GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

The President
The President of the Senate
The Speaker of the House of Representatives

In our audits of the U.S. government's consolidated financial statements as of and for the fiscal years ended September 30, 2019, and 2018, we found the following:

- Certain material weaknesses[1] in internal control over financial reporting and other limitations on the scope of our work resulted in conditions that continued to prevent us from expressing an opinion on the accompanying accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2019, and 2018.[2]

- Significant uncertainties (discussed in Note 22 to the consolidated financial statements), primarily related to the achievement of projected reductions in Medicare cost growth, prevented us from expressing an opinion on the sustainability financial statements,[3] which consist of the 2019 and 2018 Statements of Long-Term Fiscal Projections;[4] the 2019, 2018, 2017, 2016, and 2015 Statements of Social Insurance;[5] and the 2019 and 2018 Statements of Changes in Social

[1]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[2]The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2019, and 2018, consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Budget Deficit, (4) Statements of Changes in Cash Balance from Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis. We previously reported that certain material weaknesses and, for some years, other limitations on the scope of our work prevented us from expressing an opinion on the accrual-based consolidated financial statements of the U.S. government for fiscal years 1997 through 2018.

[3]The sustainability financial statements are based on projections of future receipts and spending, while the accrual-based consolidated financial statements are based on historical information, including the federal government's assets, liabilities, revenue, and net cost.

[4]The 2019 and 2018 Statements of Long-Term Fiscal Projections present, for all the activities of the federal government, the present value of projected receipts and non-interest spending under current policy without change, the relationship of these amounts to projected gross domestic product (GDP), and changes in the present value of projected receipts and non-interest spending from the prior year. These statements also present the fiscal gap, which is the combination of non-interest spending reductions and receipts increases necessary to hold debt held by the public as a share of GDP at the end of the projection period to its value at the beginning of the period. The valuation date for the Statements of Long-Term Fiscal Projections is September 30.

[5]Statements of Social Insurance are presented for the current year and each of the 4 preceding years as required by U.S. generally accepted accounting principles. For the Statements of Social Insurance, the valuation date is January 1 for the Social Security and Medicare programs, October 1 for the Railroad Retirement program (January 1 for 2015), and September 30 for the Black Lung program.

Insurance Amounts. A material weakness in internal control also prevented us from expressing an opinion on the 2019 and 2018 Statements of Long-Term Fiscal Projections.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2019.

- Material weaknesses and other scope limitations, discussed above, limited tests of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2019.

This audit report discusses the following in more detail.

- Our report on the accompanying consolidated financial statements, which includes (1) two emphasis of matters—long-term fiscal challenges and equity investments in the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac); (2) required supplementary information (RSI),[6] required supplementary stewardship information (RSSI),[7] and other information[8] included with the consolidated financial statements in the *Fiscal Year 2019 Financial Report of the United States Government* (*2019 Financial Report*); and (3) information on Chief Financial Officers Act of 1990 (CFO Act) agency financial management systems.

- Our report on internal control over financial reporting.

- Our report on compliance with laws, regulations, contracts, and grant agreements.

- The Department of the Treasury's (Treasury) and the Office of Management and Budget's (OMB) comments on a draft of this audit report.

Appendix I discusses our audit objectives, scope, and methodology.

Report on the Consolidated Financial Statements

The Secretary of the Treasury, in coordination with the Director of OMB, is required to annually submit audited financial statements for the U.S. government to the President and Congress. GAO is required to audit these statements.[9] As noted above, the consolidated financial statements consist of the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2019, and 2018, and the sustainability financial statements, consisting of the 2019 and 2018 Statements of Long-Term Fiscal Projections; the 2019, 2018, 2017, 2016, and 2015 Statements of

[6]The RSI consists of Management's Discussion and Analysis and information in the Required Supplementary Information section of the *Fiscal Year 2019 Financial Report of the United States Government*.

[7]The RSSI consists of information on stewardship investments in the Required Supplementary Stewardship Information section of the *Fiscal Year 2019 Financial Report of the United States Government*.

[8]Other information consists of information in the *Fiscal Year 2019 Financial Report of the United States Government* other than the consolidated financial statements, RSI, RSSI, auditor's report, and Statement of the Comptroller General of the United States.

[9]The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. 31 U.S.C. § 331(e). The consolidated financial statements include the legislative and judicial branches.

Social Insurance; the 2019 and 2018 Statements of Changes in Social Insurance Amounts; and the related notes to the financial statements.

We performed sufficient audit work to provide this report on the consolidated financial statements. We considered the limitations on the scope of our work regarding the accrual-based consolidated financial statements and the sustainability financial statements in forming our conclusions. We performed our work in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

Management of the federal government is responsible for (1) the preparation and fair presentation of annual consolidated financial statements of the U.S. government in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI and RSSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the consolidated financial statements and auditor's report, and ensuring the consistency of that information with the consolidated financial statements, RSI, and RSSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards. We are also responsible for applying certain limited procedures to the RSI, RSSI, and other information included with the consolidated financial statements. Because of the matters discussed below, we were unable to obtain sufficient appropriate evidence to provide a basis for audit opinions on the consolidated financial statements.

Basis for Disclaimers of Opinion on the Consolidated Financial Statements

Accrual-Based Consolidated Financial Statements

The federal government is not able to demonstrate the reliability of significant portions of the accompanying accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2019, and 2018, principally because of limitations related to certain material weaknesses in internal control over financial reporting and other limitations affecting the reliability of these financial statements and the scope of our work, as discussed below.[10] As a result of these limitations, readers are cautioned that amounts reported in the accrual-based consolidated financial statements and related notes may not be reliable.

[10]Such limitations include (1) the Department of Defense and the Railroad Retirement Board both received disclaimers of opinion on their respective fiscal years 2019 and 2018 financial statements; (2) the Department of Housing and Urban Development received a qualified opinion on its fiscal year 2019 financial statements and a disclaimer of opinion on its fiscal year 2018 financial statements; (3) the General Fund of the U.S. Government (General Fund) received a disclaimer of opinion on the Schedules of the General Fund for fiscal year 2018; the financial information for the General Fund was not audited for fiscal year 2019 to allow Treasury sufficient time to develop and begin to implement a remediation plan to address the issues we identified as part of the fiscal year 2018 audit; and (4) for fiscal years 2019 and 2018, the financial information for Security Assistance Accounts was unaudited.

The federal government did not maintain adequate systems or have sufficient appropriate evidence to support certain material information reported in the accompanying accrual-based consolidated financial statements. The underlying material weaknesses in internal control, which have existed for years, contributed to our disclaimer of opinion on the accrual-based consolidated financial statements. Specifically, these weaknesses concerned the federal government's inability to

- satisfactorily determine that property, plant, and equipment and inventories and related property, primarily held by the Department of Defense (DOD), were properly reported in the accrual-based consolidated financial statements;
- reasonably estimate or adequately support amounts reported for certain liabilities, such as environmental and disposal liabilities, or determine whether commitments and contingencies were complete and properly reported;
- support significant portions of the reported total net cost of operations, most notably related to DOD, and adequately reconcile disbursement activity at certain federal entities;
- adequately account for intragovernmental activity and balances between federal entities;
- reasonably assure that the consolidated financial statements are (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in accordance with U.S. generally accepted accounting principles; and
- reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

These material weaknesses continued to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost, as well as the financial and nonfinancial performance, of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable, useful, and timely financial information to operate effectively and efficiently. Because of these material weaknesses and other limitations on the scope of our work discussed below, additional issues may exist that were not identified and could affect the accrual-based consolidated financial statements. Appendix II describes these material weaknesses in more detail and highlights the primary effects of these material weaknesses on the accompanying accrual-based consolidated financial statements and on the management of federal government operations.

Sustainability Financial Statements

Significant uncertainties (discussed in Note 22 to the consolidated financial statements), which primarily relate to the achievement of projected reductions in Medicare cost growth, affect the sustainability financial statements. In addition, the material weakness related to the Reconciliations of Net Operating Cost and Budget Deficit and the Statements of Changes in Cash Balance from Budget and Other Activities, discussed above, hampers the federal government's ability to demonstrate the reliability of historical budget information used for certain key inputs to the 2019 and 2018 Statements of Long-Term Fiscal Projections. As a result of these significant uncertainties and this material weakness, readers are cautioned that amounts reported in the 2019 and 2018 Statements of Long-Term Fiscal Projections; the 2019, 2018, 2017, 2016, and 2015 Statements of Social Insurance; the 2019 and 2018 Statements of

Changes in Social Insurance Amounts; and the related notes to these financial statements may not fairly present, in all material respects, the sustainability information for those years in accordance with U.S. generally accepted accounting principles.

These significant uncertainties primarily relate to the following.

- Medicare projections in the 2019 and 2018 Statements of Long-Term Fiscal Projections and the 2019, 2018, 2017, 2016, and 2015 Statements of Social Insurance were based on benefit formulas under current law and included a significant reduction in Medicare payment rate updates for productivity improvements for most categories of Medicare providers,[11] based on full implementation of the provisions of the Patient Protection and Affordable Care Act, as amended (PPACA),[12] and physician payment updates specified by the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).[13]

- Management has noted that actual future costs for Medicare are likely to exceed those shown by the projections under current law presented in the 2019, 2018, 2017, 2016, and 2015 Statements of Social Insurance because of, for example, the likelihood of changes to the scheduled reductions in Medicare payment rate updates for productivity adjustments relating to most categories of Medicare providers and the specified physician payment updates. The extent to which actual future costs exceed the amounts projected under current law because of changes to the scheduled reductions in Medicare payment rate updates for productivity adjustments and specified physician payment updates depends on both the specific changes that might be enacted and whether enacted legislation would include further provisions to help offset such costs. Consequently, there are significant uncertainties concerning the achievement of these projected reductions in Medicare payment rate updates.

- Management has developed an illustrative alternative projection intended to provide additional context regarding the long-term sustainability of the Medicare program and to illustrate the uncertainties in the Statement of Social Insurance projections. The present value of future estimated expenditures in excess of future estimated revenue for Medicare, included in the illustrative alternative projection in Note 22, exceeds the $42.2 trillion estimate in the 2019 Statement of Social Insurance by $9.9 trillion.

---

[11]Under the Patient Protection and Affordable Care Act's productivity adjustment provisions, productivity improvements are expected to result in lower overall Medicare spending because of smaller annual increases in the Medicare payment rates paid to many health care providers. This is often referred to as a reduction in Medicare payment rate updates. The health care provider categories affected include, but are not limited to, inpatient/outpatient hospital services, skilled nursing facilities, home health care, ambulance, ambulatory surgical centers, durable medical equipment, and prosthetics.

[12]PPACA, Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). In this report, references to PPACA include any amendments made by the Health Care and Education Reconciliation Act of 2010.

[13]MACRA, Pub. L. No. 114-10, title I, § 101, 129 Stat. 87, 89 (Apr. 16, 2015). MACRA included many provisions that affect Medicare, including the repeal of the sustainable growth rate formula for calculating annual updates to Medicare reimbursement payment rates to physicians and certain non-physician medical providers, and established an alternative set of annual updates.

- Management noted that these significant uncertainties about projected reductions in health care cost growth also affect the projected Medicare and Medicaid costs reported in the 2019 and 2018 Statements of Long-Term Fiscal Projections.

Projections of Medicare costs are sensitive to assumptions about future policymaker decisions and about consumer, employer, and health care provider behavioral responses as policy, incentives, and the health care sector change over time. Such secondary effects are not fully reflected in the sustainability financial statements but could be expected to influence the excess cost growth rate used in the projections.[14] Key drivers of uncertainty about the excess cost growth rate include the future development and deployment of medical technology, the evolution of personal income, and the cost and availability of insurance, as well as federal policy changes, such as the implementation of PPACA. As discussed in the RSI section of the *2019 Financial Report*, the projections are very sensitive to changes in the health care cost growth assumption.

As discussed in Notes 22 and 23 to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the present value of the U.S. government's estimated future receipts and future spending using a projection period sufficient to illustrate long-term sustainability.[15] The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due.

In preparing the sustainability financial statements, management selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy is sustainable. As discussed in the *2019 Financial Report*, current policy is based on current law but includes several adjustments. In the Statements of Long-Term Fiscal Projections, notable adjustments to current law include (1) projected spending, receipts, and borrowing levels assume raising or suspending the current statutory limit on federal debt; (2) continued discretionary appropriations are assumed throughout the projection period; (3) scheduled Social Security and Medicare Part A benefit payments are assumed to occur beyond the projected point of trust fund depletion; and (4) many mandatory programs with expiration dates prior to the end of the 75-year projection period are assumed to be reauthorized. In the Statements of Social Insurance, the one adjustment to current law is that scheduled Social Security and Medicare Part A benefit payments are assumed to occur beyond the projected point of trust fund depletion. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future revenue and expenditures and, hence, sustainability. Also, the projections assume that debt could continuously rise without severe economic consequences. The RSI section of the *2019 Financial Report* includes unaudited information on how changes in various assumptions would affect the Statements of Long-Term Fiscal Projections and Statements of Social Insurance. The sustainability financial statements are not forecasts or predictions.

---

[14]The excess cost growth rate is the increase in health care spending per person relative to the growth of GDP per person after removing the effects of demographic changes on health care spending.

[15]The projection period used for the Social Security, Medicare, and Railroad Retirement social insurance programs is 75 years. Beginning in fiscal year 2017, the Black Lung program has a rolling 25-year projection period. For fiscal years 2015 and 2016, the Black Lung program projection period was through September 30, 2040.

As discussed in the unaudited RSI section of the *2019 Financial Report*, the combined Social Security trust funds are projected to be depleted in 2035, and the Medicare Hospital Insurance (Part A) trust fund is, based on the achievement of the cost growth reductions discussed above, projected to be depleted in 2026, at which time the trust funds would be unable to pay the full amount of scheduled future benefits.[16] For Social Security, future revenues were projected to be sufficient to pay 80 percent of scheduled benefits in 2035, the year of projected trust funds (combined) depletion, and decreasing to 75 percent of scheduled benefits in 2093. For Medicare Hospital Insurance (Part A), future revenues were projected to be sufficient to pay 89 percent of scheduled benefits in 2026, the year of projected trust fund depletion, declining to 78 percent by 2043, and then gradually increasing to 83 percent of scheduled benefits in 2093.

Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material.

Other Limitations on the Scope of Our Work

For fiscal years 2019 and 2018, there were other limitations on the scope of our work, in addition to the material weaknesses and significant uncertainties noted above, that contributed to our disclaimers of opinion on the consolidated financial statements. Such limitations primarily relate to our ability to obtain adequate representations from management. Treasury and OMB depend on representations from certain federal entities to provide their representations to us regarding the U.S. government's consolidated financial statements. Treasury and OMB were unable to provide us with adequate representations regarding the U.S. government's accrual-based consolidated financial statements for fiscal years 2019 and 2018, primarily because certain federal entities provided them insufficient or no representations.

Disclaimers of Opinion on the Consolidated Financial Statements

Accrual-Based Consolidated Financial Statements

Because of the significance of the related matters described in the Basis for Disclaimers of Opinion on the Consolidated Financial Statements section above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the accrual-based consolidated financial statements. Accordingly, we do not express an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2019, and 2018.

Sustainability Financial Statements

Because of the significance of the related matters described in the Basis for Disclaimers of Opinion on the Consolidated Financial Statements above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Statements of Long-Term Fiscal Projections for 2019 and 2018; the Statements of Social Insurance for 2019, 2018, 2017, 2016, and 2015; and the Statements of Changes in Social Insurance Amounts for 2019 and 2018. Accordingly, we do not express an opinion on these sustainability financial statements.

[16]The combined Social Security trust funds consist of the Federal Old-Age and Survivors Insurance trust fund and the Federal Disability Insurance trust fund. For the Federal Old-Age and Survivors Insurance trust fund, future revenues were projected to be sufficient to pay 77 percent of scheduled benefits in 2034, the year of projected trust fund depletion, decreasing to 73 percent in 2093. For the Federal Disability Insurance trust fund, future revenues were projected to be sufficient to pay 91 percent of scheduled benefits in 2052, the year of projected trust fund depletion, decreasing to 87 percent in 2093.

Emphasis of Matters

The following key items deserve emphasis in order to put the information in the consolidated financial statements and the Management's Discussion and Analysis section of the *2019 Financial Report* into context. However, our disclaimers of opinion noted above are not modified with respect to these matters.

Long-Term Fiscal Challenges

The 2019 Statement of Long-Term Fiscal Projections and related information in Note 23 and in the unaudited RSI section of the *2019 Financial Report* show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path. For the 2019 projections, debt-to-gross domestic product (GDP) at the end of the 75-year projection period was 474 percent. The budget deficit increased for the fourth consecutive year in fiscal year 2019 and is projected to continue to grow in almost all of the next 75 years. Over the long term, the imbalance between spending and revenue that is built into current policy and law is projected to lead to continued growth of the deficit and debt held by the public as a share of GDP. This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.

Under the *2019 Financial Report* projections, spending for the major health and retirement programs will increase more rapidly than GDP in the coming decades, in part because of an aging population and projected continued increases in health care costs. These projections for Social Security and Medicare are based on the same assumptions underlying the information presented in the Statement of Social Insurance and assume that the provisions enacted in PPACA designed to slow the growth of Medicare costs are sustained and remain effective throughout the projection period. The projections also reflect the effects of MACRA, which, among other things, revised the methodology for determining physician payment rates. If, however, the Medicare cost containment measures and physician payment rate methodology are not sustained over the long term—concerns expressed by the Trustees of the Medicare trust funds, the Centers for Medicare & Medicaid Services' Chief Actuary, the Congressional Budget Office (CBO), and others—spending on federal health care programs will grow more rapidly than assumed in the projections. In addition, based on the *2019 Financial Report* projections, spending on net interest (primarily interest on debt held by the public) will surpass Social Security spending and becomes the largest category of spending in 2035. Net interest is projected to increase from 1.8 percent of GDP in fiscal year 2019 to 7.0 percent in fiscal year 2039 to 23.2 percent in fiscal year 2094.

GAO and CBO also prepare long-term federal fiscal simulations, which also continue to show federal debt held by the public rising as a share of GDP in the long term.[17] GAO, CBO, and the *2019 Financial Report* all project that debt held by the public as a share of GDP will surpass its historical high (106 percent in 1946) within the next 11 to 14 years. Each of these long-term projections uses somewhat different assumptions, but their overall conclusions are the same: absent policy changes, the federal government's fiscal path is unsustainable.

[17]For more information on GAO's simulations, see GAO, *America's Fiscal Future*, accessed on February 19, 2020, https://www.gao.gov/americas_fiscal_future. For more information on CBO's simulations, see Congressional Budget Office, *The 2019 Long-Term Budget Outlook* (Washington, D.C.: June 25, 2019).

At the end of fiscal year 2019, debt held by the public reached about 79 percent of GDP, far above the post–World War II (since 1946) average of 46 percent. Debt held by the public at these high levels could limit the federal government's flexibility to address emerging issues and unforeseen challenges, such as another economic downturn or large-scale disaster. These unforeseen events, also known as fiscal risks or fiscal exposures, place additional pressure on the federal budget. They result in responsibilities, programs, and activities that may legally commit or create expectations for future federal spending based on current policy, past practices, or other factors. A more complete understanding of them can help policymakers anticipate changes in future spending and can enhance oversight of federal resources.

Equity Investments in Fannie Mae and Freddie Mac

In 2008, during the financial crisis, the federal government placed Fannie Mae and Freddie Mac under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises (GSE) to help ensure their financial stability. The agreements with the GSEs could affect the federal government's financial position. As of September 30, 2019, the federal government reported about $112 billion of investments in the GSEs, which is net of about $98 billion in valuation losses. The reported maximum remaining contractual commitment to the GSEs, if needed, is $254.1 billion.

In valuing these equity investments, management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated values reported in the accrual-based consolidated financial statements. However, as discussed in Note 1 to the consolidated financial statements, there are many factors affecting these assumptions and estimates that are inherently subject to substantial uncertainty arising from the uniqueness of the transactions and the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will be differences between the estimated values as of September 30, 2019, and the actual results, and such differences may be material. Also, as discussed in Note 1 to the consolidated financial statements, the assets, liabilities, and results of operations of Fannie Mae and Freddie Mac are not consolidated into the government's consolidated financial statements. Treasury and OMB have determined that these entities do not meet the criteria for consolidation.[18] The ultimate role of the GSEs could affect the federal government's financial position and the financial condition of federal entities, including the Federal Housing Administration (FHA), which in the past expanded its lending role in distressed housing and mortgage markets. The Government National Mortgage Association (Ginnie Mae) guarantees the performance of about $2 trillion in securities backed by federally insured mortgages—$1.2 trillion of which were insured by FHA and $0.8 trillion by other federal entities, such as the Department of Veterans Affairs.

[18]For additional information on the GSE preferred stock purchase agreements and valuation of the investment in the GSEs, see Note 8 to the consolidated financial statements. For additional information on the criteria used to determine which federal entities are included in the reporting entity for the consolidated financial statements, as well as the reasons for not including certain entities, such as Fannie Mae and Freddie Mac, see app. A of the *2019 Financial Report*.

Other Matters

Required Supplementary Information and Required Supplementary Stewardship Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI and RSSI be presented in the *2019 Financial Report* to supplement the financial statements. Although the RSI and RSSI are not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the RSI and RSSI in accordance with U.S. generally accepted government auditing standards because of the material weaknesses and other scope limitations discussed in this audit report. We did not audit and do not express an opinion or provide any assurance on the RSI or RSSI.

Other Information

Other information included in the *2019 Financial Report* contains a wide range of information, some of which is not directly related to the consolidated financial statements. This information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements, RSI, or RSSI. We read the other information included with the consolidated financial statements in order to identify material inconsistencies, if any, with the consolidated financial statements. We did not audit and do not express an opinion or provide any assurance on the other information in the *2019 Financial Report*.

Readers are cautioned that the material weaknesses, significant uncertainties, and other scope limitations discussed in this audit report may affect the reliability of certain information contained in the RSI, RSSI, and other information that is taken from the same data sources as the accrual-based consolidated financial statements and the sustainability financial statements.

CFO Act Agency Financial Management Systems

The federal government's ability to efficiently and effectively manage and oversee its day-to-day operations and programs relies heavily on the ability of entity financial management systems to produce complete, reliable, timely, and consistent financial information for use by executive branch agencies and Congress.[19] The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to lead to system improvements that would result in CFO Act agency managers routinely having access to reliable, useful, and timely financial information with which to measure performance and increase accountability throughout the year.

The 24 CFO Act agencies are responsible for implementing and maintaining financial management systems that substantially comply with FFMIA requirements. FFMIA requires auditors, as part of the 24 CFO Act agencies' financial statement audits, to report whether those agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's *U.S. Standard General Ledger* at the transaction level.

For fiscal year 2019, auditors of eight of the 24 CFO Act agencies reported that the agencies' financial management systems did not substantially comply with one or more of the three FFMIA requirements.

[19]The Federal Financial Management Improvement Act of 1996, which is reprinted in 31 U.S.C. § 3512 note, defines "financial management systems" to include the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

For fiscal year 2018, auditors of nine of the 24 CFO Act agencies reported that the agencies' financial management systems did not substantially comply with one or more of the three FFMIA requirements. Agency management at the 24 CFO Act agencies also annually report on FFMIA compliance. For both fiscal years 2019 and 2018, agency management of seven of the 24 CFO Act agencies reported that their agencies' financial management systems did not substantially comply with one or more of the three FFMIA requirements. Based on agency financial reports, differences in the assessments of substantial compliance between the auditors and agency management reflect differences in management's and auditors' views regarding the effect of reported deficiencies on agencies' financial management systems.

Long-standing financial management systems weaknesses at several large CFO Act agencies, along with the size and complexity of the federal government, continue to present a formidable management challenge in providing accountability and have contributed significantly to certain of the material weaknesses and other limitations discussed in this audit report.

Report on Internal Control over Financial Reporting

Management's Responsibility

Management of the federal government is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and (2) evaluating the effectiveness of internal control over financial reporting, based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA).[20]

Auditor's Responsibility

The purpose of an audit of financial statements is to express an opinion on the financial statements. An audit of financial statements includes considering internal control over financial reporting to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting. We did not consider all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

Our responsibility is to report any material weaknesses or significant deficiencies in internal control over financial reporting for fiscal year 2019 that come to our attention as a result of our audit.[21] Based on the scope of our work and the effects of the other limitations on the scope of our audit noted throughout this audit report, our internal control work was not designed to, and would not necessarily, identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. Therefore, additional material weaknesses or significant deficiencies may exist that were not identified. We performed our work in accordance with U.S. generally accepted government auditing standards.

[20]31 U.S.C. § 3512 (c), (d) (commonly referred to as FMFIA). This act requires executive agency heads to evaluate and report annually to the President and Congress on the adequacy of their internal control and accounting systems and on actions to correct significant problems.

[21]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with provisions of applicable laws (including those governing the use of budget authority), regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Material Weaknesses Resulted in Ineffective Internal Control over Financial Reporting

The material weaknesses discussed in this audit report resulted in ineffective internal control over financial reporting. Consequently, the federal government's internal control did not provide reasonable assurance that a material misstatement of the consolidated financial statements would be prevented, or detected and corrected, on a timely basis.

In addition to the material weaknesses that contributed to our disclaimers of opinion on the accrual-based consolidated financial statements and the sustainability financial statements, which were discussed previously, we found three other material weaknesses in internal control. These other material weaknesses were the federal government's inability to

- determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them,
- identify and resolve information security control deficiencies and manage information security risks on an ongoing basis, and
- effectively implement internal controls over estimating the cost of credit programs and determining the value of loans receivable and loan guarantee liabilities.

These material weaknesses are discussed in more detail in appendix III, including the primary effects of the material weaknesses on the accrual-based consolidated financial statements and on the management of federal government operations.

We also found three significant deficiencies in the federal government's internal control related to implementing effective internal controls at certain federal entities for the following areas:

- taxes receivable,
- federal grants management, and
- Medicare social insurance information.

These significant deficiencies are discussed in more detail in appendix IV.

Further, individual federal entity financial statement audit reports identified additional control deficiencies that the entities' auditors reported as either material weaknesses or significant deficiencies at the individual entity level. We do not consider these additional deficiencies to represent material weaknesses or significant deficiencies with respect to the U.S. government's consolidated financial statements.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report on internal control over financial reporting is solely to describe the scope of our consideration of internal control over financial reporting, and the results of our procedures, and not to provide an opinion on the effectiveness of internal control over financial reporting. This report on internal control over financial reporting is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

Management's Responsibility

Management of the federal government is responsible for the federal government's compliance with laws, regulations, contracts, and grant agreements.

Auditor's Responsibility

An audit of federal financial statements includes testing compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements, and performing certain other limited procedures. Accordingly, we did not test the federal government's compliance with all laws, regulations, contracts, and grant agreements. Because of the limitations discussed below and the scope of our procedures, noncompliance may occur and not be detected by these tests.

Our objective was not to provide an opinion on the federal government's compliance with laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion. We performed our work in accordance with U.S. generally accepted government auditing standards.

Results of Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

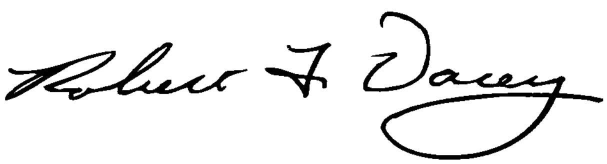
Our work to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements was limited by certain of the material weaknesses and other scope limitations discussed in this audit report. U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. Certain component entity audit reports contain instances of noncompliance. None of these instances were deemed to be reportable noncompliance with regard to the accompanying U.S. government's consolidated financial statements.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report on compliance with laws, regulations, contracts, and grant agreements is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report on compliance with laws, regulations, contracts, and grant agreements is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

We provided a draft of this audit report to Treasury and OMB officials, who provided technical comments that we have incorporated as appropriate. Treasury and OMB officials expressed their continuing commitment to addressing the problems this report outlines.



Robert F. Dacey
Chief Accountant
U.S. Government Accountability Office

February 19, 2020

Appendix I

Objectives, Scope, and Methodology

Our objectives were to audit the consolidated financial statements consisting of the (1) accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2019, and 2018, and (2) sustainability financial statements, which consist of the 2019 and 2018 Statements of Long-Term Fiscal Projections; the 2019, 2018, 2017, 2016, and 2015 Statements of Social Insurance; and the 2019 and 2018 Statements of Changes in Social Insurance Amounts. Our objectives also included reporting on internal control over financial reporting and on compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements.

The Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994 (GMRA), requires the inspectors general of the 24 CFO Act agencies to be responsible for annual audits of agency-wide financial statements prepared by these agencies.[22] GMRA requires GAO to be responsible for the audit of the U.S. government's consolidated financial statements.[23] The Accountability of Tax Dollars Act of 2002 (ATDA) requires most other executive branch entities to prepare financial statements annually and have them audited.[24] The Office of Management and Budget and the Department of the Treasury (Treasury) have identified 40 federal entities that are significant to the U.S. government's fiscal year 2019 consolidated financial statements, including the 24 CFO Act agencies.[25] We consider these 40 entities to be significant component entities for purposes of our audit of the consolidated financial statements. For the significant component entities audited by inspectors general and independent public accountants, we performed our work in coordination and cooperation with them to achieve our respective audit objectives. Our audit approach regarding the accrual-based consolidated financial statements primarily focused on determining the current status of the material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements and the other material weaknesses affecting internal control that we reported in our report on the consolidated financial statements for fiscal year 2018.[26] We also separately audited the financial statements of certain component entities, and parts of a significant component entity, including the following.

- We audited and expressed an unmodified opinion on the Internal Revenue Service's (IRS) financial statements as of and for the fiscal years ended September 30, 2019, and 2018.[27] In fiscal years 2019 and 2018, IRS collected about $3.6 trillion and $3.5 trillion, respectively, in tax payments and paid about $452 billion and $464 billion, respectively, in refunds and outlays to taxpayers. For fiscal year 2019, we also reported that although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting. In addition, we reported that we found no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

[22]31 U.S.C. § 3521(e). GMRA authorized the Office of Management and Budget to designate agency components that also must report financial statements and have them audited. See 31 U.S.C. § 3515(c).

[23]GMRA, Pub. L. No. 103-356, § 405(c), 108 Stat. 3410, 3416-17 (Oct. 13, 1994), *codified at* 31 U.S.C. § 331(e)(2).

[24]ATDA, Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002), *codified at* 31 U.S.C. § 3515.

[25]See app. A of the *Fiscal Year 2019 Financial Report of the United States Government* for a list of the 40 entities.

[26]GAO, *Financial Audit: Fiscal Years 2018 and 2017 Consolidated Financial Statements of the U.S. Government*, GAO-19-294R (Washington, D.C.: Mar. 28, 2019).

[27]GAO, *Financial Audit: IRS's FY 2019 and FY 2018 Financial Statements*, GAO-20-159 (Washington, D.C.: Nov. 8, 2019).

- We audited and expressed an unmodified opinion on the Schedules of Federal Debt managed by Treasury's Bureau of the Fiscal Service (Fiscal Service) for the fiscal years ended September 30, 2019, and 2018.[28] For these 2 fiscal years, the schedules reported (1) approximately $16.8 trillion (2019) and $15.8 trillion (2018) of federal debt held by the public,[29] (2) about $5.9 trillion (2019) and $5.7 trillion (2018) of intragovernmental debt holdings,[30] and (3) about $404 billion (2019) and $357 billion (2018) of interest on federal debt held by the public. We also reported that although internal controls could be improved, Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2019. In addition, we reported that we found no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested related to the Schedule of Federal Debt.

- We audited and expressed unmodified opinions on the U.S. Securities and Exchange Commission's (SEC) and its Investor Protection Fund's (IPF) financial statements as of and for the fiscal years ended September 30, 2019, and 2018.[31] We also reported that SEC maintained, in all material respects, effective internal control over financial reporting for both the entity as a whole and IPF as of September 30, 2019. In addition, we reported that we found no reportable noncompliance for either SEC or IPF for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

- We audited and expressed an unmodified opinion on the Federal Housing Finance Agency's (FHFA) financial statements as of and for the fiscal years ended September 30, 2019, and 2018.[32] We also reported that FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019. In addition, we reported that we found no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

- We audited and expressed an unmodified opinion on the Office of Financial Stability's (OFS) financial statements for the Troubled Asset Relief Program (TARP) as of and for the fiscal years ended September 30, 2019, and 2018.[33] We also reported that OFS maintained, in all material respects, effective internal control over financial reporting for TARP as of September 30, 2019. In addition, we reported that we found no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

[28]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2019 and FY 2018 Schedules of Federal Debt*, GAO-20-117 (Washington, D.C.: Nov. 8, 2019).

[29]Debt held by the public on the Schedules of Federal Debt represents federal debt that Treasury issued and that is held by investors outside of the federal government, including individuals, corporations, state or local governments, the Federal Reserve, and foreign governments.

[30]Intragovernmental debt holdings represent federal debt that Treasury owes to federal government accounts, primarily federal trust funds, such as those established for Social Security and Medicare.

[31]GAO, *Financial Audit: Securities and Exchange Commission's FY 2019 and FY 2018 Financial Statements*, GAO-20-204R (Washington, D.C.: Nov. 15, 2019).

[32]GAO, *Financial Audit: Federal Housing Finance Agency's FY 2019 and FY 2018 Financial Statements*, GAO-20-198R (Washington, D.C.: Nov. 19, 2019).

[33]GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) FY 2019 and FY 2018 Financial Statements*, GAO-20-160R (Washington, D.C.: Nov. 8, 2019).

- We audited and expressed an unmodified opinion on the Bureau of Consumer Financial Protection's (BCFP)[34] financial statements as of and for the fiscal years ended September 30, 2019, and 2018.[35] We also reported that BCFP maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019. In addition, we reported that we found no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

- We audited and expressed a disclaimer of opinion on the Schedules of the General Fund[36] as of and for the fiscal year ended September 30, 2018.[37] The underlying scope limitations, which were the basis for our disclaimer of opinion on the Schedules of the General Fund, primarily related to (1) readily identifying and tracing transactions to determine whether they were properly recorded in the Schedules of the General Fund, (2) evaluating and resolving differences with entity reported amounts, and (3) supporting the beginning liability for fund balance with Treasury. The Schedules of the General Fund as of and for the fiscal year ended September 30, 2019, were not audited to allow Treasury sufficient time to develop and begin to implement a remediation plan to address the issues we identified as part of our audit of the fiscal year 2018 Schedules of the General Fund.

In addition, we considered the significant entities' fiscal years 2019 and 2018 financial statements and the related auditors' reports that the inspectors general or contracted independent public accountants prepared. Financial statements and audit reports for these entities provide information about the entities' operations. We did not audit, and we do not express an opinion on, any of these individual federal entity financial statements.

Our audit approach included performing work over Treasury processes and controls used to prepare the consolidated financial statements. We also considered our ongoing audit work on the General Fund of the U.S. Government.

We also considered the disclaimers of opinion issued by the Department of Defense (DOD) Office of Inspector General (OIG) on DOD's department-wide financial statements as of and for the fiscal years ended September 30, 2019, and 2018.[38] The disclaimers of opinion were partially based on the disclaimers of opinion for multiple DOD components, including the Army, Navy, Air Force, U.S. Marine Corps, Defense Health Program, Defense Logistics Agency, U.S. Transportation Command, and U.S. Special Operations Command. The DOD OIG also reported 25 material weaknesses in internal control over financial reporting, including those related to (1) property, plant, and equipment; (2) inventory and related property; (3) environmental and disposal liabilities; (4) reconciliations of disbursement activity; (5) intragovernmental eliminations; (6) financial statement compilation; and (7) financial management systems and information technology.

---

[34]The Bureau of Consumer Financial Protection, which was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, Title X, § 1011(a), 124 Stat. 1376, 1964 (July 21, 2010), *codified at* 12 U.S.C. § 5491(a), is often referred to as the Consumer Financial Protection Bureau (CFPB).

[35]GAO, *Financial Audit: Bureau of Consumer Financial Protection's FY 2019 and FY 2018 Financial Statements*, GAO-20-192R (Washington, D.C.: Nov. 15, 2019).

[36]The General Fund of the U.S. Government is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

[37]GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Year 2018 Schedules of the General Fund*, GAO-19-185 (Washington, D.C.: May 15, 2019).

[38]Department of Defense, *United States Department of Defense Agency Financial Report for Fiscal Year 2019,* (Alexandria, Va.: Nov. 15, 2019).

Our audit approach for the 2019 and 2018 Statements of Long-Term Fiscal Projections focused primarily on assuring that the information relating to the Statements of Social Insurance is properly reflected therein and testing the methodology used as well as evaluating key assumptions. We also evaluated whether the internal control deficiencies related to the accrual-based consolidated financial statements affected certain key inputs used in generating the projections.

Because of the significance of the amounts presented in the Statements of Social Insurance and Statements of Changes in Social Insurance Amounts related to the Social Security Administration (SSA) and the Department of Health and Human Services (HHS), our audit approach regarding these statements focused primarily on these two federal entities. For each federal entity preparing a Statement of Social Insurance and Statement of Changes in Social Insurance Amounts,[39] we considered the entity's 2019, 2018, 2017, 2016, and 2015 Statements of Social Insurance and the 2019 and 2018 Statements of Changes in Social Insurance Amounts, as well as the related auditor's reports that the inspectors general or contracted independent public accountants prepared.

We performed sufficient audit work to provide our reports on (1) the consolidated financial statements; (2) internal control over financial reporting; and (3) compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. We considered the limitations on the scope of our work regarding the accrual-based consolidated financial statements and the sustainability financial statements in forming our conclusions. We performed our work in accordance with U.S. generally accepted government auditing standards.

[39]These entities are SSA, HHS, the Railroad Retirement Board, and the Department of Labor.

Appendix II

Material Weaknesses Contributing to Our Disclaimer of Opinion on the Accrual-Based Consolidated Financial Statements

The material weaknesses discussed below contributed to our disclaimer of opinion on the federal government's accrual-based consolidated financial statements.[40] The federal government did not have sufficient appropriate evidence to support information reported in the accompanying accrual-based consolidated financial statements, as described below.

Property, Plant, and Equipment and Inventories and Related Property

The federal government could not satisfactorily determine that property, plant, and equipment (PP&E) and inventories and related property were properly reported in the accrual-based consolidated financial statements. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD). As in past years, DOD did not maintain adequate systems or have sufficient records to provide reliable information on these assets. Certain other entities' auditors reported continued deficiencies in internal control procedures and processes related to PP&E.

Deficiencies in internal control over PP&E and inventories and related property could affect the federal government's ability to fully know the assets it owns, including their location and condition. They can also affect the government's ability to effectively (1) safeguard assets from physical deterioration, theft, or loss; (2) account for acquisitions and disposals of such assets and reliably report asset balances; (3) ensure that the assets are available for use when needed; (4) prevent unnecessary storage and maintenance costs or purchase of assets already on hand; and (5) determine the full costs of programs that use these assets.

Liabilities and Commitments and Contingencies

The federal government could not reasonably estimate or adequately support amounts reported for certain liabilities. For example, DOD was not able to estimate with assurance key components of its environmental and disposal liabilities. In addition, DOD could not support a significant amount of its estimated military postretirement health benefits liabilities included in federal employee and veteran benefits payable. These unsupported amounts relate to the cost of direct health care that DOD-managed military treatment facilities provided. Further, the federal government could not determine whether commitments and contingencies, including any related to treaties and other international agreements entered into to further the federal government's interests, were complete and properly reported.

Problems in accounting for liabilities affect the determination of the full cost of the federal government's current operations and the extent of its liabilities. Also, deficiencies in internal control supporting the process for estimating environmental and disposal liabilities could result in improperly stated liabilities, and could adversely affect the federal government's ability to determine priorities for cleanup and disposal activities and to appropriately consider future budgetary resources needed to carry out these activities. In addition, to the extent disclosures of commitments and contingencies are incomplete or incorrect, reliable information is not available about the extent of the federal government's obligations.

[40]The material weakness related to the Reconciliations of Budget Deficit to Net Operating Cost and Changes in Cash Balance also contributed to our disclaimer on the 2019 and 2018 Statements of Long-Term Fiscal Projections.

Cost of Government Operations and Disbursement Activity

Reported net costs were affected by the previously discussed material weaknesses in reporting assets and liabilities; material weaknesses in financial statement preparation, as discussed below; and the lack of adequate disbursement reconciliations at certain federal entities. As a result, the federal government was unable to support significant portions of the reported total net cost of operations, most notably those related to DOD.

With respect to disbursements, auditors of DOD and certain other federal entities reported continued control deficiencies in reconciling disbursement activity. For fiscal years 2019 and 2018, inadequate reconciliations of disbursement activity included (1) unreconciled differences between federal entities' and the Department of the Treasury's (Treasury) records of disbursements and (2) unsupported federal entity adjustments, which could also affect the balance sheet.

Unreliable cost information affects the federal government's ability to control and reduce costs, assess performance, evaluate programs, and set fees to recover costs where required or authorized. If disbursements are improperly recorded, this could result in misstatements in the financial statements and in certain data that federal entities provide for inclusion in *The Budget of the United States Government* (President's Budget) concerning obligations and outlays.

Intragovernmental Activity and Balances

Significant progress has been made over the past few years, but the federal government continues to be unable to adequately account for intragovernmental activity and balances between federal entities. Federal entities are responsible for properly accounting for and reporting their intragovernmental activity and balances in their entity financial statements. When preparing the consolidated financial statements, intragovernmental activity and balances between federal entities should be in agreement and must be subtracted out, or eliminated, from the financial statements. If the two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, and if not properly resolved, would result in errors (i.e., differences or unmatched amounts) in the consolidated financial statements. The Office of Management and Budget (OMB) and Treasury have issued guidance directing component entities to reconcile intragovernmental activity and balances with their trading partners and resolve identified differences. In addition, the guidance directs the chief financial officers (CFO) of significant component entities to report to Treasury, their respective inspectors general, and GAO on the extent and results of their intragovernmental activity and balance reconciliation efforts as of the end of the fiscal year.

To support this process during fiscal year 2019, Treasury continued to actively work with significant component entities to provide information and assistance to aid them in resolving intragovernmental differences. Treasury's quarterly scorecard process[41] highlights differences needing the entities' attention, identifies differences that need to be resolved through a formal dispute resolution process,[42] and reinforces the entities' responsibilities to resolve intragovernmental differences. Treasury continued to perform procedures for identifying and monitoring systemic root causes of intragovernmental

[41]For each quarter, Treasury produces a scorecard for each significant entity, as well as any other component entity reporting significant intragovernmental balances or differences, that reports various aspects of the entity's intragovernmental differences with its trading partners, including the composition of the differences by trading partner and category. Pursuant to Treasury guidance, entities are expected to resolve, with their respective trading partners, the differences identified in their scorecards.

[42]When an entity and its respective trading partner cannot resolve an intragovernmental difference, Treasury guidance directs the entity to request that Treasury resolve the dispute. Treasury will review the dispute and issue a decision on how to resolve the difference, which the entities must follow.

differences and related corrective action plans to address the root causes. In addition, Treasury worked with DOD concerning its material weakness in intragovernmental activity and balances. Further, over the past few years, Treasury has made significant progress by (1) improving the accounting for and reporting of General Fund transactions and balances, (2) working to resolve significant differences between the General Fund of the U.S. Government (General Fund) and federal entity trading partners, and (3) including differences involving General Fund activity and balances in the quarterly scorecard process.[43] As a result of these and other actions, a significant number of intragovernmental differences were identified and resolved.

While progress was made, we continued to note that amounts reported by federal entity trading partners to Treasury were not in agreement by material amounts. Reasons for the differences that several CFOs cited included differing accounting methodologies, accounting errors, and timing differences. Auditors for several significant component entities continued to report that the entities did not have effective processes for reconciling intragovernmental activity and balances with their trading partners. For example, auditors reported that the DOD accounting systems were unable to capture intradepartmental and intragovernmental data at the transaction level for reconciliation and reporting, which resulted in a high risk of material misstatement for all financial statement line items.

The federal government's ability to determine the effect of the intragovernmental deficiencies discussed above on the accrual-based consolidated financial statements is significantly impaired. Addressing the intragovernmental transactions problem remains a difficult challenge and will require federal entities' strong and sustained commitment to resolving differences with their trading partners timely, as well as Treasury's and OMB's continued strong leadership.

Preparation of Consolidated Financial Statements

Treasury, in coordination with OMB, has implemented corrective actions in recent years related to the preparation of the consolidated financial statements. Corrective actions included improving systems and implementing new processes for preparing the consolidated financial statements, enhancing guidance for collecting data from component entities, and implementing procedures to address certain internal control deficiencies detailed in our previously issued management report.[44] However, the federal government's systems, controls, and procedures were not adequate to reasonably assure that the consolidated financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in accordance with U.S. generally accepted accounting principles (U.S. GAAP). During our fiscal year 2019 audit, deficiencies in the preparation of the consolidated financial statements included the following.

- For fiscal year 2019, auditors reported internal control deficiencies at several component entities regarding their entity-level controls, including the control environment, risk assessment, information and communication, and monitoring components of internal control, that could affect Treasury's ability to obtain reliable financial information from federal entities for consolidation. For example, DOD did not have sufficient entity-level controls to establish an internal control system that will produce reliable financial reporting, Also, the Department of Veterans Affairs (VA) lacked an effective entity-level control system, which, coupled with a decentralized reporting structure and

[43]The General Fund of the U.S. Government is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

[44]Most of the issues we identified in fiscal year 2019 existed in fiscal year 2018, and many have existed for a number of years. Most recently, in September 2019, we reported on the status of the issues we identified to Treasury and OMB and provided recommendations for corrective action. See GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, GAO-19-624 (Washington, D.C.: Sept. 4, 2019).

legacy system issues, has led to systemic and pervasive control deficiencies that impede VA's ability to process, summarize, and report reliable financial information in a timely manner.

- For fiscal year 2019, auditors reported internal control deficiencies at several component entities related to the entities' financial reporting processes that could affect information included in the consolidated financial statements. For example, DOD could not demonstrate that its financial statements were consistent with underlying records.

- For fiscal year 2019, Treasury did not have sufficient procedures, as part of its new process for preparing the consolidated financial statements, to reasonably assure that certain information was adequately supported by audited entity-level financial information. For example, Treasury recorded significant adjustments to federal entities' dedicated collection information, but such adjustments were not based on audited entity-level financial information. Some amounts in the draft consolidated financial statements were materially incorrect and the supporting documentation was not sufficient. Treasury corrected the amounts and provided additional support after the preparation of the first draft.

- While progress has been made, Treasury is unable to properly balance the accrual-based consolidated financial statements because of its inability to fully eliminate intragovernmental activity and balances. To make the fiscal years 2019 and 2018 consolidated financial statements balance, Treasury recorded a net decrease of $1.6 billion and a net increase of $2.4 billion, respectively, to net operating cost on the Statements of Operations and Changes in Net Position, which were identified as "Unmatched transactions and balances."[45] Treasury recorded an additional net $4.5 billion and $1.3 billion of unmatched transactions in the Statements of Net Cost for fiscal years 2019 and 2018, respectively. The material weakness in the federal government's ability to account for intragovernmental activity and balances, discussed above, significantly contributes to this issue.

- Over the past several years, Treasury has taken significant actions to help ensure that financial information is reported or disclosed in the consolidated financial statements in accordance with U.S. GAAP. For example, Treasury has developed and implemented U.S. GAAP compliance operating procedures and checklists. Also, Treasury continued working with entities to improve reporting of commitments and contingencies related to treaties and other international agreements. However, Treasury's reporting of certain financial information required by U.S. GAAP continues to be impaired. Because of certain control deficiencies noted in this audit report—for example, commitments and contingencies related to treaties and other international agreements—Treasury is precluded from determining if U.S. GAAP requires additional disclosure in the consolidated financial statements, and we are precluded from determining whether the omitted information is material. Further, Treasury's ability to report information in accordance with U.S. GAAP will also remain impaired until federal entities can provide Treasury with the complete and reliable information required to be reported in the consolidated financial statements. For example, in fiscal year 2019 DOD auditors reported that DOD did not properly recognize and disclose property transfers that occurred in connection with the Military Housing Privatization Initiative.

[45]Although Treasury was unable to determine how much of the unmatched transactions and balances relates to net operating cost, it reported this amount as a component of net operating cost in the accompanying consolidated financial statements.

In fiscal year 2019, Treasury continued to make progress with corrective actions intended to resolve internal control deficiencies in the processes used to prepare the consolidated financial statements. For example, Treasury designed and implemented additional tools to consistently report restatements, reclassifications, and adjustments to beginning net position in the consolidated financial statements. Treasury also made improvements to the processes and procedures for obtaining and assessing legal contingency information, such as enhancing the schedule submitted by entities summarizing the contingencies included in their legal representation letters.

However, until these internal control deficiencies have been fully addressed, the federal government's ability to reasonably assure that the consolidated financial statements are consistent with the underlying audited federal component entities' financial statements, properly balanced, and in accordance with U.S. GAAP will be impaired. In recent years, Treasury has continued to improve its systems and processes for preparing the consolidated financial statements. It is important that Treasury (1) continues to improve its systems and processes and (2) remains committed to maintaining the progress that has been made in this area and building on that progress to make needed improvements that fully address the magnitude of the financial reporting challenges it faces. Resolving the remaining internal control deficiencies continues to be a difficult challenge and will require a strong and sustained commitment from Treasury, OMB, and federal entities.

Reconciliations of Budget Deficit to Net Operating Cost and Changes in Cash Balance

The Reconciliations of Net Operating Cost and Budget Deficit and the Statements of Changes in Cash Balance from Budget and Other Activities (Reconciliation Statements) reconcile (1) the accrual-based net operating cost to the primarily cash-based budget deficit and (2) the budget deficit to changes in cash balances. The budget deficit is calculated by subtracting actual budget outlays (outlays) from actual budget receipts (receipts).[46] The outlays and receipts are key inputs to the Statements of Long-Term Fiscal Projections.

Treasury continued to develop its process for preparing the Reconciliation Statements. For example, during fiscal year 2019, Treasury implemented procedures and developed new transaction codes to improve the accounting for and reporting of General Fund transactions and balances that Treasury uses to compute the budget deficit reported in the consolidated financial statements. However, as reported in our disclaimer of opinion on the fiscal year 2018 Schedules of the General Fund, Treasury was unable to timely provide sufficient appropriate evidence to support certain information reported in the Schedules of the General Fund. Such limitations primarily related to (1) readily identifying and tracing transactions to determine whether they were properly recorded in the Schedules of the General Fund, (2) evaluating and resolving differences with entity-reported amounts, and (3) supporting the beginning liability for fund balance with Treasury.[47] One of the two General Fund schedules provides information supporting the Statements of Changes in Cash Balance from Budget and Other Activities. Treasury developed and began to implement a remediation plan to address the issues we identified as part of our audit of the fiscal year 2018 Schedules of the General Fund. Because of the nature and complexity of issues identified, some of the control deficiencies are expected to be remediated over several years.

[46]The budget deficit, receipts, and outlays amounts are reported in Treasury's *Monthly Treasury Statement* and the President's Budget.

[47]GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Year 2018 Schedules of the General Fund*, GAO-19-185 (Washington, D.C.: May 15, 2019).

As of the end of fiscal year 2019, Treasury's processes and procedures for preparing the reconciliation statements were not effective in (1) identifying and reporting all the items in the Reconciliation Statements, (2) properly supporting amounts used in calculating the budget deficit, and (3) reasonably assuring that the information in these statements was fully consistent with the underlying information in the significant component entities' audited financial statements and other financial data. Consequently, there may be misstatements in the Reconciliation Statements.

In fiscal year 2019, we again noted that several entities' auditors reported internal control deficiencies related to monitoring, accounting, reconciliation, and reporting of budgetary transactions, including deficiencies related to federal entities' budget and accrual reconciliations.[48] These control deficiencies could affect the reporting and calculation of the net outlay amounts in the entities' Statements of Budgetary Resources. In addition, such deficiencies may also affect the entities' ability to report reliable budgetary information to Treasury and OMB and may affect the budget deficit reported in the accrual-based consolidated financial statements. Treasury also reports the budget deficit in its *Combined Statement of Receipts, Outlays, and Balances* and in other federal government publications.[49]

---

[48]Statement of Federal Financial Accounting Standards 53, *Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22*, became effective for periods beginning after September 30, 2018, and provides for the budget and accrual reconciliation (BAR) to replace the statement of financing. The BAR explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the period.

[49]Treasury's *Combined Statement of Receipts, Outlays, and Balances* presents budget results and cash-related assets and liabilities of the federal government with supporting details. According to Treasury, this report is the recognized official publication of receipts and outlays of the federal government based on entity reporting.

Appendix III

Other Material Weaknesses

Material weaknesses in internal control discussed in this audit report resulted in ineffective controls over financial reporting. In addition to the material weaknesses discussed in appendix II that contributed primarily to our disclaimer of opinion on the accrual-based consolidated financial statements, we found the following three other material weaknesses in internal control.

Improper Payments[50]

The federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them. Reducing improper payments is critical to safeguarding federal funds.[51] The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA),[52] requires federal executive agencies[53] to do the following:

1. Review all programs and activities.
2. Identify those that may be susceptible to significant improper payments.
3. Estimate the annual amount of improper payments for those programs and activities identified as susceptible to significant improper payments.
4. Implement actions to reduce improper payments and set reduction targets with respect to the risk-susceptible programs and activities.
5. Report on the results of addressing the foregoing requirements.

Agency improper payment estimates totaled about $175 billion for fiscal year 2019, based on improper payment estimates reported by federal program or activity.[54] This represents about 4 percent of the federal government's reported outlays for fiscal year 2019 of $4.4 trillion. The government-wide total of reported estimated improper payments, among programs and activities that reported estimates,

[50]Since the conclusion of fiscal year 2019, Congress passed the Payment Integrity Information Act of 2019 (PIIA). S. 375, 116th Cong. This bill would repeal IPIA, IPERA, and IPERIA and would enact a new Subchapter in Title 31 of the U.S. Code, containing substantially similar provisions. Under PIIA, some details would change; however, the core structure of executive agency assessment, estimation, and reporting of improper payments would remain consistent with the statutory framework in effect during fiscal year 2019, as described in this report.

[51]Under the Improper Payments Information Act of 2002, as amended, an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. Office of Management and Budget guidance also provides that when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

[52]IPIA, Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002), as amended by IPERA, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), and IPERIA, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013), and reprinted in 31 U.S.C. § 3321 note.

[53]IPIA, as amended, statutorily defines agencies as executive agencies as that term is defined under 31 U.S.C. § 102 to mean departments, agencies, or instrumentalities in the executive branch of the United States.

[54]As in fiscal years 2017 and 2018, the *Fiscal Year 2019 Financial Report of the United States Government* did not include a government-wide improper payment estimate or improper payment rate (also sometimes referred to as an error rate). From fiscal year 2003 through fiscal year 2016, a government-wide estimate and error rate had been reported in financial reports based on the programs and activities that reported estimates.

increased by about $24 billion from the prior year estimate of about $151 billion. While decreases in estimated improper payments were reported for several programs and activities, these were offset by increases for certain other programs and activities.[55] For example, the Department of Health and Human Services (HHS) reported an increase of estimated improper payments in excess of $21 billion for Medicaid in fiscal year 2019. Also, estimated improper payments of about $9 billion for two Department of the Treasury (Treasury) tax programs were reported for the first time. It is important to note that reported improper payment estimates include overpayments, underpayments, and payments for which the agency could not find sufficient documentation, and may also be based on payment data and sampling drawn from periods that do not coincide with the fiscal year for which the estimates are reported. Federal agencies reported about $75 billion of the government-wide estimate as monetary loss, an amount that should not have been paid and in theory should or could be recovered.

The specific programs and activities included in the government-wide total of reported improper payment estimates may change from year to year. For example, four agencies did not report fiscal year 2019 estimated improper payment amounts for six programs and activities that were identified by the agency or OMB as risk-susceptible, including HHS's Temporary Assistance for Needy Families (TANF).[56] Further, various inspectors general reported deficiencies related to

[55]For fiscal year 2019, agencies reported decreases in total estimated improper payments in excess of $1 billion for five programs and activities and increases in total estimated improper payments in excess of $1 billion for six programs and activities. The five programs and activities with a decrease in excess of $1 billion were the Department of Education's (Education) Pell Grant activity; Education's Direct Loan activity; the Department of Health and Human Services' (HHS) Medicare Fee-for-Service; the Social Security Administration's (SSA) Old-Age, Survivors, and Disability Insurance; and the Department of the Treasury's (Treasury) Earned Income Tax Credit (EITC). The six programs and activities with increases in excess of $1 billion were HHS's Medicaid; Treasury's Additional Child Tax Credit (ACTC); the Department of Defense's (DOD) Military Pay; Treasury's American Opportunity Tax Credit (AOTC); HHS's Children's Health Insurance Program (CHIP); and HHS's Medicare Advantage (Part C).

[56]The six programs and activities were (1) HHS's TANF, (2) HHS's Advance Premium Tax Credit, (3) Treasury's Premium Tax Credit, (4) the Department of Agriculture's (USDA) Summer Food Service Program, (5) the Department of Housing and Urban Development's (HUD) Rental Housing Assistance Program (RHAP) – Tenant-Based Rental Assistance, and (6) HUD's RHAP – Project-Based Rental Assistance. In addition, for fiscal year 2019, the Department of Labor (Labor) reported that it did not report an improper payment estimate for the National Disaster Workforce Grants program, and the Department of Homeland Security reported that it did not report improper payment estimates for 10 disaster relief programs. These programs were subject to improper payment reporting because in fiscal year 2017 or fiscal year 2018, or both, they received supplemental appropriations for disaster relief and expended more than $10 million of such funds in one fiscal year, thus meeting the appropriations' criteria for determining programs' susceptibility to significant improper payments for the purposes of the IPIA. See Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017, Pub. L. No. 115-72, div. A, § 305(b), 131 Stat. 1224, 1228 (Oct. 26, 2017), as amended by the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018, Pub. L. No. 115-123, div. B, §§ 21207, 21208(a)(2), (b), 132 Stat. 64, 108 (Feb. 9, 2018).

compliance with the criteria listed in IPERA for fiscal year 2018 at their respective agencies,[57] including risk-susceptible programs and activities that did not report improper payment estimates, estimation methodologies that may not produce reliable estimates, and risk assessments that may not accurately assess the risk of improper payment. For example, the Department of Defense (DOD) Office of Inspector General reported that DOD did not ensure that all required payments were included in certain programs' improper payment estimates, and as a result, DOD published unreliable estimates of improper payments for fiscal year 2018.[58]

For fiscal year 2019, agencies reported estimated improper payment rates of 10 percent or greater for 22 risk-susceptible programs and activities,[59] accounting for about 59 percent of the government-wide total of reported estimated improper payments.[60] Under IPERA, if an agency's inspector general determines that the entity is not in compliance with the criteria listed in IPERA, such as reporting an improper payment rate of 10 percent or greater for any risk-susceptible program or activity, that agency must submit a plan to Congress describing the actions that it will take to come into compliance.

Further, agency auditors continued to report internal control deficiencies over financial reporting in their fiscal year 2019 financial statement audit reports, such as financial system limitations and information system control weaknesses. Such deficiencies could significantly increase the risk that improper payments may occur and not be detected promptly.

The President's fiscal years 2019 and 2020 budgets included program integrity proposals at multiple agencies aimed at reducing improper payments. Also, efforts continue to implement IPERIA requirements in order to better identify and prevent improper payments, waste, fraud, and abuse, as well as to recover overpayments. Among other things, IPERIA established the statutory Do Not Pay initiative, requiring agencies to review prepayment and pre-award procedures and ensure a thorough review of available databases to determine program or award eligibility before the release of any

---

[57]IPERA established a requirement for agency inspectors general to report annually on their respective agencies' compliance with criteria listed in section three of IPERA. The six criteria are that the agency has (1) published an annual financial statement and accompanying materials in the form and content that OMB requires for the most recent fiscal year and posted that report on the agency website; (2) conducted a risk assessment for each specific program or activity that conforms with IPIA, as amended; (3) published estimates of improper payments for all programs and activities identified as susceptible to significant improper payments under the agency's risk assessment; (4) published corrective action plans for programs and activities assessed to be at risk for significant improper payments; (5) published and met annual reduction targets for all programs and activities assessed to be at risk for significant improper payments; and (6) reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was published. The most recent inspector general reports on compliance with the criteria listed in IPERA were issued in 2019 for fiscal year 2018. Pursuant to the OMB implementing guidance in OMB Memorandum M-18-20, appendix C to OMB Circular No. A-123, *Requirements for Payment Integrity Improvement* (June 26, 2018), inspector general reports are due by May 15 of the following year (or the next business day if May 15 falls on a weekend). Therefore, inspector general reports on fiscal year 2019 compliance with the criteria listed in IPERA are expected to be issued no later than May 15, 2020.

[58]Department of Defense, Office of Inspector General, *Audit of the DoD's FY 2018 Compliance with the Improper Payments Elimination and Recovery Act Requirements*, Report No. DODIG-2019-087 (Alexandria, Va.: May 15, 2019).

[59]The improper payment rate reflects the estimated improper payments as a percentage of total annual outlays.

[60]The 22 programs and activities that reported estimated improper payment rates of 10 percent or greater for fiscal year 2019 were (1) the Department of Veterans Affairs' (VA) Purchased Long Term Services and Support; (2) VA's Community Care; (3) VA's Medical Care Contracts and Agreements; (4) VA's Communications, Utilities, and Other Rent; (5) the Corporation for National and Community Service's (CNCS) Retired and Senior Volunteer; (6) CNCS's Senior Companion; (7) CNCS's Foster Grandparent; (8) Treasury's AOTC; (9) Treasury's EITC; (10) USDA's Farm Service Agency (FSA) Noninsured Crop Disaster Assistance; (11) VA's Supplies and Materials; (12) VA's Beneficiary Travel; (13) USDA's FSA Livestock Forage Disaster; (14) CNCS's AmeriCorps; (15) USDA's FSA Agriculture Risk and Price Loss Coverage; (16) USDA's FSA Hurricane Harvey – Emergency Conservation; (17) HHS's CHIP; (18) Treasury's ACTC; (19) HHS's Medicaid; (20) the Federal Communications Commission's Rural Health Care; (21) Labor's Unemployment Insurance; and (22) USDA's Food and Nutrition Service (FNS) School Breakfast.

federal funds. IPERIA also directs OMB to annually identify a list of high-priority federal programs for greater levels of oversight and review and requires each agency responsible for administering one of these high-priority programs to annually submit a program report to its inspector general and make the report available to the public.[61] In addition, in March 2018, the President's Management Agenda outlined a long-term vision for modernizing federal operations and improving agencies' ability to achieve outcomes that included a Getting Payments Right initiative. OMB's current goals for this initiative are to (1) build trust in government by better understanding the nature of improper payments and their relationship to payment integrity and (2) demonstrate stewardship of taxpayer dollars by focusing on getting government payments right the first time they are made and preventing monetary loss.[62]

Until the federal government has implemented effective processes to determine the full extent to which improper payments occur and has taken appropriate actions across agencies and programs and activities to effectively reduce improper payments, it will not have reasonable assurance that the use of federal funds is adequately safeguarded.

Information Security

GAO has reported information security as a government-wide material weakness since fiscal year 1997.[63] During our fiscal year 2019 audit, we found that serious and widespread information security control deficiencies continued to place federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Eighteen of the 24 agencies covered by the Chief Financial Officers Act of 1990 reported information security as a material weakness or significant deficiency for fiscal year 2019. Specifically, control deficiencies were identified related to (1) security management; (2) access to computer data, equipment, and facilities; (3) changes to and configuration of information system resources; (4) segregation of incompatible duties; and (5) contingency planning.

Such information security control deficiencies increase the risk of unauthorized access to, modification of, or disclosure of sensitive data and programs and disruptions of critical operations. A primary reason for these deficiencies is that federal entities generally have not yet fully institutionalized comprehensive security management programs, which are critical to identifying information security control deficiencies, resolving information security problems, and managing information security risks on an ongoing basis. Until agencies identify and resolve these deficiencies and effectively manage information security risks on an ongoing basis, federal data and systems, including financial information, will remain at risk.

---

[61]OMB has designated high-priority programs as those programs and activities with improper payment estimates that exceed $2 billion annually. The 14 programs and activities with reported improper payment estimates greater than $2 billion in fiscal year 2019 were (1) HHS's Medicaid; (2) HHS's Medicare Fee-for-Service; (3) Treasury's EITC; (4) HHS's Medicare Advantage; (5) DOD's Military Pay; (6) Treasury's ACTC; (7) VA's Community Care; (8) SSA's Supplemental Security Income; (9) USDA's FNS Supplemental Nutrition Assistance; (10) Labor's Unemployment Insurance; (11) HHS's CHIP; (12) SSA's Old Age, Survivors, and Disability Insurance; (13) VA's Purchased Long Term Services and Support; and (14) Treasury's AOTC.

[62]According to OMB Circular No. A-136, *Financial Reporting Requirements* (rev. June 28, 2019), at II.4.5., "monetary loss" represents an amount that should not have been paid and in theory should or could be recovered.

[63]We have also reported information security as a government-wide high-risk area since 1997. For more information, see GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

Loans Receivable and Loan Guarantee Liabilities

Internal control deficiencies were identified at certain federal entities that accounted for a majority of the reported balances of loans receivable and loan guarantee liabilities.[64] The deficiencies related to credit program cost estimation, associated control activities, and financial reporting processes. These deficiencies and complexities associated with estimating the costs of loan and loan guarantee programs and related financing activities significantly increase the risk that misstatements in federal entity and government-wide financial statements could occur and go undetected. Further, these deficiencies can adversely affect the entities' ability to support annual budget requests for these programs, make future budgetary decisions, manage program costs, and measure the performance of lending activities.

[64]Entities contributing to the material weakness for loans receivable and loan guarantee liabilities include the Department of Education, Department of Housing and Urban Development, Department of Transportation, Department of Veterans Affairs, and Small Business Administration.

Appendix IV

Significant Deficiencies

In addition to the material weaknesses discussed in appendixes II and III, we found three significant deficiencies in the federal government's internal control related to maintaining effective internal controls at certain federal entities, as described below.

Taxes Receivable

During fiscal year 2019, a significant deficiency continued to affect the federal government's ability to manage its taxes receivable effectively. While the Department of the Treasury's Internal Revenue Service (IRS) made necessary and appropriate adjustments derived from a statistical estimation process to correct its financial statements, IRS's underlying records did not always reflect the correct amount of taxes owed by the public to the federal government at interim periods and year-end because of financial system limitations and other control deficiencies that led to errors in taxpayers' accounts. Such inaccurate tax records impair management's ability to effectively manage taxes receivable throughout the year and place an undue burden on taxpayers who may be compelled to respond to IRS inquiries caused by errors in taxpayer accounts.

Federal Grants Management

In fiscal year 2019, several federal entities' auditors continued to identify internal control deficiencies related to grants management.[65] Reported deficiencies primarily related to monitoring of grant activities, accounting for grants, and untimely recognition of grant expenses. These internal control deficiencies could adversely affect the federal government's ability to provide reliable financial statements as well as reasonable assurance that grants are awarded properly, recipients are eligible, and federal grant funds are used as intended.

Medicare Social Insurance Information

In fiscal year 2019, auditors for the Department of Health and Human Services (HHS) identified internal control deficiencies in certain controls related to the sufficiency of the review of methodologies and related calculations and estimates used in HHS's preparation of its Statement of Social Insurance for the Medicare program. Such control deficiencies could result in misstatements to the Statement of Social Insurance.

[65] Key entities contributing to the significant deficiency for federal grants management include the Departments of Homeland Security, Housing and Urban Development, and Transportation.