



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

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Topics

- Understanding the CFS
- Results of FY 2022 CFS Audit
- Planning for the FY 2023 CFS Audit

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Understanding the CFS

The Consolidated Financial Statements of the U.S. Government (CFS) are included in the annual Financial Report of the United States Government

Understanding the Financial Report of the U.S. Government, GAO-18-239SP (Feb 2018)

- About 160 federal entities consolidated
 - 40 significant entities
- Two types of financial statements: accrual-based and sustainability



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Understanding the CFS

- Message from the Secretary – “It is my duty and pleasure to present this Financial Report to the American people. This document is a testament to the importance of accountability and transparency in how the nation handles its finances and economic policymaking.”
- Executive Summary
- Management Discussion & Analysis (MD&A)
- Statement of the Comptroller General
- Financial Statements and Notes to the Financial Statements
- Required Supplementary Information and Other Information
- Appendixes: Reporting Entity and Glossary of Acronyms
- GAO Audit Report

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Understanding the CFS

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)
- Balance Sheet

Sustainability Financial Statements

- Statement of Long-Term Fiscal Projections (SLTFP)
- Statement of Social Insurance (SOSI)
- Statement of Changes in Social Insurance Amounts (SCSIA)

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Understanding the CFS

Nation by the Numbers (excerpt)		
Financial Measures (in billions):	FY22	FY21
Total Net Cost	\$9,096.8	\$7,350.8
Less: Total Tax and Other Unearned Revenues	\$4,925.9	\$4,255.9
Net Operating Cost	(\$4,170.9)	(\$3,094.9)
Budget Deficit	(\$1,375.5)	(\$2,775.6)
Total Assets	\$4,962.4	\$4,893.6
Total Liabilities	(\$39,022.3)	(\$34,777.7)
Net Position	(\$34,061.2)	(\$29,885.8)
Sustainability Measures (in trillions):		
Social Insurance Net Expenditures	\$75.9	\$71.0
Total Federal Non-Interest Net Expenditures	\$79.5	\$97.6

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Understanding the CFS

1. Summary of Significant Accounting Policies

- FASAB Standards apply to the CFS (per SFFAS 34 a few may report under FASB)
- Unique accounting standards applicable to the CFS include
 - *SFFAS 24, Selected Standards for the Consolidated Financial Report of the U.S. Government*
 - *SFFAS 32, Consolidated Financial Report of the U.S. Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4, Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the U.S. Government*
 - *SFFAS 36, Comprehensive Long-Term Projections for the U.S. Government*
 - *SFFAS 47, Reporting Entity*
- Various other standards have explicit guidance for the CFS
- Where applicable, CFS accounting policies should be consistent with audited significant component entity financial statements.

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Understanding the CFS

2. Cash and Other Monetary Assets
3. Accounts Receivable (Net)
4. Loans Receivable (Net) and Loan Guarantee Liabilities
5. Inventory and Related Property (Net)
6. General Property, Plant, and Equipment (Net)
7. Investments
8. Investments in Government-Sponsored Enterprises
9. Advances and Prepayments
10. Other Assets

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Understanding the CFS

11. Accounts Payable
12. Federal Debt and Interest Payable
13. Federal Employee and Veteran Benefits Payable
14. Environmental and Disposal Liabilities
15. Benefits Due and Payable
16. Insurance and Guarantee Program Liabilities
17. Advances from Others and Deferred Revenues
18. Other Liabilities

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Understanding the CFS

19. Collections and Refunds of Federal Revenue
- 20 and 21. Commitments and Contingencies
22. Funds from Dedicated Collections
23. Fiduciary Activities
24. Long-Term Fiscal Projections
25. Social Insurance
26. Stewardship Property, Plant, and Equipment
27. Disclosure Entities and Related Parties
28. Public-Private Partnerships
29. COVID-19 Activity
30. Subsequent Events

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Results of FY 2022 CFS Audit

- *FY22 Financial Report of the U.S. Government*, **GAO-23-105837** (February 16, 2023)
- GAO Independent Auditor's Report



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Results of FY 2022 CFS Audit

Disclaimer of opinion on accrual-based CFS

- 7 material weaknesses in internal control contributed to disclaimer
- Key significant component entity audit results:
 - 33 significant entities with unmodified opinions
 - DOD, EDU, SBA, GF, RRB, SAA with disclaimers
 - DOL with qualified

Disclaimer of opinion on sustainability financial statements

- Key significant component entity audit results:
 - HHS disclaimer on SOSI and SCSIA
 - SSA unmodified opinion on SOSI and SCSIA

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Results of FY 2022 CFS Audit

- Scope limitations, including management representations
- Ineffective internal control over financial reporting
 - 2 additional material weaknesses
 - 3 significant deficiencies
- Tests of compliance limited by material weaknesses and scope limitations
- Two emphasis of matters
 - Long-Term Fiscal Challenges
 - Equity Investments in Fannie Mae and Freddie Mac
- Other Matter: CFO Act Agency Financial Management Systems

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Planning for the FY 2023 Audit

Accrual-based CFS

- Anticipate disclaimer
 - All or most of the three major impediments expected to exist
 - Serious financial management problems at DOD
 - Inability to adequately account for intragovernmental activity and balances between federal entities
 - Weaknesses in the CFS preparation process
- 2 objectives
 - Perform those audit procedures that, in our judgment, are feasible and reasonable given the disclaimer
 - Build knowledge for future audits

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Planning for the FY 2023 Audit

Accrual-based CFS (cont)

- Focus areas
 - Status of material weaknesses and other prior year issues
 - CFS preparation process
 - Governmentwide risks of material misstatement
 - Changes in component level audit work
 - Implementation of new accounting standards
 - Changes in the CFS, including notes, RSI, other information

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Planning for the FY 2023 Audit

Sustainability Financial Statements

- Anticipate disclaimer
 - Significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, expected to exist
 - Material weakness related to the budget deficit (which affects the SLTFP) expected to exist
- Approach
 - Review and use component auditor's work at SSA and HHS for SOSI and SCSIA
 - Monitor significant uncertainties and material weakness

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Planning for the FY 2023 Audit

- Identify significant components
 - currently 40, consistent with Treasury/OMB's identification
 - Non-significant components contribute about 1% of net cost
- Use the work of component auditors for 37 significant components – Communication Letter, PBCA Items, Attend Meetings
- Audit 3 significant components – FDIC, SEC, and General Fund
- Audit portions of Department of the Treasury – Federal Debt, IRS, and TARP
- Obtain understanding of changes to the CFS preparation process
- Assess the reporting entity (consolidation entities, disclosure entities, related parties)

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Planning for the FY 2023 Audit

- Determine whether Balance Sheet, SNC, SOCNP, and related notes, RSI, other information are supported by significant component financial statements prior to eliminating intragovernmental activity and balances
- Review Fiscal Service supporting documentation for Recon Stmt and Cash Stmt
- Review OMB's preparation and projections for the SLTFP and related note and RSI
- Determine whether SOSI, SCSIA, and related note and RSI are supported by significant component financial statements
- Review Executive Summary and MD&A for consistency and support

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Planning for the FY 2023 Audit

- Review Fiscal Service Preparation of Financial Report drafts
 - Supported by significant component financial reports
 - Explanations for significant variances from prior year
 - Support for new information
- Review Fiscal Service preparation procedures for
 - CFS statements and related notes, RSI, and Other Information
 - Calculating and monitoring intragovernmental elimination differences; preparing correcting journal vouchers
 - Preparing journal vouchers posted at the consolidated level
 - Corrective actions to address prior year recommendations
 - Other key Fiscal Service preparation procedures

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Planning for the FY 2023 Audit

- Review significant component auditor reports
 - Analyze opinions on financial statements
 - Aggregate material weaknesses and significant deficiencies by CFS line items/areas
 - Use PBCA items providing additional information
 - Discussions with component auditors
 - Analyze non-compliances for significance at CFS level
 - Analyze emphasis and other matters paragraphs
 - Review entity auditor's Audit Summary Memo for consistency with auditor's report

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Planning for the FY 2023 Audit

- Review final significant component auditor status reports for any issues affecting the CFS audit
- Prepare FAM reporting phase documents using PBCA items from significant component auditors
 - Management representation letters
 - Legal letters
 - Summaries of Uncorrected Misstatements
 - Summaries of Corrected Misstatements
 - Overall analytical procedures
 - Updated materiality amounts

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Planning for the FY 2023 Audit

- Determine conclusions for the CFS
- Changes to the FY 2023 PBCA list for significant component auditors:
 - includes updated requests related to implementation of SFFAS 54, Leases
 - Does not include requests for COVID-19 audit procedures

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Other GAO Reports

- Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits
- The Nation's Fiscal Health: Federal Action Critical to Pivot toward Fiscal Sustainability, Annual Report to Congress May 2023

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Support of Federal Financial Community



Thank you!

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