
GAO's Audit of the Consolidated Financial Statements of the U.S. Government

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Topics

- Introduction
- Approach for CFS
- Significant Components
- Consolidation Process
- Going Forward

Introduction

- The federal government prepared its first consolidated financial statements of the U.S. government (CFS) for fiscal year 1997 and GAO has been responsible for performing the audit of those financial statements each year.
- Accrual-Based CFS:
 - For the past twenty years, GAO has issued a disclaimer of opinion
 - Significant progress has occurred
 - 6 CFO Act agencies with clean opinion in 1996
 - 20 CFO Act agencies with clean opinion in 2016

Introduction

- Accrual-Based CFS (cont):
 - Three major impediments to an opinion
 - serious financial management problems at the Department of Defense that have prevented its financial statements from being auditable
 - the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities
 - the federal government's ineffective process for preparing the consolidated financial statements

Introduction

- Sustainability Financial Statements:
 - Statements of long-term fiscal projections
 - Statements of social insurance (SOSI)
 - Statements of changes in social insurance amounts
- Disclaimer of opinion except for 2009, 2008, and 2007 SOSI
 - Significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, as well as a material weakness in internal control

Introduction

- GAO reported the following material weaknesses in fiscal year 2016:
 - Property, Plant, and Equipment, and Inventories and Related Property
 - Liabilities and Commitments and Contingencies
 - Cost of Government Operations and Disbursement Activity
 - Intragovernmental Activity and Balances
 - Preparation of Consolidated Financial Statements
 - Reconciliations of Budget Deficit to Net Operating Cost and Changes in Cash Balance
 - Improper Payments
 - Information Security
 - Tax Collection Activities

Introduction

- GAO reported the following significant deficiencies in fiscal year 2016:
 - Loans Receivable and Loan Guarantee Liabilities
 - Federal Grants Management

Approach for CFS

- Approach for accrual-based CFS
 - GAO has ongoing efforts throughout the year to monitor DOD's and Treasury's efforts to address the three major impediments
 - Determine at the planning stage of our audit whether the impediments will continue to exist and therefore limit our ability to render an opinion on the accrual-based consolidated financial statements
 - Perform those audit procedures that, in our judgment, are feasible and reasonable given our anticipated disclaimer
 - Our current level of involvement and the audit documentation requested from component auditors may be less than would otherwise be required by the group audit standard when giving an opinion
- Approach for sustainability financial statements -- audit procedures aimed at rendering an opinion

Significant Components

- Currently, there are about 154 components (federal entities) included in the consolidated financial statements
 - 39 of those components are considered to be significant
- Perform procedures for the significant components by obtaining key audit documentation from component auditors
- Monitor the status of the significant components' audits to identify and evaluate issues that could impact the CFS audit
- Meet with the auditors to discuss new issues identified by the auditors, as appropriate

Significant Components

- Key planning documents from significant component auditors
 - Confirmation letter (compliance with communication letter, ethical requirements including independence, and professional competence)
 - Peer review report
 - Entity profile
 - Audit strategy
 - Materiality calculations
 - Risk assessments
 - Applicable laws and regulations

Significant Components

- Key end of year documents from significant component auditors
 - Interim and final legal representation letters, and management schedules
 - Management representation letters
 - Information technology documentation, such as IT audit plan and descriptions of key financial applications
 - Overall audit summary
 - End-of-audit confirmation and independence Letter

Significant Components

- Final performance and accountability reports or agency financial reports
 - Opinion on the financial statements
 - Internal control deficiencies
 - Noncompliance with laws, regulations, contracts, and grant agreements

Consolidation Process

- Key document from significant components:
 - Closing packages
 - audit opinion on the closing package
 - internal control deficiencies
 - financial data that is tied to audited agency-level financial statements
- Amounts submitted through the closing packages are recorded directly into the CFS
- Wording (disclosures) provided in the closing packages is used in the CFS

Consolidation Process

- Deficiencies in preparation process
 - Material weaknesses and significant deficiencies reported by significant component auditors related to financial reporting
 - Significant adjustments to financial data reported by components
 - Reporting of certain financial information required by U.S. GAAP
 - treaties and other international agreements
 - criminal debt
 - Systems and processes for certain Treasury central accounting functions, such as the General Fund of the U.S. Government (General Fund) and components of the budget deficit

Consolidation Process

- Deficiencies in intragovernmental process
 - Amounts reported by federal entity trading partners, including the General Fund, were not in agreement by material amounts
 - Significant adjustments related to intragovernmental financial data reported by components
 - Unmatched amount (or plug) needed to balance the consolidated financial statements

Going Forward

- General Fund
- Intragovernmental
- Adjustments recorded at CFS level
- Budget and accrual reconciliation
- Improper payments
- SFFAS 47