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Accounting and Information
Management Division

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Inspectors General

Subject: Financial Audit: Reconciliation of Fund Balances with Treasury

As you know, under the Government Management Reform Act of 1994 (Public Law 103-356), GAO will audit, starting with fiscal year 1997, the Consolidated Financial Statements of the U.S. Government prepared by the Department of the Treasury. The monthly process used by federal departments and agencies, and Treasury, in reconciling the Fund Balances with Treasury accounts is a key internal control over federal receipts and disbursements. As such, a major focus of our audit will be to evaluate the overall effectiveness of this reconciliation process.

The purpose of this letter is to (1) provide information on key Treasury and agency processes and procedures for reconciliations of Fund Balances with Treasury accounts and alert you to our concerns and certain issues related to these reconciliations that have emerged in our work to date (see enclosure I), and (2) provide guidance and suggested audit procedures for Fund Balances with Treasury accounts to assist you in developing audit plans for your audits of fiscal year 1997 financial statements. (See enclosure II.)

We worked with the Federal Audit Executive Council and representatives of the Council's Financial Statement Network Group, as well as Treasury's Financial Management Service, to obtain their input in developing the two enclosures. We appreciate the assistance these groups provided.

We expect that other audit issues will surface during the performance of our audit of the Consolidated Financial Statements of the U.S. Government. As they do, we plan to follow the same approach as we used for this issue for obtaining input from the Inspector General community before finalizing any material.

We are sending copies of this letter to the Office of Management and Budget and the Chief Financial Officers of the 24 federal executive agencies covered by the Chief Financial Officers Act of 1990. If you have any questions regarding the information in this letter, please call me at (202) 512-2600, or Gary Engel,

Associate Director, at (202) 512-8815. Other major contributors are listed in enclosure III.

Sincerely yours,



Gene L. Dodaro
Assistant Comptroller General

Enclosures

ADDRESSEES

The Honorable Jeffrey Rush, Jr.
Inspector General
Agency for International Development

The Honorable Roger C. Viadero
Inspector General
Department of Agriculture

The Honorable Frank D. DeGeorge
Inspector General
Department of Commerce

The Honorable Eleanor Hill
Inspector General
Department of Defense

The Honorable Thomas R. Bloom
Inspector General
Department of Education

The Honorable John C. Layton
Inspector General
Department of Energy

Nikki L. Tinsley
Acting Inspector General
Environmental Protection Agency

The Honorable George J. Opfer
Inspector General
Federal Emergency Management Agency

The Honorable William R. Barton
Inspector General
General Services Administration

The Honorable June Gibbs Brown
Inspector General
Department of Health and Human Services

The Honorable Susan Gaffney
Inspector General
Department of Housing and Urban Development

The Honorable Wilma A. Lewis
Inspector General
Department of the Interior

The Honorable Michael R. Bromwich
Inspector General
Department of Justice

The Honorable Charles C. Masten
Inspector General
Department of Labor

The Honorable Roberta L. Gross
Inspector General
National Aeronautics and Space Administration

Linda G. Sundro
Inspector General
National Science Foundation

The Honorable Hubert T. Bell
Inspector General
Nuclear Regulatory Commission

The Honorable Patrick E. McFarland
Inspector General
Office of Personnel Management

The Honorable James F. Hoobler
Inspector General
Small Business Administration

The Honorable David C. Williams
Inspector General
Social Security Administration

The Honorable Jacquelyn Williams-Bridgers
Inspector General
Department of State

The Honorable Kenneth M. Mead
Inspector General
Department of Transportation

The Honorable Valerie Lau
Inspector General
Department of the Treasury

William T. Merriman
Deputy Inspector General
Department of Veterans Affairs

## KEY PROCESSES AND PROCEDURES USED IN RECONCILIATIONS OF FUND BALANCES WITH TREASURY ACCOUNTS

Most federal agencies use the central banking services provided by Treasury's Financial Management Service (FMS) and do not maintain cash in separate bank accounts.[1] Each agency records its budget spending authority in an asset account within its own general ledger called Fund Balances with Treasury, and increases or decreases this account balance during the year as FMS collects or disburses money on the agency's behalf. Also, some agencies have authority to disburse funds on their own behalf. These agencies still must maintain a Fund Balances with Treasury account and follow Treasury's reporting and reconciling requirements.

Even though Treasury serves as the central banker for most federal agencies, unlike commercial banking institutions, it does not maintain independent accounting records of each agency's Fund Balances with Treasury accounts. Instead, Treasury relies on monthly data reported by agencies for its record of agencies' Fund Balances with Treasury account balances.

Treasury policies require each agency to either submit monthly Statements of Transactions (Standard Form 224) or Statements of Accountability (Standard Form 1218 or 1219) to report its collection and disbursement activity along with other financial information. Also, Treasury requires each agency to submit a Year-End Closing Statement (FMS Form 2108) showing the funds unobligated under each of its appropriation and fund accounts. However, these statements do not reflect unreconciled differences. Thus, the accuracy of the appropriation and fund account balances reported on these year-end statements depends on whether an agency has properly reconciled differences reported by Treasury during the year.

Treasury has designed various internal controls to ensure the reliability of financial data reported by agencies. For instance, Treasury compares monthly cash receipts and disbursements transactions reported by agencies to those reported by other sources of financial data, such as the Federal Reserve, commercial banks, and FMS Regional Finance Centers. When Treasury identifies discrepancies, it notifies agencies in a monthly "Statement of Differences" report (FMS Form 6652).

Agencies are responsible for investigating the differences shown in the monthly "Statement of Differences" reports and reporting to Treasury any necessary adjustments to their Fund Balances with Treasury accounts. Agencies report adjustments on Standard

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[1]For ease of discussion, we use the generic term agency in the enclosures to denote governmental entities.

Form 224 or Standard Form 1218 or 1219. Treasury sends a reminder letter to an agency if it has not reconciled a difference of over $1 million within 3 months. Treasury also sends a reminder letter if an agency has not reconciled a difference of over $100,000 within 5 months.

In most cases, if agencies still have not reconciled differences within 6 months, Treasury transfers the differences to clearing accounts–called Budget Clearing Accounts (BCAs).[2] After this transfer, Treasury reports the net BCA balances to the agencies monthly on an Undisbursed Appropriation Account Ledger (FMS Form 6653), but no longer reports individual differences outstanding, or sends reminder letters to the agencies. Treasury's procedures differ when it identifies individual differences of over $5 million (called "large differences"). Treasury attempts to clear these large differences quickly by contacting the agency by telephone. However, if an agency still has a large difference outstanding after 6 months, Treasury continues to report the difference to the agency on a monthly "Statement of Differences" report and does not transfer it to the agency's BCA.

Table 1 identifies the steps Treasury takes to verify collection and disbursement data reported by agencies and the reports Treasury sends to agencies on the results of its verification activities.

[2]BCAs are one of several clearing accounts used to hold collections and disbursements until they can be properly classified in applicable receipt and expenditure budget accounts. The BCA for collections is F3878, and the BCA for disbursements is F3879.

Table 1: FMS Steps to Verify Data Affecting Agency Fund Balances With Treasury Accounts[3]

A. VERIFICATION OF COLLECTION DATA

| Reports submitted by agencies | Reports/data submitted by other sources | Treasury FMS action | Resulting Treasury reports to agencies |
|---|---|---|---|
| Agencies report collections monthly on Statements of Transactions (SF 224) or Statements of Accountability/Trans-actions (SF 1218/1221 or SF 1219/1220)<br><br>Note: For agencies which report on SF 1218 or 1219, electronic disbursements are netted against collections | CA$HLINK system data (CA$HLINK is used by the banking system to report collections received from and on behalf of government agencies)<br><br>Note: In CA$HLINK, electronic disbursements are reported as "negative collections", or debit vouchers | FMS compares monthly collection totals reported on agency SF 224s, SF 1218/1221s, or SF 1219/1220s to transaction data available in CA$HLINK<br><br>FMS contacts agencies by telephone for large differences (over $5 million) in an attempt to clear these items quickly<br><br>FMS charges agency Budget Clearing Accounts (BCAs) for any differences outstanding after 6 months (except those greater than $5 million or less than $50) | Monthly Statements of Differences (FMS 6652) for each month until the difference is cleared or transferred to the BCA<br><br>Monthly detailed support list of transactions reported in CA$HLINK<br><br>3-month letters notifying agencies of outstanding differences greater than $1 million<br><br>5-month letters notifying agencies of outstanding differences greater than $100,000<br><br>Notifications of individual charges to agency BCAs (FMS 5901)<br><br>Monthly appropriation and receipt account ledgers (FMS 6653 and 6655) showing the account activity and net balances for each month's appropriation, fund, receipt, and budget clearing account |

[3]The primary source for the information shown in Table 1 is the Treasury Financial Manual, sections 2-3100, 2-3300, 2-3900, 2-4200, 4-6000, 6-2000, and 6-4000.

Table 1 (continued)
B. VERIFICATION OF DISBURSEMENT DATA

| Reports submitted by agencies | Reports/data submitted by other sources | Treasury FMS action | Resulting reports to agencies |
|---|---|---|---|
| Verification of Treasury Disbursement Office (TDO) Agency Disbursements | | | |
| Agencies for which FMS Regional Finance Centers (RFCs) disburse money submit monthly Statements of Transactions (SF 224) | FMS RFC Agency Confirmation Reports (These reports include checks issued and electronic disbursements accomplished on behalf of the agency) | FMS compares monthly disbursement totals reported on agency SF 224s to disbursement data on RFC reports, OPAC, or RFRB transcripts<br><br>FMS contacts agencies immediately by telephone for large differences (over $5 million) in an attempt to clear these items quickly<br><br>FMS charges agency BCAs for differences outstanding after 6 months (except those greater than $5 million) | Monthly Statements of Differences (FMS 6652) for each month until the difference is cleared or transferred to the BCA<br><br>Monthly detailed support listings of transactions reported by RFCs, OPAC, and FRB<br><br>3-month letters notifying agencies of outstanding differences greater than $1 million<br><br>5-month letters notifying agencies of outstanding differences greater than $100,000.<br><br>Notifications of individual charges to agency BCAs (FMS 5901)<br><br>Monthly appropriation and receipt account ledgers (FMS 6653 and 6655) showing account activity and net balances for each appropriation, fund, receipt, and budget clearing account |
| Agencies for which FMS RFCs disburse money report net interagency transactions monthly on SF 224 | On-Line Payment and Collection system data (OPAC is used by agencies to accomplish interagency transactions) | | |
| Agencies which disburse money via Letter of Credit (LOC) submit separate monthly Statements of Transactions (SF 224) | Richmond Federal Reserve Bank (RFRB) daily transcripts detailing LOC "draw-downs" | | |

Table 1 (continued)
B. VERIFICATION OF DISBURSEMENT DATA

| Reports submitted by agencies | Reports/data submitted by other sources | Treasury FMS action | Resulting reports to agencies |
|---|---|---|---|
| Verification of Non-Treasury Disbursing Office (NTDO) Agency Disbursements | | | |
| Verification of Interagency Transactions: | | | |
| NTDO agencies report net interagency transactions on SF 1218/1221 or SF 1219/1220 | On-Line Payment and Collection system data | FMS compares monthly disbursement totals reported on agency SF 1218/1221s, or SF 1219/1220s to disbursement data in OPAC<br><br>FMS contacts agencies immediately by telephone for large differences (over $5 million) in an attempt to clear these items quickly<br><br>FMS charges agency BCAs for differences outstanding after 6 months (except those greater than $5 million) | Monthly Statements of Differences (FMS 6652) for each month until the difference is cleared or transferred to the BCA<br><br>Monthly detailed support listings of transactions reported by OPAC<br><br>3-month letters notifying agencies of outstanding differences greater than $1 million<br><br>5-month letters notifying agencies of outstanding differences greater than $100,000.<br><br>Notifications of individual charges to agency BCAs (FMS 5901)<br><br>Monthly appropriation and receipt account ledgers (FMS 6653 and 6655) showing account activity and net balances for each appropriation, fund, receipt, and budget clearing account |
| Verification of Checks Paid: | | | |
| NTDOs submit tapes detailing checks issued and Month-end Checks Issued Summary reports (SF 1179) | Federal Reserve Banks submit tapes detailing checks paid | Check Payment and Reconciliation (CP&R): FMS performs a check by check comparison of checks issued to checks paid by the banking system | Advice of Check Issue Discrepancies (FMS 5206) |

Table 1 (continued)
B. VERIFICATION OF DISBURSEMENT DATA

| Reports submitted by agencies | Reports/data submitted by other sources | Treasury FMS action | Resulting reports to agencies |
|---|---|---|---|
| Verification of Checks Issued: | | | |
| NTDOs submit monthly Statements of Accountability/Trans-actions (SF 1218/1221 or SF 1219/1220) | SF 1179, Month-end Checks Issued Summary report, and FMS form 5206, Advice of Check Issue Discrepancies, from the CP&R system | FMS compares SF 1179 data (plus any adjustments made on FMS 5206 in CP&R's verification of checks paid) to the agency data reported on SF 1218/1221 or SF 1219/1220 | 4 -, 6 -, & 8-month letters notifying agencies of any outstanding discrepancies over $50 |

C. YEAR-END TREASURY REPORTS TO AGENCIES

| Reports submitted by agencies | Reports/data submitted by other sources | Treasury FMS action | Resulting reports to agencies |
|---|---|---|---|
| Agencies report collections and disbursements monthly on Statements of Transactions (SF 224) or Statements of Accountability/Transact ions (SF 1218/1221 or SF 1219/1220) | Does not apply | Treasury prepares appropriation warrants, and FMS records agencies' spending authority by appropriation and fund account in its central accounting system<br><br>FMS updates appropriation and fund account balances based on collections, disbursements, and adjustments reported by agencies on monthly SF 224s, SF 1218/1221s, and SF 1219/1220 | Appropriation Warrant (FMS 6200)<br><br>Year-end Closing Statement (FMS 2108 - Column 2) showing pre-closing unexpended balances in agency appropriation and fund accounts<br><br>Note: FMS 2108 balances do not reflect unreconciled differences, thus their accuracy depends on whether an agency has properly reconciled differences reported by Treasury that year |

## CONCERNS AND ISSUES RELATED TO RECONCILIATION OF FUND BALANCES WITH TREASURY ACCOUNTS[4]

Agencies generally are not reconciling their Fund Balances with Treasury accounts in a timely manner. For instance, as of March 31, 1997, Treasury reports showed that about 64 percent of the federal entities that report financial data to Treasury had unreconciled differences in their collection and disbursement BCAs.[5] This indicates that agencies had not implemented effective internal controls to ensure timely reconciliation of differences because they had not reconciled the individual differences of less than $5 million identified by Treasury at least 6 months earlier.

BCA activity is an indicator of timeliness problems, but it does not reflect what may be a larger problem. For March 1997, federal agencies had billions of dollars of individual differences greater than $5 million reported on Statements of Differences to be reconciled. Unless agencies implement effective internal controls to reconcile on a month-to-month basis, there is an increased risk that these large differences will not be reconciled prior to the required reporting date for departmentwide financial statements. As such, these year-end statements may not be accurate. Also, agency managers run the risk of over spending or over obligating if they do not have current and accurate information on amounts in their Fund Balances with Treasury accounts.

Treasury has acknowledged the problem about untimely agency reconciliations and acted to encourage agencies to resolve their clearing accounts. Specifically, during the months of July through September 1996, Treasury sent letters to agencies notifying them of the balances in their BCAs and clearing accounts containing large differences and asked them to develop plans for clearing these balances.[6] It is too early to know what impact these letters will have on future timeliness of reconciliations, but it is important for agency auditors to monitor the results of such efforts.

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[4]The results of the analyses included in enclosures I and II were based on data we obtained from FMS on agency BCA balances and large differences. Our analyses relied on the FMS data and we did not attempt to verify the accuracy of the data.

[5]The agency reporting entities we refer to in this enclosure represent Treasury's groupings of Agency Location Codes (ALCs). Because there are over 2,000 ALCs, Treasury combines agency ALCs into broader reporting groups for ease of reporting. As of March 31, 1997, Treasury reports identified 190 of these groups.

[6]FMS sent these letters to a total of 49 Chief Financial Officers, Deputy Chief Financial Officers, or other high-level agency officials in order to achieve wide coverage of the numerous federal entities that report financial data to Treasury.

Also, to ensure the accuracy of its financial statements, an agency must thoroughly research the cause of differences reported by Treasury. Only after adequately researching its accounting records and reports can an agency determine the cause of the problem and make the proper adjustment to its Fund Balances with Treasury accounts, or advise Treasury to correct its records. Our previous audits of individual agency financial statements have often identified instances, involving billions of dollars, where agencies were adjusting their accounts to reflect the amounts reported by Treasury without adequately researching the causes of the differences. Accordingly, there was no assurance that the agency financial records reflected the correct balances. Unless agencies implement effective internal controls to ensure that differences are being timely and thoroughly researched, there is a risk that agencies will make unsupported adjustments.

## AUDITOR GUIDANCE

Because most assets, liabilities, revenues, and expenses stem from or result in cash transactions, misstatements in the receipt or disbursement data affect the accuracy of various U.S. government financial reports, such as the Monthly Treasury Statement, individual federal agencies' financial statements, the consolidated governmentwide financial statements, and agency budget execution reports. Therefore, audits of agencies' financial statements should determine if the agencies are properly reporting cash transactions to Treasury and properly reconciling Fund Balances with Treasury accounts to ensure the accuracy of the transactions recorded in their accounting records and reported to Treasury.

Based on our previous audits and the preliminary results of our work on the overall reconciliation process, we have identified objectives and approaches that we believe should be included in an audit plan for testing individual agency reconciliation processes. We believe that addressing the following objectives will enable auditors to gather sufficient evidence to test an agency's Fund Balances with Treasury accounts. Therefore, we suggest that auditors determine whether agencies adequately

- prepare the monthly Statements of Transactions (Standard Form 224) or Statements of Accountability (Standard Form 1218 or 1219) using the same detailed accounting records of collection and disbursement transactions that are used to prepare the agencies' financial statements;

- research and resolve the underlying causes of differences reported by Treasury on the "Statement of Differences" (FMS Form 6652) each month and make proper adjustments to monthly Treasury reports and agency accounting records;

- research the cause and make proper adjustments for the unreconciled differences older than 6 months which were transferred to BCAs and reported by Treasury on "Adjustment of Agency Deposit/Debit Vouchers for Adjustment of Agency Undistributed Differences Report" (FMS Form 5901);

- determine that pre-closing fund balances reported by Treasury on the Year-End Closing Statement (FMS Form 2108) agree with their detailed accounting records; and

- monitor their BCA activity, including maintaining records of unreconciled differences, maintaining records that age the differences charged to the BCA, and developing plans to clear the account.

In addition to the above objectives, we believe agency auditors should establish audit approaches which will ensure that they (1) determine the magnitude of the agencies

unreconciled differences in absolute rather than net values in order to determine the effect of unreconciled differences on the agency's financial statements, and (2) assess the validity of support for adjustments that agencies make to their Fund Balances with Treasury accounts.

When assessing the effect of unreconciled differences on Fund Balances with Treasury accounts, auditors should determine the magnitude of unreconciled differences by analyzing the "Statement of Differences" and BCAs in terms of their aggregate absolute values. Treasury's summary reports of agency Statement of Differences and BCAs show net amounts rolled up for all the separate Agency Location Codes, which can be numerous for large agencies. The roll-up and netting of the charges and credits can significantly understate the total differences in these accounts and the resulting potential misstatements of agency Fund Balances with Treasury accounts. For example, the governmentwide BCA activity, reported for the 12 months ending March 31, 1997, calculated in aggregate absolute values was about 20 times greater than the reported net values.

To assess the validity of the adjustments agencies make to reconcile the Fund Balances with Treasury accounts, we believe auditors must sufficiently test adjustments by examining the underlying documents supporting the adjustments. Each unreconciled difference or unsupported adjustment represents a potential misstatement of collection or disbursement data, which, as previously mentioned, could materially affect the accuracy of various U.S. government financial reports, individual federal agencies' financial statements, and the consolidated governmentwide financial statements.

In conjunction with the suggested objectives and approaches presented above, following are suggested detailed audit procedures for agency auditors to consider in planning their audits of agency reconciliations of Fund Balances with Treasury accounts.

## SUGGESTED AUDIT PROCEDURES FOR FUND BALANCES WITH TREASURY ACCOUNTS

The overall objectives of testing Fund Balances with Treasury accounts are to determine whether (1) agency internal controls are adequate to ensure that monthly collection and disbursement activity is reported accurately to the U.S. Treasury Financial Management Service (FMS), (2) agency Fund Balances with Treasury accounts are materially correct, and (3) agencies are complying with existing Treasury and Office of Management and Budget (OMB) requirements related to Fund Balances with Treasury accounts.

The following are suggested procedures for testing the Fund Balances with Treasury accounts. Auditor's should not consider these procedures all inclusive. Specifically, these procedures do not include tests of Cash on Hand/Imprest, Undeposited Receipts,

Other Cash on Deposit accounts, and other agency related cash accounts that may be affected. It should also be noted that year- end confirmation of Fund Balances with Treasury accounts is not included as a suggested procedure. For these accounts, Treasury confirmations do not provide independent audit evidence because Treasury does not maintain independent accounting records of each agency's Fund Balances with Treasury accounts.

These guidelines are intended to provide the auditor with a framework for designing comprehensive tests of Fund Balances with Treasury accounts. Auditors should use professional judgment in designing work programs for their particular agencies after considering the planned levels of materiality for the audit and the auditor's judgment of the most effective and efficient method to achieve the specific audit objectives listed above.

Procedures should be performed, when possible, in conjunction with other audit tests. For example, many procedures may be performed in conjunction with agency cash collections and cash disbursement tests. Others may be included as part of compliance testing. Although a sampling audit approach is suggested, the method of sampling and the sample size used should be determined based on the auditor's judgment.

## I. BACKGROUND INFORMATION

To obtain an understanding of agency accounting and reporting requirements for the Fund Balances with Treasury accounts, obtain and read the following documents:

- Treasury Financial Manual, Volume I.
- OMB/TFM Bulletin 96-03, Year-End Closing (and fiscal year 1997 update).
- OMB Bulletin 94-01, Form and Content of Agency Financial Statements.
- OMB Bulletin 97-01, Formats and Instructions for the Form and Content of Agency Financial Statements (effective for FY 1998).
- Agency accounting policies and procedures for the Fund Balances with Treasury accounts.

## II. DOCUMENTATION

To obtain the documents and financial reports necessary for testing the Fund Balances with Treasury accounts, request the following documents from the agency:

- Copy of the appropriation legislation and U.S. Treasury Appropriation Warrants (FMS Form 6200) for the fiscal year being audited.

- List of active Agency Locations Codes (ALCs) used by the agency.

- Agency monthly Statements of Transactions (Standard Form 224) or Statements of Accountability/Transactions (Standard Form 1219/1220 or 1218/1221) for the fiscal year for each ALC.

- Statements of Differences (FMS Form 6652) for each ALC for each month of the fiscal year being audited. (Note: To obtain the universe of Statement of Differences, request the initial Statements of Differences issued by Treasury. Treasury issues monthly Statements of Differences for each accounting month (when differences are identified) and continues to send a statement for that month until the difference is cleared or transferred to the BCA. In order to identify the universe of initial differences reported by Treasury for each month of the fiscal year, obtain the Statement of Differences reports that have the same accounting date and audit date.)

- Advice of Check Issued Discrepancy reports (FMS Form 5206) for each ALC for each month of the fiscal year being audited. (Note: This step applies only for agencies that submit Statements of Accountability/Transactions, Standard Form 1219/1220, or 1218/1221.)

- Undisbursed Appropriation Account Ledgers (FMS Form 6653) for the Budget Clearing Account (accounts F3878 & F3879) for each month of the fiscal year.

- Year-end Closing Statement (FMS Form 2108).

Obtain the following document from the U.S. Treasury Financial Management Service:

- Undisbursed Appropriation Account Trial Balance (FMS Form 6654) and Receipt Account Trial Balance (FMS Form 6655) for the last month of the fiscal year. (Note: The number of Undisbursed Appropriation and Receipt Account Ledgers will vary by agency. In some cases, Treasury reports at the "sub account" level, which is a roll-up of ALCs. An agency may be divided into more than one "sub account" and receive several account ledgers.)

III. TESTING

Beginning Appropriation Fund Balances

To verify that beginning appropriation and fund balances accounts are recorded properly in the general ledger, perform the following procedures:

- For the first year of an appropriation, trace amounts reported on appropriation warrants (FMS 6200) received from Treasury to beginning appropriation balances recorded in the General Ledger Fund Balances with Treasury appropriation accounts. Also, determine that the warrant is valid by tracing it to the appropriation legislation that supports it. (Note: Generally warrants are only issued in the first year of the appropriation.)

- For other than the first year of an appropriation, trace beginning balances recorded in the general ledger Fund Balances with Treasury accounts to audited ending balances of the prior fiscal year.

Monthly Reporting to Treasury

To determine the adequacy of the controls over collection, disbursement, and adjustment amounts reported monthly to Treasury by agency ALCs, perform the following procedures:

- Using the universe of Statements of Transactions obtained in Section II - Documentation, select a sample of Statements of Transactions (Standard Form 224) or Statements of Accountability/Transactions (Standard Form 1219/1220, or 1218/1221) for the fiscal year being audited and perform the following procedures for each sample item.

  - Trace monthly collection and disbursement amounts reported on these statements to amounts recorded in the agency's general ledger.

  - Trace any prior period adjustment amounts reported on these statements to supporting documentation and verify the validity of the adjustment.

  - Trace Budget Clearing Account (BCA) adjustment amounts (identified by account symbols F3878 & F3879) to supporting documentation and verify the validity of the adjustment.

  - Trace Check Issued Discrepancy adjustments, if applicable, to supporting documentation and verify the validity of the adjustment. (Note: Applicable only to

agencies that report collections and disbursements on Statements of Accountability/Transactions (Standard Form 1219/1220, or 1218/1221).

Reconciliation of Fund Balances with Treasury

To determine that the agency is properly reconciling its Fund Balances with Treasury accounts, perform the following procedures:

- From the universe of Statement of Differences (FMS Form 6652) obtained in Section II - Documentation, select a sample and obtain the documentation supporting the reconciliations for each sample item, and,
  - review the supporting documentation to determine if differences were adequately researched and resolved (i.e. underlying causes at transaction level were determined); and
  - for adjustments, if any, resulting from the reconciliation, (a) trace the total amount of adjustments to the subsequent month Treasury reports (Standard Form 224, 1219/1220, or 1218/1221) to verify that the adjustments were properly reported, and (b) trace adjustments to the agency general ledger accounts to verify that the adjustments were properly recorded.
- For agencies which use Statements of Accountability/Transactions (Standard Form 1219/1220, or 1218/1221), select a sample of Advice of Check Issued Discrepancy reports from the universe obtained in Section II - Documentation, and obtain documentation supporting the reconciliation for each sample item, and,
  - review the supporting documentation to determine if differences were adequately researched and resolved (i.e. underlying causes at transaction level were determined); and
  - for any adjustments resulting from the reconciliation, (a) trace the adjustments to the subsequent month Treasury reports (Standard Form 224, 1219/1220, or 1218/1221) to verify that the adjustments were properly reported, and (b) trace adjustments to the agency general ledger accounts to verify that the adjustments were properly recorded.

Unreconciled Differences

To determine whether agencies are adequately tracking and monitoring unreconciled differences reported by Treasury, perform the following procedures:

- Inquire whether the agency has a process/system for maintaining detailed records of unreconciled Statements of Differences (FMS Form 6652) that are less than 6 months old and monitoring subsequent resolution of these differences.

- Inquire whether the agency has a process/system for maintaining detailed records of large unreconciled differences (i.e., differences greater than $5 million that are never posted to the BCA) and monitoring subsequent resolution of these differences.

- Inquire whether the agency has a process/system for maintaining detailed records of unreconciled Budget Clearing Account (BCA) differences and monitoring subsequent resolution of these differences.

- Inquire whether the agency has a process/system for evaluating the age of unreconciled items and determine the average time it takes to clear BCA items.

- Based on auditor's judgment, assess the adequacy of the above processes/systems in place.

Treasury Year-End Account Balances

To determine if agency and Treasury records agree for collections and disbursements made throughout the year, perform the following procedures:

- Use the Year-End Undistributed Appropriation Account Trial Balance (FMS Form 6654) and Receipt Account Trial Balance (FMS Form 6655) obtained from Treasury and,

  - trace appropriation, fund, receipt, and BCA balances on these account ledgers to the balances in the agency's general ledger;

  - verify that the balances reported by Treasury have been recorded in the agency's General Ledger; and

  - verify that any differences between the balances reported on FMS Form 6654 and FMS Form 6655 and in the agency's general ledger were properly reconciled by the agency and verify that the necessary accrual adjustments were recorded.

Unreconciled Differences at Year-End

To determine the extent of unreconciled differences at year-end and the impact on the agency Fund Balances with Treasury accounts, perform the following procedures:

- Obtain and review unreconciled Statement of Differences (FMS forms 6652) and BCA differences (FMS Form 6653) at year-end (Note: Differences charged to the BCAs are reported on the monthly Undisbursed Appropriation Account Ledgers–FMS Form 6653, accounts F3878 and F3879), and

  - identify differences that were resolved subsequent to year-end and verify that the appropriate accrual adjustments were made to the agency Fund Balances with Treasury accounts and properly reported to Treasury as of the end of the fiscal year;

  - assess the materiality of unreconciled Statements of Differences and BCA amounts outstanding at year-end (at absolute value) and determine the impact on the ending Fund Balances with Treasury and other account balances; and

  - propose appropriate adjustments, if necessary.

Year-End Closing Statement

To determine that pre-closing balances reported by Treasury on the Year-End Closing Statement (FMS Form 2108) agree to the amounts recorded in the agency Fund Balances with Treasury accounts, perform the following procedures:

- Trace appropriation and fund balances reported by Treasury on FMS Form 2108 to agency general ledger account balances at year-end.

Financial Statement Disclosure

To determine whether agencies are properly disclosing Fund Balances with Treasury accounts in accordance with applicable accounting standards and OMB reporting requirements, perform the following procedures:

- Verify that material unreconciled differences and Budget Clearing Account differences are disclosed and explained in the notes to the agency's financial statements.

- Verify that unreconciled differences that were written off by the agency during the fiscal year are disclosed in the notes to the financial statements.

## MAJOR CONTRIBUTORS TO THIS REPORT

### ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, WASHINGTON, D.C.

Christine A. Robertson, Assistant Director, Governmentwide Audits

### ATLANTA REGIONAL OFFICE

Suzanne Murphy, Auditor-in-Charge
Jerry K. Marvin, Senior Auditor
Linda S. Standau, Senior Evaluator
Carolyn McClary-Voltz, Auditor
Patrick H. Sevon, Computer Programmer Analyst

(919015)