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# **Audit of the Consolidated Financial Statements of the U.S. Government**

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**Dawn B. Simpson, Director  
Government Accountability Office  
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**2021 CIGIE/GAO Financial Statement Audit Conference**

## Topics

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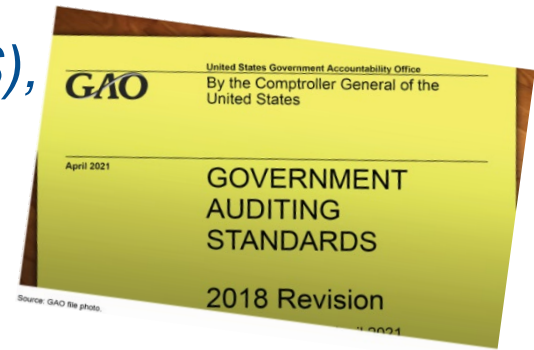
- How we audit the CFS
- Results of FY 2020 CFS Audit
- Looking ahead to FY 2021 CFS Audit

## How We Audit the CFS

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We perform our audit of the CFS following:

- *Government Auditing Standards (GAGAS)*, which incorporate AICPA, *Generally Accepted Auditing Standards*, including standards for audits of group financial statements (AU-C Section 600)
- Methodology
  - *GAO/CIGIE Financial Audit Manual (FAM)*
  - *GAO Federal Information System Controls Audit Manual (FISCAM)*



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# How We Audit the CFS

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## Accrual-based CFS

- Statement of Net Cost (SNC), Statement of Operations and Changes in Net Position (SOCNP), Reconciliation of Net Operating Cost and Budget Deficit (Recon Stmt), Statement of Changes in Cash Balance from Budget and Other Activities (Cash Stmt), and Balance Sheet (BS)
- Three major impediments have continued to prevent GAO from rendering an opinion:
  - serious financial management problems at DOD
  - inability to adequately account for intragovernmental activity and balances between federal entities
  - weaknesses in the federal government's process for preparing the CFS

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# How We Audit the CFS

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## Accrual-based CFS (cont)

- For FY20, SBA, which had substantial activity related to the COVID-19 response, received a disclaimer
- Ongoing efforts to monitor the status of these impediments
- We anticipate that all or most of the three major impediments will continue to exist and limit our ability to render an opinion for FY21
- Our approach involves performing those audit procedures that, in our judgment, are feasible and reasonable
- Primarily focus on the CFS preparation process and significant component audits, especially those components that contribute most significantly to the prior year CFS issues

# How We Audit the CFS

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## Sustainability Financial Statements

- Statement of Long-Term Fiscal Projections (SLTFP), Statement of Social Insurance (SOSI), and Statement of Changes in Social Insurance Amounts (SCSIA)
- Significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, have prevented GAO from expressing an opinion since 2010
- A material weakness has also prevented us from expressing an opinion on the SLTFP

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# How We Audit the CFS

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## Sustainability Financial Statements (cont)

- Our approach involves:
  - the review and use of component auditor's work at SSA and HHS on the SOSI, SCSIA, and related disclosures
  - monitoring the significant uncertainties
  - monitoring the progress being made to address the material weakness, including corrective actions pertaining to the budget deficit

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# How We Audit the CFS

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## Planning

- Identify significant components
  - currently 40, consistent with Treasury's identification
- Audit 3 significant components – FDIC, SEC, and General Fund
- Audit Department of the Treasury sub-components – Federal Debt, IRS, and TARP
- Use the work of auditors (IGs and IPAs) of the significant components
  - communicate with significant component auditors



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# How We Audit the CFS

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## Planning (cont)

- Identify and assess risks of material misstatement
  - analyze risk assessments and audit strategies provided by significant component auditors
  - determine risks at the CFS line item/audit area level
  - determine government-wide significant risks
- Attend audit status meetings of certain significant components
- Review status reports and planning PBCAs from significant component auditors
- Obtain understanding of changes to the CFS preparation processes and corrective actions to address deficiencies

# How We Audit the CFS

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## Year-end

- Assess the reporting entity
    - review Fiscal Service documentation of procedures performed and conclusions
    - review PBCA items from significant component auditors assessing changes to the component's reporting entity from the prior year
  - CFS Recon Stmt and Cash Stmt
    - review Fiscal Service documentation of procedures performed
  - CFS SLTFP
    - review projections, note disclosure, and RSI
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## How We Audit the CFS

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### Year-end (cont)

- BS, SNC, SOCNP, SOSI, SCSIA, and related notes and RSI (includes amounts and wording in notes and RSI)
  - verify they are supported by significant component financial statements prior to eliminating intragovernmental
    - review Fiscal Service documentation—tracing, JVs, uncorrected amounts, variances
    - perform additional tracing
    - review PBCA items from significant component auditors related to the reclassification and variances
    - for SNC, review allocations at the CFS level
  - determine affect of significant component disclaimers

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# How We Audit the CFS

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## Year-end (cont)

- IGT
  - review Fiscal Service's monitoring of differences and JVs
  - review PBCA items from significant component auditors
- Review JVs needed at the consolidation level
- Management representation letters
- Legal letters
- Summaries of Uncorrected Misstatements
- Summaries of Corrected Misstatements
- Subsequent Events

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# How We Audit the CFS

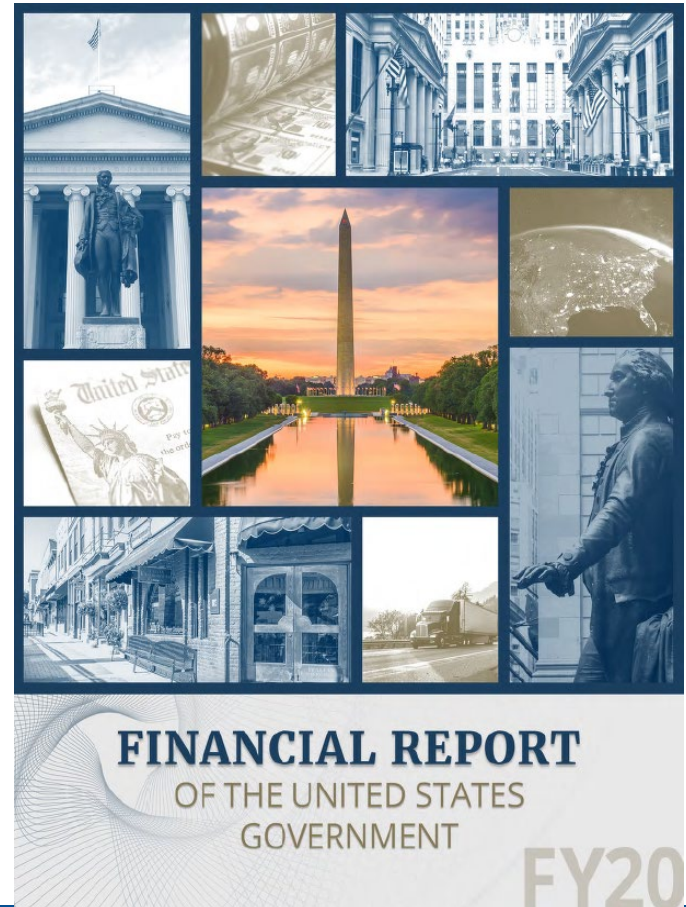
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## Year-end (cont)

- Internal control
    - aggregate material weaknesses and significant deficiencies from significant component audit reports by CFS line items/areas
      - use PBCA item providing additional information
      - discussions with component auditors
      - determine CFS level MW and SD
    - determine status of MW in the CFS preparation processes
  - Compliance
    - analyze non-compliances from significant component audit reports and determine if any reportable at CFS level
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## Results of FY20 CFS Audit

- *FY20 Financial Report of the U.S. Government*, **GAO-21-340R** (March 25, 2021)
  - GAO Independent Auditor's Report
- *Understanding the Financial Report of the U.S. Government*, **GAO-18-239SP** (Feb 2018)



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## Results of FY20 CFS Audit

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- Key significant component entity audit results:
  - 35 entities with unmodified opinions
    - HHS disclaimer on SOSI and SCSIA
  - DOD and SBA with disclaimers
  - General Fund – disclaimer subsequently issued
  - Security Assistance Accounts unaudited
- Improvements:
  - HUD with a clean opinion
  - DOD, General Fund
  - CFS preparation processes

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## Results of FY20 CFS Audit

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- Disclaimer of opinion on the accrual-based CFS
  - material weaknesses contributed to disclaimer, including loans receivable and loan guarantee liabilities
  - scope limitations, including management representations
- Disclaimer of opinion on the sustainability financial statements
- Ineffective internal control over financial reporting
- Tests of compliance limited by material weaknesses and scope limitations
- New matter of emphasis related to the COVID-19 response



## Looking ahead to FY 2021 CFS Audit

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- Key dates for significant component auditors:
  - Draft communication letter, mid-May
  - Communication letter meeting, May 25
  - Final communication letter, June
  - Planning PBCAs, July/Aug
  - Year-end PBCAs, November
- New quarterly GAO/OIG/IPA Group Auditor Meetings starting in July
- Standardized balance sheet, COVID note

# Support of Federal Financial Community

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**Thank you!**

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## Contact Information

### **Dawn B. Simpson**

Director  
Financial Management and  
Assurance  
U.S. Government Accountability  
Office  
[SimpsonDB@gao.gov](mailto:SimpsonDB@gao.gov)

### **William E. Boutboul**

Assistant Director  
Financial Management and  
Assurance  
U.S. Government Accountability  
Office  
[BoutboulW@gao.gov](mailto:BoutboulW@gao.gov)

### **Carolyn M. Voltz**

Assistant Director  
Financial Management and  
Assurance  
U.S. Government Accountability  
Office  
[VoltzC@gao.gov](mailto:VoltzC@gao.gov)