



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

Why GAO Did This Study

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

What GAO Recommends

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

To view the full product, including the scope and methodology, click on [GAO-08-748](#). For more information, contact Gary Engel, (202) 512-3406, engelg@gao.gov.

FINANCIAL AUDIT

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

What GAO Found

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

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

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

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