



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

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Introduction - Topics

- Understanding the Financial Report of the U.S. Government (FR)
- Results of the Audit of the U.S. Consolidated Financial Statements (CFS)
- Long-Term Fiscal Health Information
- CFS FY 2024 Audit Approach

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Understanding the CFS

The FR includes the CFS

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

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



GAO-18-239SP February 2018 U.S. Government Accountability Office

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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 from FR) | | |
|--|--------------|--------------|
| | FY23 | FY22 |
| Financial Measures (in billions): | | |
| Total Net Cost | (\$7,882.8) | (\$9,096.9) |
| Less: Total Tax and Other Unearned Revenues | \$4,465.6 | \$4,925.9 |
| Net Operating Cost | (\$3,417.2) | (\$4,170.9) |
| Budget Deficit | (\$1,695.2) | (\$1,375.5) |
| Total Assets | \$5,419.1 | \$4,962.4 |
| Total Liabilities | (\$42,898.3) | (\$39,022.3) |
| Net Position | (\$37,479.2) | (\$34,061.2) |
| Sustainability Measures (in trillions): | | |
| Social Insurance Net Expenditures | (\$78.4) | (\$75.9) |
| Total Federal Non-Interest Net Expenditures | (\$73.2) | (\$79.5) |

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Results of FY 2023 CFS Audit

FY23 Financial Report of the U.S. Government, GAO-24-106660
(February 15, 2024)

- GAO Independent Auditor's Report
- The Government Management Reform Act of 1994 required the consolidated financial report of the U.S. to be audited. Treasury's 1997 annual consolidated financial report was the first CFR to be issued pursuant to the Act and to undergo an audit.



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Results of FY 2023 CFS Audit

Disclaimer of opinion on accrual-based CFS

- 7 material weaknesses in internal control contributed to disclaimer
- Significant component entity audit results:
 - 32 significant entities received unmodified opinions
 - DOD, EDU, SBA, SAA, and RRB received disclaimers
 - DOL and USDA received a qualified opinion
 - GF was not audited for FY 2023

Disclaimer of opinion on sustainability financial statements

- 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 2023 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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Results of FY 2023 CFS Audit

Progress in Federal Financial Management

- Overall, the federal government has made significant strides in improving financial management since key federal financial management reforms were enacted in the 1990s.
- Nineteen of the 24 CFO Act agencies received clean opinions on their fiscal year 2023 financial statements, up from six CFO Act agencies that received clean audit opinions for fiscal year 1996.

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Results of FY 2023 CFS Audit

Financial Management Challenges – 3 Major Impediments

- Serious financial management problems at DOD
- Inability to adequately account for intragovernmental activity and balances between federal entities
- Weaknesses in the CFS preparation process

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Long-Term Fiscal Health Information

Fiscal projections issued by:

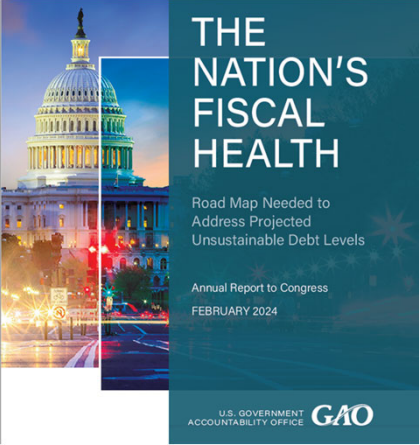
- OMB / Treasury in the Financial Report
- CBO, Long-Term Budget Projections
- GAO, The Nation's Fiscal Health

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Long-Term Fiscal Health Information



THE NATION'S FISCAL HEALTH
Road Map Needed to Address Projected Unsustainable Debt Levels
Annual Report to Congress
FEBRUARY 2024
U.S. GOVERNMENT ACCOUNTABILITY OFFICE **GAO**

GAO-24-106987

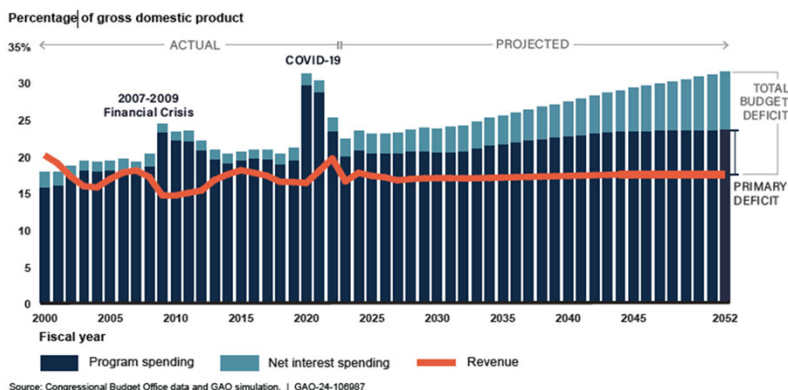
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Long-Term Fiscal Health Information

Figure 3: Primary Deficit and Total Budget Deficit, Actual and Projected

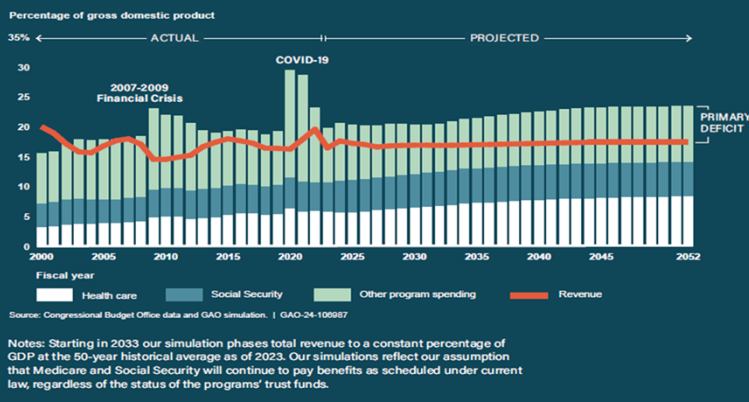


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Long-Term Fiscal Health Information

Figure 5: Composition of Government Program Spending and Revenue, Actual and Projected



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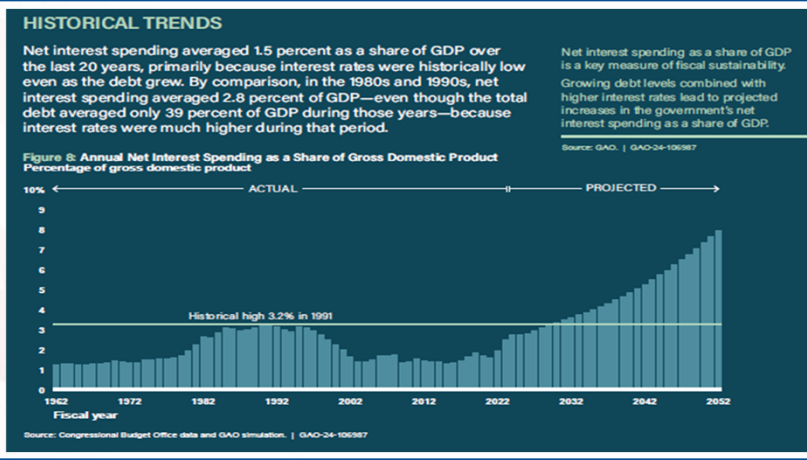
Long-Term Fiscal Health Information

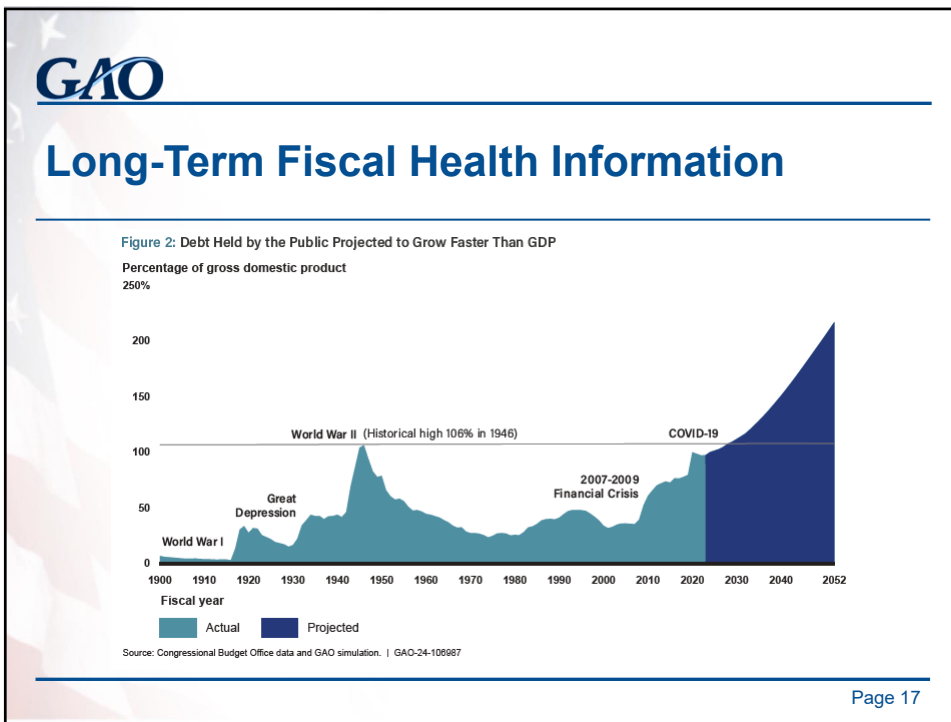
Why does the projected primary deficit grow?

- Demographics
- Continually increasing health care costs

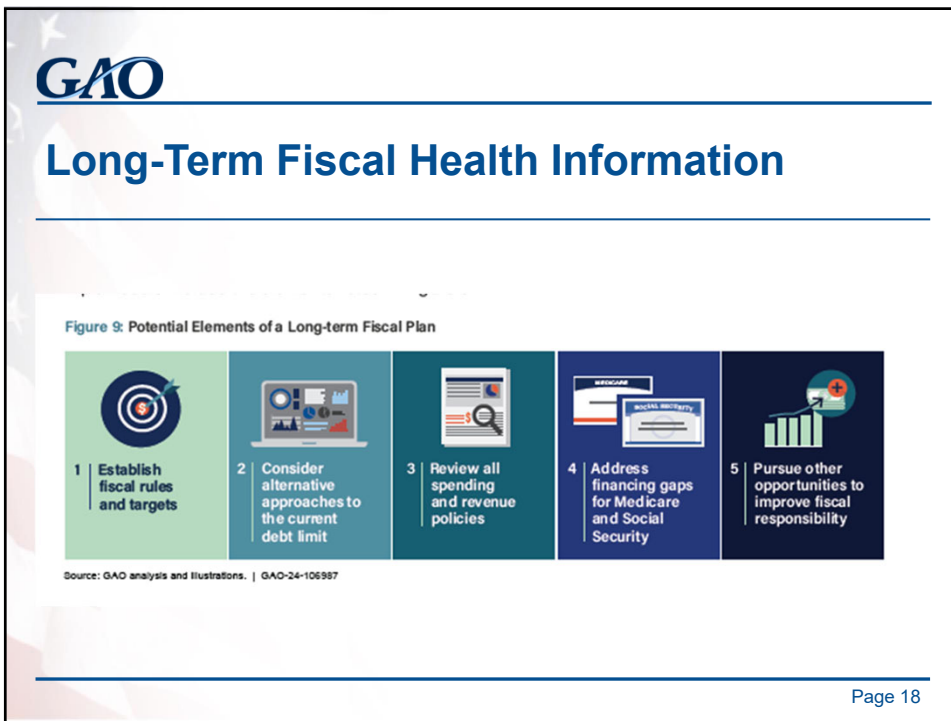


Long-Term Fiscal Health Information





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Why Is Fiscal Health Important?

Implications of growing debt to GDP

- Potential policy constraints
- Risks to economic growth
- Risks to the nation's credit
- Risk of a financial crisis

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Approach for the FY 2024 Audit

- Financial Audit Manual (FAM), see section 630 – *Audits of Group Financial Statements*
 - AU-C 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*
 - Update understanding of entity and components, risks of material misstatement, materiality thresholds, and our audit approach
 - Importance of Component Audits: Group auditor obtains sufficient appropriate audit evidence on which to base the group audit report
- Anticipate Disclaimer (all statements)
 - Perform those audit procedures that, in our judgment, are feasible and reasonable given the disclaimer
 - Build knowledge for future audits

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Approach for the FY 2024 Audit

Update Entity Information: The FR is a general purpose report that is aggregated from agency reports and tells users where to find information, per Statement of Federal Financial Accounting Concepts 4

- Review Treasury's identification of reporting entities (consolidation entities, disclosure entities, related parties, public private partnerships)
- 40 significant components, consistent with Treasury/OMB's identification, other components contribute less than 1% of net cost
- We audit 3 significant components – FDIC, SEC, General Fund – and portions of Department of the Treasury – Federal Debt and IRS
 - We issued our 15th and final TARP report for FY 2023 as well as a recap report, see GAO-24-107033

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Approach for the FY 2024 Audit

Assessment of Risks of Material Misstatement

- Identify risks of fraud or error for the group financial statements, including specific risks associated with line items, accounts, note disclosures, or classes of transactions
 - Consider risks identified by component auditors; communication letter template updated for revised FAM
- Design audit procedures considering identified risks of material misstatement
 - Request specific procedures from component auditors in the communication letter, referenced in subsequent slides

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Approach for the FY 2024 Audit

Materiality

- Determine materiality to be applied to particular line items, accounts, note disclosures, and classes of transactions
- Component materiality should be lower than the materiality for the group financial statements as a whole
 - Non-federal and federal balances should be considered separately; sufficient consideration of federal balances
 - We will perform outreach with auditors regarding this topic
- Consider whether additional component level work by the group auditor is needed

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Approach for the FY 2024 Audit

Year-End: Information obtained from significant component auditors is critical to our audit of the CFS

- Review financial statements and audit reports
- Aggregate material weaknesses and significant deficiencies by CFS line items/areas
- Analyze non-compliances for significance at CFS level
- Analyze emphasis and other matters paragraphs
- Review entity auditors' audit summary memos

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Approach for the FY 2024 Audit

Communication Letter Information (examples)

- Risk and Materiality assessments
- Deviations from FAM/FISCAM
- Provisions of laws, regulations, contracts, grant agreements
- Specific procedures for identified government-wide risk areas such as reporting to Treasury and intragovernmental
- Implementation of new accounting standards (example: leases)

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Approach for the FY 2024 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 counsel responses
 - Summaries of uncorrected misstatements, including lists of proposed adjusting entries needed to correct the uncorrected misstatements
 - Summaries of corrected misstatements
 - Overall analytical procedures
 - Updated materiality amounts

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Planning for the FY 2023 Audit

Review Treasury and OMB Compilation Results

- Determine whether Balance Sheet, SNC, SOCNP, and related notes, required supplementary information (RSI), other information are supported by significant component financial statements
- 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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Approach for the FY 2024 Audit

Additional Considerations in Reviewing Treasury's and OMB's Preparation of the CFS

- Significant, unusual events
- Changes in accounting principles
- Restatements and corrections of errors
- Significant variances from prior year
- Treasury journal voucher adjustments
- Intragovernmental balances and activity offsets
- Treasury consolidation processes and significant accounting policies

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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 (GAO-20-566)*
- *The Nation's Fiscal Health: Road Map Needed to Address Unsustainable Debt Levels, Annual Report to Congress (GAO-24-106987)*

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Support of Federal Financial Community



Thank you!

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