



Highlights of [GAO-09-387](#), a report to the Secretary of the Treasury and the Director of the Office of Management and Budget

Why GAO Did This Study

Since GAO's first audit of the fiscal year 1997 consolidated financial statements of the U.S. government (CFS), material weaknesses in internal control and other limitations on the scope of our work have prevented GAO from expressing an opinion on the accrual basis CFS. Certain of those material weaknesses relate to inadequate systems, controls, and procedures to properly prepare the CFS. The purpose of this report is to (1) provide details of the continuing material weaknesses related to the preparation of the CFS, (2) recommend improvements, and (3) provide the status of corrective actions taken to address GAO's previous 56 recommendations in this area.

What GAO Recommends

GAO is making four new recommendations to address control deficiencies identified during the fiscal year 2008 CFS audit that relate to the federal government's processes used to prepare the CFS. In commenting on our draft report, The Department of the Treasury and the Office of Management and Budget stated that they generally concurred with our recommendations.

To view the full product, including the scope and methodology, click on [GAO-09-387](#). For more information, contact Gary Engel, (202) 512-3406, engelg@gao.gov.

FINANCIAL AUDIT

Material Weaknesses in Internal Control Continue to Impact Preparation of the Consolidated Financial Statements of the U.S. Government

What GAO Found

During its audit of the fiscal year 2008 CFS, GAO identified continuing and new control deficiencies in the federal government's processes used to prepare the CFS. These control deficiencies contribute to material weaknesses in internal control over the federal government's ability to (1) adequately account for and reconcile intragovernmental activity and balances between federal agencies; (2) ensure that the CFS was consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles; and (3) identify and either resolve or explain material differences between components of the budget deficit reported in the Department of the Treasury's records, used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities, and related amounts reported in federal agencies' financial statements and underlying financial information and records.

The control deficiencies GAO identified involved:

- establishing and documenting policies and procedures for identifying and eliminating federal agencies' intragovernmental payroll tax amounts when compiling the CFS,
- establishing and documenting policies and procedures for preparing and reviewing information included in key sections of the *Financial Report of the U.S. Government*,
- establishing criteria for identifying federal entities' significance to the CFS and annually assessing which entities meet such criteria,
- enhancing procedures for analyzing and reviewing data used when compiling the Statements of Net Cost, and
- various other control deficiencies identified in previous years' audits (see app. I).

Of the 56 open recommendations GAO reported in June 2008, 16 were closed and 40 remained open as of December 9, 2008, the date of our report on our audit of the fiscal year 2008 CFS. GAO will continue to monitor the status of corrective actions taken to address the 4 new recommendations as well as the 40 open recommendations from prior years.