programs, its related sensitivity analysis is not required to be disclosed.	Closed.

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			Per Treasury and OMB	Per GAO
95	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 has revised its policies and procedures to analyze component entity stewardship investment data and determine the manner for reporting this information in the CFS in accordance with SFFAS No. 8, paragraph 39, which is the only reporting requirement that relates to the CFS.</p> <p>SFFAS 8, paragraph 39, states that component entity required reporting for stewardship investments is not applicable to the CFS, but does require disclosure in the CFS of such "summary (stewardship) information or selected information as is feasible."</p> <p>The revised policies and procedures require the following to be documented: (1) the determination of what is considered feasible for CFS reporting of stewardship investments and (2) what related entity and/or program information is to be disclosed in the CFS and revised each year as appropriate.</p> <p>With regard to investments in nonfederal physical property, the revised policies and procedures only require narrative description(s) of the program(s) that was (were) selected for disclosure in the CFS. This required information is shown as required supplementary stewardship information in the fiscal year 2006 CFS.</p>	Closed.
96	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.	<p>See status of recommendation No. 02-118.</p> <p>Treasury's revised policies and procedures related to reporting on nonfederal physical property only require the narrative description of noncash items transferred to state and local governments related to the specific program(s) that was (were) selected for disclosure in the CFS. This required information is shown as required supplementary stewardship information in the fiscal year 2006 CFS.</p>	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
97	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. Treasury's revised policies and procedures related to reporting on human capital investments only require cost disclosure for the program(s) that was (were) selected for disclosure in the CFS. This required information is shown as required supplementary stewardship information in the fiscal year 2006 CFS.	Closed.
98	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. Treasury's revised policies and procedures related to reporting on human capital investments only require cost disclosure for the program(s) that was (were) selected for disclosure in the CFS. This required information is shown as required supplementary stewardship information in the fiscal year 2006 CFS.	Closed.
99	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. Treasury's revised policies and procedures related to reporting on human capital investments only require narrative description(s) of the program(s) that was (were) selected for disclosure in the CFS. This required information is shown as required supplementary stewardship information in the fiscal year 2006 CFS.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
100	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. Treasury's revised policies and procedures related to reporting on research and development investments only require narrative description(s) of the program(s) that was (were) selected for disclosure in the CFS. This required information is shown as required supplementary stewardship information in the fiscal year 2006 CFS.	Closed.
101	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. Treasury's revised policies and procedures related to reporting on research and development investments only require narrative description(s) of the program(s) that was (were) selected for disclosure in the CFS. This required information is shown as required supplementary stewardship information in the fiscal year 2006 CFS.	Closed.
102	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 require inclusion of the method of measuring deferred maintenance for each major class of PP&E.	Beginning in fiscal year 2006, the disclosures required by SFFAS No. 6, paragraphs 83 and 84, are no longer applicable to the CFS per SFFAS No. 32, paragraphs 12.b and 12.c, respectively.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
103	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 require 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.	Beginning in fiscal year 2006, the disclosures required by SFFAS No. 6, paragraphs 83 and 84, are no longer applicable to the CFS per SFFAS No. 32, paragraphs 12.b and 12.c, respectively.	Closed.
104	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 require 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.	Beginning in fiscal year 2006, the disclosures required by SFFAS No. 6, paragraphs 83 and 84, are no longer applicable to the CFS per SFFAS No. 32, paragraphs 12.b and 12.c, respectively.	Closed.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
105	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 require that if management elects to disclose critical and noncritical amounts, the disclosure is to include management's definition of these categories.	Beginning in fiscal year 2006, the disclosures required by SFFAS No. 6, paragraphs 83 and 84, are no longer applicable to the CFS per SFFAS No. 32, paragraphs 12.b and 12.c, respectively.	Closed.
106	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.	This required information was requested from the agencies for disclosure in the required supplementary information (risk assumed) section of the fiscal year 2006 CFS. However, no data were received from some agencies.	Open. Treasury expected the required information from applicable agencies as requested in the TFM. However, when the information was not provided, Treasury did not have any policies and procedures for following up with agencies to determine why the information was not provided.
GAO-04-866 (results of the fiscal year 2003 audit)				
107	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. 02-18.
108	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. 02-16.	Open. See status of recommendation No. 02-16.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
109	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.	The Statement of Changes in Cash Balance reconciles to operating cash as opposed to the total cash balance shown in the Balance Sheet. SFFAS No. 24, paragraph 12, requires a reconciliation to the government's cash balance, but does not prescribe how this reconciliation should be presented. Treasury believes it complies with paragraph 12 by linking operating cash to Note 2, <i>Cash and Other Monetary Assets</i> , which then links operating cash to the total cash balance amount on the Balance Sheet.	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 \$43.6 billion rather than the cash balance reported on the Balance Sheet of \$97.9 billion, as of September 30, 2006.
110	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.	While SFFAS No. 24 shows gross receipt and disbursement amounts for direct loans and loan guarantees as an illustration only, it does not require such disaggregated disclosure in the CFS.	Closed. Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 15.b.
111	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 the Department of Justice (Justice), 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.
112	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.

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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
113	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.
114	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 12.e.	Closed.
115	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.	The disclosure of the unrecognized portion of estimated total cleanup costs is now governed by SFFAS No. 32, paragraph 25.b. The required disclosure is included in Note 12, <i>Environmental and Disposal Liabilities</i> , in the fiscal year 2006 CFS.	Closed.
116	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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 12.h.	Closed.

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117	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.	The disclosure of the unrecognized portion of estimated total cleanup costs is now governed by SFFAS No. 32, paragraph 25, which does not mandate such an explanation, although such explanation would be added as circumstances merit.	Closed. Although there is no authoritative requirement to disclose significant or unusual changes in balances in the notes to the financial statements, the Management's Discussion and Analysis section of the 2006 CFS included a discussion of the reasons for and the amount of certain significant changes relating to environmental and disposal liabilities.

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			Per Treasury and OMB	Per GAO
118	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. Treasury's revised policies and procedures related to reporting on stewardship investments only require reporting on major results that were achieved by the basic or applied research programs, and by the development program(s), that were selected for disclosure in the CFS.	Open. Paragraph 39 of SFFAS No. 8, <i>Supplementary Stewardship Reporting</i> , established that summary or selected stewardship investments information, as is feasible, should be reported in the CFS. Treasury agreed that it was feasible to include in the CFS a narrative discussion of the results achieved by the major research and development programs. As such, in the fiscal year 2006 TFM, Treasury requested applicable federal agencies to provide information regarding results achieved for their research and development programs. However, the requested disclosure information was not provided in the closing packages by the federal agencies that had major research and development programs. Regardless, two federal agencies that had major research and development programs did report this type of information in their respective fiscal year 2006 performance and accountability reports.

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			Per Treasury and OMB	Per GAO
GAO-05-407 (results of the fiscal year 2004 audit)				
119	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 2006 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.	Closed.
120	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.	<p>Treasury will follow its standard operating procedure that includes maintaining documentation for all recorded journal vouchers, including notification and approval of changes from affected agencies.</p> <p>Except in certain circumstances described below, Treasury will seek approval from agencies before making data changes. However, because of year-end time constraints, Treasury will make changes without agency contact or approval under the following circumstances: (1) adjustments to agree closing packages to financial statements, (2) adjustments to ensure consistency of GAAP between agencies, and (3) adjustments to conform an agency to GAAP.</p>	<p>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.</p> <p>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.</p>

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

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
121	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.	<p>Treasury policy related to the notification of agencies before making needed data changes is described in status of recommendation No. 04-2.</p> <p>Treasury agrees that changes to closing package information should be accurate and fully supported. Nevertheless, errors in closing packages do occur, and Treasury and OMB have notified the agencies and their auditors of these errors in an effort to reduce such errors.</p> <p>With regard to adjustments to agree closing packages to financial statements, which constitute a significant portion of all adjustments made, the rebuttable presumption is that since closing packages must be consistent with the underlying agencies' financial statements, any inconsistencies found require adjustment to agree to the agency records.</p> <p>Treasury maintains that agency financial statements also serve as communications to Treasury; thus adjustments agreeing closing packages to financial statements are, by definition, fully supported. Where agency clarification is needed related to complex disclosures, Treasury will continue to document these discussions to ensure that the CFS is consistent with agency financial statements and note disclosures.</p> <p>Treasury understands the risk for material error in making changes without adequate support. However, Treasury believes that this risk is sufficiently minimized by following its current policies and procedures.</p>	Open. See status of recommendation No. 04-2.
122	04-4	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to require and document management reviews of all procedures that result in data changes to the CFS.	Treasury further revised its procedures to ensure management reviews of data changes to the CFS.	Open. Certain of Treasury's procedures were not effective for fiscal year 2006.
123	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 further revised its automated processes in fiscal year 2006 to prevent unauthorized changes to agency-submitted data. Also, see status of recommendation No. 04-1.	Closed.

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

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
124	04-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to assess the infrastructure associated with the compilation process and modify it as necessary to achieve a sound internal control environment.	Treasury made various improvements to its infrastructure during fiscal year 2006, including streamlining the compilation process to automate the production of certain items, continuing its recruitment of qualified personnel and providing them with appropriate training related to the CFS compilation process and associated internal controls, revising its policies and procedures to improve documentation of management reviews and approvals, and continuing cross-training on significant key compilation processes.	Open. For fiscal year 2006, as had been the case for fiscal year 2005, Treasury was unable to provide the final CFS and supporting documentation in time for us to complete all of our planned auditing procedures related to the compilation of these financial statements. In our view, a major contributing factor is that Treasury did not have enough personnel with specialized financial reporting experience to help ensure reliable financial reporting by the reporting date.
125	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.	Treasury updated the TFM in fiscal year 2006 related to the required GAAP disclosures to ensure accurate financial data reporting by federal agencies.	Closed.
126	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 followed their policies and procedures related to legal letter representations and legal contingency disclosures to address inconsistencies between Justice and agency assessments and determined the proper disclosure for the CFS.	Closed.

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

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
127	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.	This required information was requested from the agencies for disclosure in Note 11, <i>Federal Employees and Veteran Benefits Payable</i> , in the fiscal year 2006 CFS. However, no data were received.	Open. Although no data were received, the agency for which this required disclosure is applicable included the disclosure in its fiscal year 2006 performance and accountability report.
128	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 state 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.	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 11.a.	Closed.

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

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
129	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).	Beginning in fiscal year 2006, this disclosure is no longer applicable to the CFS per SFFAS No. 32, paragraph 11.b.	Closed.
130	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 as to the need for further analysis of certain disclosures. 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 2006 CFS.	Open. Further clarification is needed in the TFM instructions regarding the disclosure of cash that is restricted with respect to the federal government taken as a whole. Also, see status of recommendation No. 02-25.
131	04-20	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the note disclosure for other liabilities meets the requirements of SFFAS No. 5, paragraph 114, which requires the reporting of indicators of the range of uncertainty around insurance-related estimates and the sensitivity of the estimates to changes in major assumptions.	The required information was requested from the agencies for disclosure in the required supplementary information, risk assumed section of the fiscal year 2006 CFS. However, no data were received from some agencies.	Open. Treasury expected the required information from applicable agencies as requested in the TFM. However, when the information was not provided, Treasury did not have any policies and procedures for following up with agencies to determine why the information was not provided.

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

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
GAO-06-415 (results of the fiscal year 2005 audit)				
132	05-1	The Secretary of the Treasury should 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.	Treasury revised and documented its policies and procedures in fiscal year 2006 related to the CFS compilation process, including those related to the consistent and comparable presentation of prior and current year information, in all material respects.	Closed.
133	05-2	The Director of OMB should direct the Controller of the Office of Federal Financial Management, in coordination with the Treasury Fiscal Assistant Secretary, to develop an alternative solution for obtaining audit assurance related to the Federal Deposit Insurance Corporation's funds, National Credit Union Administration, and Farm Credit System Insurance Corporation, which includes the requirement for adequate audit procedures to be performed over significant information included in the CFS for these agencies.	OMB agrees with the recommendation and is committed to working with Treasury, GAO, and the pertinent federal agencies to develop an alternative solution for obtaining audit assurance over the significant information included in the CFS for these agencies.	Open.
134	05-3	The Director of OMB should direct the Controller of the Office of Federal Financial Management to consider not waiving the closing package audit requirement for any verifying agency in future years, such as Tennessee Valley Authority.	OMB generally agrees with the recommendation; however, it will continue to weigh the costs against benefits of global requirements during extenuating circumstances.	Open.
135	05-4	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop policies and procedures for monitoring internal control to help ensure that (1) audit findings are promptly evaluated; (2) proper actions are determined in response to audit findings and recommendations, such as a documented plan of action with milestones for short-term and long-range solutions; and (3) all actions that correct or otherwise resolve the audit findings are completed within established time frames.	OMB concurs with the recommendations and is committed to improving the corrective action plans and monitoring progress against those plans.	Open.

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

Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
136	05-5	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop an executable plan of action and milestones for short-term and long-range solutions for certain internal control weaknesses we have previously reported regarding the process for preparing the CFS.	OMB concurs with the recommendations and is committed to improving the corrective action plans and monitoring progress against those plans.	Open.
137	05-6	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the TFM and any other guidance to federal agencies provide clear instructions for providing reliable data to Treasury for restricted cash.	Treasury updated the TFM in fiscal year 2006 related to the required GAAP disclosures to ensure accurate financial data reporting by federal agencies. With regard to restricted cash, during fiscal year 2006, Treasury reviewed agency cash amounts designated as restricted to determine what, if any, restrictions applied at the governmentwide level. Treasury will implement changes based on this review to the restricted cash disclosures during fiscal year 2007.	Open.
138	05-7	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the TFM and any other guidance to federal agencies provide clear instructions for providing reliable data to Treasury for accounts payable.	See status of recommendation No. 04-9.	Closed.
139	05-8	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the TFM and any other guidance to federal agencies provide clear instructions for providing reliable data to Treasury for summaries of unadjusted misstatements.	Treasury updated the TFM in fiscal year 2006 related to the guidance to agencies concerning agency management representations and related summaries of unadjusted misstatements and will continue to revise them as necessary during fiscal year 2007.	Open.
140	05-9	The Secretary of the Treasury should direct the Fiscal Assistant Secretary to ensure that the TFM and any other guidance to federal agencies provide clear instructions for providing reliable data to Treasury for certain information reported by the Office of Personnel Management that is used to allocate costs on the Statement of Net Cost.	See status of recommendation No. 04-9.	Closed.

**Appendix I: Status of Treasury's and OMB's
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Count	No.	Recommendation	Status of recommendation	
			Per Treasury and OMB	Per GAO
141	05-10	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to provide clear guidance to federal agencies as to when the "confirmed reporting" category in the intragovernmental reconciliation report should be selected.	Treasury revised its quarterly intragovernmental reporting process to provide clearer guidance to agencies related to their intragovernmental confirmations as well as to require that agencies prepare corrective action plans for continuing "confirmed" differences.	Open. A significant number of agencies reported material differences on their certification documents as being confirmed, and upon detailed review of supporting explanations, the agencies provided little or no supporting documentation for the material differences. Therefore, we determined that federal agencies are still not being provided clear guidance as to when the "confirmed reporting" category in the intragovernmental reconciliation report should be selected.
142	05-11	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to develop an effective process for obtaining clarification from federal agencies for inconsistent or incomplete explanations provided in all material difference categories.	See status of recommendation No. 05-10.	Open. See status of recommendation No. 05-10.
143	05-12	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to accelerate the due date for inspectors general to complete and report on the results of agreed-upon procedures (AUP) 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.	Treasury revised the focus of the intragovernmental AUP reports to allow for additional work on intragovernmental differences after the annual audit timelines. Therefore, the intragovernmental AUP reports were not accelerated as they were no longer meant to be used during the current years' audits but were now meant for prospective use only. As an "alternative solution," Treasury required that the current year intragovernmental trading partner balances and activities be included in the scope of the annual closing package audit. This alternative solution allowed for the agency audit results on intragovernmental activity and balances to be used during the year-end audit of the CFS.	Closed. GAO agrees with the alternative solution.

Source: GAO.

Appendix II: Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 27, 2007

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

Dear Mr. Engel:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO's) draft report on the Fiscal Year (FY) 2006 audit, GAO-07-805, *Significant Internal Control Weaknesses Remain in the Preparation of the Consolidated Financial Statements of the U.S. Government*.

We are continuing to make significant progress in improving the preparation of the Consolidated Financial Statements (CFS) of the U.S. Government. Once again, we have issued the CFS by December 15; just one month after agencies' final data was made available and as new reporting requirements were implemented. During FY 2006, we were able to remove 73 recommendations identified in previous GAO audit reports. Many of the previous GAO recommendations were addressed through our work with the Federal Accounting Standards Advisory Board to eliminate disclosure requirements that were too detailed and considered inappropriate for a government-wide report. Additionally, we made several procedural and automated changes to our reporting processes, which addressed other GAO recommendations. All these efforts were undertaken in an attempt to streamline the CFS and make it more meaningful and usable to its readers.

GAO's draft report identifies areas needing further research, analysis and resolution to strengthen and improve our preparation of the CFS. While significant advancements have been made in the preparation process and in the usefulness and accuracy of the CFS, we concur with GAO that the preparation process should continually be improved, and we look forward to working with your office in identifying such process improvements.

The FY 2006 draft report identifies 11 new findings and their related recommendations for improving the CFS preparation process. We concur with GAO on these new findings and recommendations with the exception of one finding related to non-conformity with generally accepted accounting principles (GAAP).

With respect to GAO's GAAP conformity finding related to the consolidated Statement of Social Insurance, we do not believe that GAAP criteria require the reporting of a consolidated total in that Statement. In addition, because of the differences in key

assumptions and other criteria used in preparing the different sections of the Statement of Social Insurance, we do not believe that a consolidated total is especially meaningful. Furthermore, the criteria referenced by GAO in its GAAP conformity finding are not GAAP requirements with respect to the CFS, but are instead meant to be used as guidance.

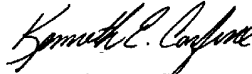
Treasury concurs with GAO that there is no specific GAAP requirement to disclose foreign currency in the CFS. However, Treasury agrees that the recommended additional disclosure on foreign currency would increase the usefulness of the CFS to the reader. Therefore, we have taken steps to modify the Closing Package to collect foreign currency information in FY 2007 and thus fully implement GAO's recommendation.

We also agree with GAO that a significant material weakness in the preparation of the CFS is the intragovernmental out-of-balance condition. We have taken steps to work with the CFO Council to address this issue through the issuance of Treasury Financial Manual Bulletin No. 2007-03, "Intragovernmental Business Rules," and working with OMB to establish the Intragovernmental Dispute Resolution Committee.

While we continue to disagree with some of GAO's previous recommendations relating to the Statement of Changes in Cash Balance from Unified Budget Deficit and Other Activities, the Reconciliation of Net Operating Cost and Unified Budget Deficit, and the adjustment process, we have continued to work with your staff on alternative ways to satisfactorily address these recommendations and your concerns. To that end, we have revised the manner for producing these Statements and will continue to improve the completeness and accuracy of the various reconciliation items.

In conclusion, we will continue to work with GAO on CFS matters where improvements need to be made, and we will continue our dialogue with you to resolve the areas in which we differ with GAO's recommended approach.

Sincerely,



Kenneth E. Carfene
Fiscal Assistant Treasury

cc: Linda Combs, OMB
Daniel Werfel, OMB

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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

Acknowledgments

In addition to the above contact, the following individuals made key contributions to this report: Lynda Downing, Assistant Director; Bill Boutboul; Darryl Chang; Mina Gusukuma; Nina Marrero; Maria Morton; Paula Rascona; Katherine Schirano; and Taya Tasse.

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