



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, 2021, and 2020, we found the following:

- Certain material weaknesses¹ 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, 2021, and 2020.²
- Significant uncertainties (discussed in Note 25, *Social Insurance*, 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 2021 and 2020 Statements of Long-Term Fiscal Projections;⁴ the 2021, 2020, 2019, 2018, and 2017 Statements of Social Insurance;⁵ and the 2021 and 2020 Statements of Changes in Social

¹A 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.

²The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2021, and 2020, 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 2020.

³We have previously reported that significant uncertainties prevented us from expressing an opinion on the sustainability financial statements (Statements of Social Insurance for fiscal years 2010 through 2020 and Statements of Long-Term Fiscal Projections for fiscal years 2015 through 2020). The Statements of Social Insurance were first presented for fiscal year 2006 and the Statements of Long-Term Fiscal Projections were first presented for fiscal year 2015.

⁴The 2021 and 2020 Statements of Long-Term Fiscal Projections present, for all the activities of the federal government, the present value of projected receipts and noninterest 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 noninterest spending from the prior year. These statements also present the fiscal gap, which shows the combination of noninterest 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.

⁵The Statements of Social Insurance present the present value of revenue and expenditures for social benefit programs, primarily Social Security and Medicare. These statements 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, 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 2021 and 2020 Statements of Long-Term Fiscal Projections.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2021.
- 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 2021.

This audit report discusses the following in more detail.

- Our report on the accompanying consolidated financial statements, which includes (1) three emphasis of matters—the federal government’s response to the COVID-19 pandemic, 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 and other information⁷ included with the consolidated financial statements in the *Fiscal Year 2021 Financial Report of the United States Government (2021 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 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.⁸ 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, 2021, and 2020, and the sustainability financial statements, consisting of the 2021 and 2020 Statements of Long-Term Fiscal Projections; the 2021, 2020, 2019, 2018, and 2017 Statements of Social Insurance; the 2021 and 2020 Statements of Changes in Social Insurance Amounts; and the related notes to the financial statements.

⁶The RSI consists of Management’s Discussion and Analysis and information in the Required Supplementary Information section of the *Fiscal Year 2021 Financial Report of the United States Government*.

⁷Other information consists of information in the *Fiscal Year 2021 Financial Report of the United States Government* other than the consolidated financial statements, RSI, auditor’s report, and Statement of the Comptroller General of the United States.

⁸The 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.

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 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 and RSI; 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 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, 2021, and 2020, 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.⁹ 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.

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 generally have existed for

⁹Such limitations include the following: (1) The Department of Defense received a disclaimer of opinion on its fiscal years 2021 and 2020 financial statements. (2) The Small Business Administration (SBA) received a disclaimer of opinion on its fiscal year 2021 balance sheet and its remaining statements were unaudited. SBA also received a disclaimer of opinion on its fiscal year 2020 financial statements. (3) The Department of Labor received a qualified opinion on its fiscal year 2021 financial statements but received an unmodified opinion on its fiscal year 2020 financial statements. (4) The fiscal year 2021 Schedules of the General Fund of the U.S. Government were not audited to allow Treasury sufficient time to continue to implement a remediation plan to address the issues we reported as part of our disclaimer of opinion on the fiscal year 2020 Schedules of the General Fund. Also, for fiscal years 2021 and 2020, the financial information for Security Assistance Accounts was unaudited.

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 the value of loans receivable and loan guarantee liabilities, most notably at the Small Business Administration (SBA);
- 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 SBA, 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, the sustainability financial statements, and the management of federal government operations.

In addition, the federal government did not adequately account for and report on the Special Financial Assistance Program for Financially Troubled Multiemployer Plans (SFA program) established by the American Rescue Plan Act of 2021 (ARPA).¹⁰ ARPA established the SFA program to provide payments to eligible multiemployer pension plans to enable them to pay benefits at plan levels through 2051.

¹⁰ARPA, Pub. L. No. 117-2, § 9704, 135 Stat. 4, 190-99 (Mar. 11, 2021), *classified at* 29 U.S.C. §§ 1305(i), 1432.

Plans are not required to repay amounts received from the SFA program, which is funded by appropriations from the General Fund of the U.S. Government.¹¹

Total cost of payments to eligible multiemployer pension plans under the SFA program is estimated to range from \$66 billion to \$147 billion, with an estimated mean of \$97 billion.¹² Fiscal year 2021 liabilities and net costs were reduced by about \$60 billion, representing Pension Benefit Guaranty Corporation's previously recorded multiemployer plan liability related to those plans expected to be eligible to receive SFA program payments. However, while the cost and liability reduction assumed that the SFA program payments would be made, the federal government did not recognize the increase in liabilities and costs related to the estimated SFA program payments to those plans.

Sustainability Financial Statements

Significant uncertainties (discussed in Note 25, *Social Insurance*, 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 hampers the federal government's ability to demonstrate the reliability of historical budget information used for certain key inputs to the 2021 and 2020 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 2021 and 2020 Statements of Long-Term Fiscal Projections; the 2021, 2020, 2019, 2018, and 2017 Statements of Social Insurance; the 2021 and 2020 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 2021 and 2020 Statements of Long-Term Fiscal Projections and the 2021, 2020, 2019, 2018, and 2017 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,¹³ based on full implementation of the provisions of the Patient Protection and Affordable Care Act, as amended (PPACA),¹⁴ and

¹¹The General Fund 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).

¹²See Pension Benefit Guaranty Corporation (PBGC), *FY 2020 Projections Report* (Sept. 2021), accessed on Feb. 9, 2022, <https://www.pbgc.gov/documents/fy-2020-projections-report>. As discussed therein, these estimates are based on provisions of PBGC's interim final rule (86 Fed. Reg. 36,598) published in July 2021, and may change once the final rule is issued.

¹³Under 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 inpatient/outpatient hospital services, skilled nursing facilities, home health care, ambulance, ambulatory surgical centers, durable medical equipment, and prosthetics.

¹⁴PPACA, 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.

physician payment updates specified by the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).¹⁵

- Management has noted that actual future costs for Medicare are likely to exceed those shown by the projections under current law presented in the 2021, 2020, 2019, 2018, and 2017 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 25, *Social Insurance*, exceeds the \$48.2 trillion estimate in the 2021 Statement of Social Insurance by \$9.9 trillion.
- 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 2021 and 2020 Statements of Long-Term Fiscal Projections.

Projections of Medicare costs are sensitive to assumptions about future policymaker decisions and 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.¹⁶ 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 *2021 Financial Report*, the projections are very sensitive to changes in the health care cost growth assumption.

As discussed in Notes 25, *Social Insurance*, and 26, *Long-Term Fiscal Projections*, to the consolidated 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.¹⁷ The sustainability financial statements are intended to aid users in assessing whether

¹⁵MACRA, 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 nonphysician medical providers, and established an alternative set of annual updates.

¹⁶The 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.

¹⁷The projection period used for the Social Security, Medicare, and Railroad Retirement social insurance programs is 75 years. The projection period used for the Black Lung program is 25 years.

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 *2021 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

- projected spending, receipts, and borrowing levels assume raising or suspending the current statutory limit on federal debt;
- continued discretionary appropriations are assumed throughout the projection period;
- scheduled Social Security and Medicare Part A benefit payments are assumed to occur beyond the projected point of trust fund depletion; and
- 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 *2021 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 projections in the sustainability financial statements are not forecasts or predictions.

The 2021 sustainability financial statements are based on the economic assumptions that underlie the *2021 Social Security Trustees' Report*. Those assumptions include the Trustees' best estimates of the effects of the COVID-19 pandemic and the 2020 recession, which were not reflected in the 2020 projections. Further, the projections included in the Statements of Long-Term Fiscal Projections were adjusted, where possible, for the effects of the COVID-19 pandemic and economic recovery spending that are judged to be temporary. Budget totals that cannot be adjusted result in higher projections of future spending. Consequently, there is an unusually large degree of uncertainty about the impact of the COVID-19 pandemic and economic recovery spending on the projections.

As discussed in the unaudited RSI section of the *2021 Financial Report*, the combined Social Security trust funds are projected to be depleted in 2034.¹⁸ Further, based on the achievement of the cost growth reductions discussed above, the Medicare Hospital Insurance (Part A) trust fund is projected to be depleted in 2026. After depletion, the trust funds would be unable to pay the full amount of scheduled future benefits. For Social Security, future revenues were projected to be sufficient to pay 78 percent of scheduled benefits in 2034, the year of projected trust funds (combined) depletion, and decreasing to 74 percent of scheduled benefits in 2095. For Medicare Hospital Insurance (Part A), future revenues were projected to be sufficient to pay 91 percent of scheduled benefits in 2026, the

¹⁸The projected depletion date for the combined Social Security trust funds is hypothetical and often used for simplicity to illustrate the solvency of the Social Security program by combining the separate 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 76 percent of scheduled benefits in 2033, the year of projected trust fund depletion, decreasing to 72 percent in 2095. For the Federal Disability Insurance trust fund, future revenues were projected to be sufficient to pay 91 percent of scheduled benefits in 2057, the year of projected trust fund depletion, increasing to 92 percent in 2095.

year of projected trust fund depletion, declining to 78 percent by 2045, and then increasing to 91 percent of scheduled benefits in 2095.

Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be projected with certainty, even if current policy is continued, there will be differences between the projections 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 2021 and 2020, 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 2021 and 2020, 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, 2021, and 2020.

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 2021 and 2020; the Statements of Social Insurance for 2021, 2020, 2019, 2018, and 2017; and the Statements of Changes in Social Insurance Amounts for 2021 and 2020. Accordingly, we do not express an opinion on these sustainability financial statements.

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 *2021 Financial Report* into context. Our disclaimers of opinion noted above are not modified with respect to these matters.

The Federal Government's Response to the COVID-19 Pandemic

The federal government took unprecedented actions in response to the COVID-19 pandemic to protect public health and reduce economic impacts on individuals and businesses during fiscal years 2021 and 2020. These ongoing efforts are reflected in the net cost, assets, liabilities, and budget deficit reported in the U.S. government's consolidated financial statements for fiscal years 2021 and 2020.

The federal government's response to the COVID-19 pandemic includes net costs for fiscal years 2021 and 2020 related to small business loan guarantees of \$297 billion (2021) and \$527 billion (2020), primarily for the Paycheck Protection Program (PPP); economic impact payments and recovery rebate credits of \$570 billion (2021) and economic impact payments of \$275 billion (2020); and Department of Labor program costs of \$313 billion (2021) and \$352 billion (2020), primarily related to unemployment benefits.

Significant assets and liabilities as of September 30, 2021, and 2020, resulting from the federal government's response to the COVID-19 pandemic include

- advances of \$254 billion (2021) and \$173 billion (2020), primarily as a result of aid to state, local, territorial, and tribal governments and Medicare providers;
- loans under the Economic Injury Disaster Loan (EIDL) program, representing almost all of the \$244 billion (2021) and \$181 billion (2020) in net disaster loans;
- equity investments in special purpose vehicles of \$26 billion (2021) and \$108 billion (2020), which the Federal Reserve established during fiscal year 2020 to enhance the liquidity of the U.S. financial system;¹⁹
- cash and other monetary assets of \$1,927 billion (2020) resulting from the Department of the Treasury maintaining an elevated cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19 pandemic-related outflow;²⁰ and
- loan guarantee liabilities of \$231 billion (2021) and \$520 billion (2020), primarily related to the PPP.²¹

COVID-19 pandemic-related budget expenditures totaled \$1.8 trillion in fiscal year 2021 and \$1.6 trillion in fiscal year 2020, increasing the budget deficit. During fiscal year 2020, primarily due to a budget deficit of \$3.1 trillion and an increase in cash and other monetary assets, debt held by the public increased by \$4.2 trillion to \$21.0 trillion. During fiscal year 2021, primarily due to a budget deficit of \$2.8 trillion, offset by decreases in cash and other monetary assets, debt held by the public increased by \$1.3 trillion to \$22.3 trillion.

The actions the federal government has taken to combat the pandemic and their effects on the financial statements are discussed throughout the *2021 Financial Report* and summarized in Note 30 to the consolidated financial statements. The ultimate cost of these actions and any future actions in response to the pandemic and their impact on the federal government's financial condition will not be fully known for some time.

Long-Term Fiscal Challenges

The 2021 Statement of Long-Term Fiscal Projections and related information in Note 26, *Long-Term Fiscal Projections*, to the consolidated financial statements and in the unaudited RSI section of the *2021 Financial Report* show that based on current revenue and spending policies, the federal

¹⁹As discussed in Note 8, *Investments in Special Purpose Securities*, to the consolidated financial statements, equity investments in special purpose vehicles decreased to \$26 billion in fiscal year 2021 from \$108 billion in fiscal year 2020 primarily because the Department of the Treasury and the Federal Reserve amended several of the special purpose vehicle agreements and the Federal Reserve returned equity investments to Treasury.

²⁰As discussed in Note 2, *Cash and Other Monetary Assets*, to the consolidated financial statements, cash and other monetary assets decreased in fiscal year 2021 because Treasury reduced the cash balance in fiscal year 2021 to well under its prudent policy level because of debt limit constraints.

²¹The change from fiscal year 2020 to fiscal year 2021 is primarily due to new guarantees of \$304 billion, offset by loan forgiveness payments to lenders of \$558 billion.

government continues to face an unsustainable long-term fiscal path. At the end of fiscal years 2021 and 2020, debt held by the public was approximately 100 percent of gross domestic product (GDP), up from approximately 79 percent at the end of fiscal year 2019. The projections show that debt held by the public will reach its historical high of 106 percent of GDP in 2024 and will grow faster than the economy over the long term. For the 2021 projections, debt held by the public as a share of GDP (debt-to-GDP) at the end of the 75-year projection period is projected to be 701 percent. Annual budget deficits are projected to continue throughout the 75-year projection period. 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 debt-to-GDP. This situation—in which debt held by the public grows faster than GDP—means that the federal government's long-term fiscal path is unsustainable.

Under the *2021 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 in effect 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 *2021 Financial Report* projections, spending on net interest (primarily interest on debt held by the public) will surpass Social Security spending and become the largest category of spending in 2034. Net interest is projected to increase from 1.6 percent of GDP in fiscal year 2021 to 6.0 percent of GDP in fiscal year 2034 (about 20 percent of 2034 projected total spending), and to 31.7 percent of GDP in fiscal year 2096 (about 56 percent of 2096 projected total spending).

GAO and CBO also prepare long-term federal fiscal simulations, which continue to show debt-to-GDP rising in the long term.²² GAO, CBO, and the *2021 Financial Report* all project that debt-to-GDP will surpass its historical high (106 percent in 1946) in the next 10 years. Each of these long-term projections uses somewhat different assumptions, but their overall conclusions are the same: based on current revenue and spending policies, the federal government's fiscal path is unsustainable.

Further, these projections do not fully account for emerging issues and unforeseen challenges, such as another economic downturn or large-scale disaster. These unforeseen events, also known as 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 fiscal exposures can help policymakers anticipate changes in future spending and can enhance oversight of federal resources.

Currently, policymakers are understandably focused on dealing with the pandemic and its effect on the economy. However, once these issues are addressed, policymakers will need to turn their attention to

²²For more information on GAO's simulations, see GAO, *America's Fiscal Future*, accessed on Feb. 9, 2022, https://www.gao.gov/americas_fiscal_future. For more information on CBO's simulations, see Congressional Budget Office, *The 2021 Long-Term Budget Outlook* (Washington, D.C.: Mar. 4, 2021).

the serious long term challenges of addressing the federal government's large and growing deficits that are driven primarily by rising health care costs and known demographic trends.

The *2021 Financial Report* also discusses the fiscal gap, which is a measure of how much primary deficits must be reduced through policy changes (some combination of revenue increases or spending cuts) over the next 75 years in order to make fiscal policy sustainable.²³ For example, based on projections in the *2021 Financial Report*, if policymakers choose to achieve a debt-to-GDP target of 100 percent—the level the federal government reached at the end of fiscal years 2020 and 2021—over a 75-year period (fiscal years 2022 to 2096), they would need to make policy changes that increase projected revenues by 32 percent, reduce projected noninterest spending by 25 percent, or a combination of the two, over this period. The projections show that the longer such policy changes are delayed, the more significant the changes will need to be.

Equity Investments in Fannie Mae and Freddie Mac

As discussed in Notes 9, *Investments in Government-Sponsored Enterprises*, and 21, *Commitments*, to the consolidated financial statements, 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 condition. As of September 30, 2021, the federal government reported about \$221 billion of investments in the GSEs, which is net of about \$38 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, *Summary of Significant Accounting Policies*, 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, 2021, and the actual results, and such differences may be material.

Also, as discussed in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements, the assets, liabilities, and results of operations of Fannie Mae and Freddie Mac are not consolidated into the federal government's consolidated financial statements. Treasury and OMB have determined that these entities do not meet the criteria for consolidation.²⁴ The ultimate role of the GSEs could affect the federal government's financial condition and the financial condition of certain federal entities, including the Federal Housing Administration (FHA), which in the past expanded its lending role in distressed housing and mortgage markets. In addition, as discussed in Note 22, *Contingencies*, to the consolidated financial statements, the Government National Mortgage Association (Ginnie Mae) guarantees the performance of about \$2.1 trillion in securities backed by federally insured mortgages—\$1.1 trillion of which were insured by FHA and \$1 trillion by other federal entities, such as the Department of Veterans Affairs.

²³The primary deficit is the difference between noninterest spending and receipts.

²⁴For additional information on the GSE preferred stock purchase agreements and valuation of the investment in the GSEs, see Note 9, *Investments in Government-Sponsored Enterprises*, 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 *2021 Financial Report*.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented in the *2021 Financial Report* to supplement the financial statements. Although the RSI is 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 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.

Other Information

Other information included in the *2021 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 or RSI. 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 *2021 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 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.²⁵ 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 comply substantially 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 comply substantially 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 years 2021 and 2020, auditors of nine of the 24 CFO Act agencies reported that the agencies' financial management systems did not comply substantially with one or more of the three FFMIA

²⁵The 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.

requirements. Agency management at the 24 CFO Act agencies also annually report on FFMIA compliance. For fiscal years 2021 and 2020, agency management of eight (2021) and seven (2020) of the 24 CFO Act agencies reported that their agencies' financial management systems did not comply substantially 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 agency 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 contribute significantly to certain 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).²⁶

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 2021 that come to our attention as a result of our audit.²⁷ 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.

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

²⁶31 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 agencies' internal control and accounting systems and on actions to correct significant problems.

²⁷A 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.

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 two other continuing material weaknesses in internal control, related to 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 and
- identify and resolve information security control deficiencies and manage information security risks on an ongoing basis.

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

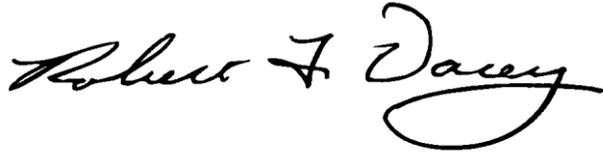
Our work to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements was limited by certain of the material weaknesses and other scope limitations discussed in this audit report. U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. Certain significant 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.

A handwritten signature in black ink that reads "Robert F. Dacey". The signature is written in a cursive style with a large, sweeping flourish at the end of the name.

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

February 9, 2022

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, 2021, and 2020, and (2) sustainability financial statements, which consist of the 2021 and 2020 Statements of Long-Term Fiscal Projections; the 2021, 2020, 2019, 2018, and 2017 Statements of Social Insurance; and the 2021 and 2020 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 that these agencies prepare.²⁸ GMRA requires GAO to be responsible for the audit of the U.S. government's consolidated financial statements.²⁹ The Accountability of Tax Dollars Act of 2002 requires most other executive branch entities to prepare financial statements annually and have them audited.³⁰ The Office of Management and Budget (OMB) and the Department of the Treasury have identified 40 federal entities that are significant to the U.S. government's fiscal year 2021 consolidated financial statements, including the 24 CFO Act agencies.³¹ 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 or 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 2020.³² 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, 2021, and 2020.³³ In fiscal years 2021 and 2020, IRS collected about \$4.1 trillion (2021) and \$3.5 trillion (2020) in tax payments and paid about \$1.1 trillion (2021) and \$736 billion (2020) in refunds and other payments to taxpayers. For fiscal year 2021, 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 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

²⁸31 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).

²⁹31 U.S.C. § 331(e)(2).

³⁰31 U.S.C. § 3515.

³¹See app. A of the *Fiscal Year 2021 Financial Report of the United States Government* for a list of the 40 entities.

³²GAO, *Financial Audit: FY 2020 and FY 2019 Consolidated Financial Statements of the U.S. Government*, [GAO-21-340R](#) (Washington, D.C.: Mar. 25, 2021).

³³GAO, *Financial Audit: IRS's FY 2021 and FY 2020 Financial Statements*, [GAO-22-104649](#) (Washington, D.C.: Nov. 10, 2021).

- We audited and expressed an unmodified opinion on the Schedules of Federal Debt managed by Treasury's Bureau of the Fiscal Service for the fiscal years ended September 30, 2021, and 2020.³⁴ For these 2 fiscal years, the schedules reported (1) about \$22.3 trillion (2021) and \$21.0 trillion (2020) of federal debt held by the public,³⁵ (2) about \$6.1 trillion (2021) and \$5.9 trillion (2020) of intragovernmental debt holdings,³⁶ and (3) about \$392 billion (2021) and \$371 billion (2020) 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, 2021. In addition, we reported that we found no reportable noncompliance for fiscal year 2021 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, 2021, and 2020.³⁷ 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, 2021. In addition, we reported that we found no reportable noncompliance for either SEC or IPF for fiscal year 2021 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, 2021, and 2020.³⁸ We also reported that FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021. In addition, we reported that we found no reportable noncompliance for fiscal year 2021 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, 2021, and 2020.³⁹ We also reported that OFS maintained, in all material respects, effective internal control over financial reporting for TARP as of September 30, 2021. In addition, we reported that we found no reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

³⁴GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2021 and FY 2020 Schedules of Federal Debt*, [GAO-22-104592](#) (Washington, D.C.: Nov. 9, 2021).

³⁵Debt 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.

³⁶Intragovernmental 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.

³⁷GAO, *Financial Audit: Securities and Exchange Commission's FY 2021 and FY 2020 Financial Statements*, [GAO-22-104738](#) (Washington, D.C.: Nov. 15, 2021).

³⁸GAO, *Financial Audit: Federal Housing Finance Agency's FY 2021 and FY 2020 Financial Statements*, [GAO-22-105109](#) (Washington, D.C.: Nov. 15, 2021).

³⁹GAO, *Financial Audit: Office of Financial Stability's (Troubled Asset Relief Program) FY 2021 and FY 2020 Financial Statements*, [GAO-22-105173](#) (Washington, D.C.: Nov. 10, 2021).

- We audited and expressed an unmodified opinion on the Bureau of Consumer Financial Protection's (CFPB)⁴⁰ financial statements as of and for the fiscal years ended September 30, 2021, and 2020.⁴¹ We also reported that CFPB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021. In addition, we reported that we found no reportable noncompliance for fiscal year 2021 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 of the U.S. Government⁴² as of and for the fiscal year ended September 30, 2020.⁴³ Underlying scope limitations, which were the basis for our disclaimer of opinion on the Schedules of the General Fund, related to readily (1) identifying and tracing General Fund transactions to determine whether they were complete and properly recorded in the correct general ledger accounts and line items within the Schedules of the General Fund and (2) providing documentation to support the account attributes assigned to Treasury Account Symbols that determine how transactions are reported in the Schedules of the General Fund.⁴⁴ The Schedules of the General Fund as of and for the fiscal year ended September 30, 2021, were not audited to allow Treasury sufficient time to develop and implement a remediation plan to address the issues we identified as part of our audit of the fiscal year 2020 Schedules of the General Fund.

We performed work related to 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 considered the significant entities' fiscal years 2021 and 2020 financial statements and the related auditors' reports that the inspectors general or independent public accountants prepared. We did not audit, and we do not express an opinion on, any of these individual federal entity financial statements.

We considered the disclaimers of opinion that the Department of Defense (DOD) Office of Inspector General (OIG) issued on DOD's department-wide financial statements as of and for the fiscal years ended September 30, 2021, and 2020.⁴⁵ 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 Information Systems Agency, Defense Logistics Agency, U.S. Special Operations Command, and U.S. Transportation Command. DOD OIG also reported material weaknesses in internal control over financial reporting (28 in fiscal year 2021 and 26 in fiscal year 2020), including those related to (1) property, plant, and equipment; (2) inventory and related

⁴⁰The 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), *classified at* 12 U.S.C. § 5491(a), is often referred to as the Consumer Financial Protection Bureau.

⁴¹GAO, *Financial Audit: Consumer Financial Protection Bureau's FY 2021 and FY 2020 Financial Statements*, [GAO-22-105067](#) (Washington, D.C.: Nov. 15, 2021).

⁴²The General Fund 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).

⁴³GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2020 Schedules of the General Fund*, [GAO-21-362](#) (Washington, D.C.: Apr 15, 2021).

⁴⁴A Treasury Account Symbol is a unique identifier associated with a federal entity's individual appropriation, receipt, or other fund account that Treasury assigns in collaboration with OMB.

⁴⁵Department of Defense, *United States Department of Defense Agency Financial Report for Fiscal Year 2020* (Arlington, Va.: Nov. 15, 2021).

property; (3) environmental and disposal liabilities; (4) reconciliations of disbursement activity; (5) intragovernmental transactions; and (6) financial management systems and information security.

We considered the disclaimers of opinion that the Small Business Administration's (SBA) auditor issued on SBA's balance sheet as of September 30, 2021 (its remaining statements were unaudited), and SBA's financial statements as of and for the fiscal year ended September 30, 2020.⁴⁶ The disclaimers of opinion were based on SBA's inability to provide adequate evidential matter in support of a significant number of transactions and account balances related to COVID-19 relief programs, such as the Paycheck Protection Program and the expanded Economic Injury Disaster Loan program, because of inadequate processes and controls. SBA's auditor also reported material weaknesses in internal control over financial reporting (five in fiscal year 2021 and seven in fiscal year 2020), largely pertaining to these programs.

Our audit approach for the 2021 and 2020 Statements of Long-Term Fiscal Projections focused primarily on determining whether 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 reviewing audit work performed with respect to these two federal entities. For each federal entity preparing a Statement of Social Insurance and Statement of Changes in Social Insurance Amounts,⁴⁷ we considered the entity's 2021, 2020, 2019, 2018, and 2017 Statements of Social Insurance and the 2021 and 2020 Statements of Changes in Social Insurance Amounts, as well as the related auditor's reports that the inspectors general or 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.

⁴⁶Small Business Administration, *Agency Financial Report for Fiscal Year 2021* (Washington, D.C.: Nov. 15, 2021).

⁴⁷These 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

This appendix describes material weaknesses that contributed to our disclaimer of opinion on the federal government's accrual-based consolidated financial statements and highlights the primary effects of these material weaknesses on the accompanying accrual-based consolidated financial statements, the sustainability financial statements, and the management of federal government operations.⁴⁸ 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.

Loans Receivable and Loan Guarantee Liabilities

The auditor of the Small Business Administration (SBA), which had substantial activity related to the COVID-19 pandemic response, reported internal control deficiencies related to SBA's implementation of provisions in the CARES Act and related COVID-19 relief laws. SBA's auditor reported several material weaknesses in internal control related to the Paycheck Protection Program (PPP) and disaster loans under the Economic Injury Disaster Loan (EIDL) program. These weaknesses included control deficiencies in (1) approvals, reporting, review, forgiveness, and service provider oversight related to PPP and (2) eligibility, recording, and service provider oversight related to the EIDL program. In addition, the auditor reported that SBA did not properly design and implement effective entity-level controls to establish an internal control system that produces reliable and accurate financial reporting. These internal control deficiencies significantly increased the risks of misstatements, noncompliance, fraud, and improper payments.

In addition, internal control deficiencies related to loans receivable and loan guarantee liabilities continued to exist at several other federal entities. These deficiencies were associated with accounting and reporting for credit programs and the related financing activities, including estimating the cost of credit programs and determining the value of loans receivable and loan guarantee liabilities.

⁴⁸The 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 2021 and 2020 Statements of Long-Term Fiscal Projections.

These deficiencies, and the complexities associated with accounting and reporting for credit programs, 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.

Liabilities and Commitments and Contingencies

The federal government could not reasonably estimate or adequately support amounts reported for certain liabilities. For example, the DOD auditor was not able to substantiate the completeness and accuracy of DOD's environmental and disposal liabilities. In addition, the DOD auditor reported that 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. In addition, auditors reported internal control deficiencies at several other federal entities that related to material liabilities. 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. They also 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.

Cost of Government Operations and Disbursement Activity

Reported net cost was affected by the other material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements. 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 and SBA.

With respect to disbursements, auditors of DOD and certain other federal entities reported continued control deficiencies in reconciling disbursement activity. For fiscal years 2021 and 2020, inadequate reconciliations of disbursement activity included (1) unreconciled differences between federal entities' and the Department of the Treasury's 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. Improperly recorded disbursements 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 several 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 2021, Treasury continued to provide information and assistance to significant component entities to aid in resolving their intragovernmental differences. Treasury also issued additional guidance to entities for specific types of trading partner transactions. In addition, Treasury's quarterly scorecard process⁴⁹ highlights differences needing the entities' attention, identifies differences that need to be resolved through a formal dispute resolution process,⁵⁰ and reinforces the entities' responsibilities to resolve intragovernmental differences. Treasury continued to identify and monitor systemic root causes of intragovernmental differences and related corrective action plans. 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 that federal entity trading partners reported to Treasury were not in agreement by significant 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, the DOD auditor reported that DOD, which has a substantial amount of intragovernmental activity and balances, did not have accounting systems that were able to capture the trading partner data required to eliminate intradepartmental and intragovernmental transactions, which resulted in a risk of material misstatements. In addition, other material weaknesses reported by DOD's auditor could contribute to this material weakness.

The federal government's ability to determine the effect of intragovernmental differences 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.

⁴⁹For 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.

⁵⁰When 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.

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 reports.⁵¹ 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 2021 audit, deficiencies in the preparation of the consolidated financial statements included the following.

- For fiscal year 2021, auditors reported internal control deficiencies at several component entities related to 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 and SBA reported material weaknesses in entity-level controls.
- For fiscal year 2021, 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.
- 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 2021 and 2020 consolidated financial statements balance, Treasury recorded unmatched transactions and balances in the Statements of Operations and Changes in Net Position, Balance Sheets, and Statements of Net Cost. Unmatched transactions and balances primarily represent unresolved differences in intragovernmental activity and balances between federal entities. The Statement of Operations and Changes in Net Position and the Balance Sheet include specific lines for the unmatched transactions and balances, while the unmatched transactions and balances are recorded in existing lines in the Statement of Net Cost.

Specifically, for fiscal years 2021 and 2020, Treasury recorded a net \$0.2 billion (2021) and \$11.5 billion (2020) of unmatched transactions and balances on the Statements of Operations and Changes in Net Position. Treasury recorded a net \$1.7 billion (2021) and \$3.1 billion (2020) of unmatched transactions and balances on the Balance Sheets as of September 30. Treasury recorded an additional net \$1.5 billion (2021) and \$1.8 billion (2020) of unmatched transactions in the Statements of Net Cost. Unresolved intragovernmental differences (i.e., unmatched transactions and balances) result in errors in the consolidated financial statements. The ultimate effect on the accrual-based financial statements of resolving and correcting these differences cannot be fully determined and could be material.

⁵¹Most of the issues that we identified in fiscal year 2021 existed in fiscal year 2020, and many have existed for a number of years. Most recently, in August 2021, we reported on the status of the issues we identified to Treasury and OMB and provided recommendations for corrective action. See GAO, *Management Report: Continued Improvements Needed in the Processes Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-21-587](#) (Washington, D.C.: Aug. 12, 2021).

- 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, along with the Department of State, is implementing a multiphase approach to review existing treaties and other international agreements to determine which of these agreements may result in commitments or contingencies.

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, which could be material. In addition, for fiscal year 2021, Treasury did not have adequate procedures to assess the impact of the Special Financial Assistance Program for Financially Troubled Multiemployer Plans (SFA program) established by the American Rescue Plan Act of 2021 (ARPA) on the accrual-based consolidated financial statements (see the basis for disclaimer of opinion section above).⁵² 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.

In fiscal year 2021, Treasury continued to take corrective actions intended to resolve internal control deficiencies in the processes used to prepare the consolidated financial statements. In addition, Treasury and OMB continued to enhance guidance for component entity financial reporting, including the implementation of a new balance sheet format that more directly links component-level information to the government-wide balance sheet.

However, until these 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. 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).⁵³ The outlays and receipts are key inputs to the Statements of Long-Term Fiscal Projections.

⁵²ARPA, Pub. L. No. 117-2, § 9704, 135 Stat. 4, 190-99 (Mar. 11, 2021), *classified at* 29 U.S.C. §§ 1305(i), 1432. ARPA established the SFA program to provide payments to eligible multiemployer pension plans to enable them to pay benefits at plan levels through 2051.

⁵³The budget deficit, receipts, and outlays amounts, with minor adjustments, are reported in Treasury's *Monthly Treasury Statement* and the President's Budget.

Treasury continued to develop its process for preparing the Reconciliation Statements. One of the two Schedules of the General Fund of the U.S. Government provides information supporting the Statements of Changes in Cash Balance from Budget and Other Activities.⁵⁴ However, as reported in our disclaimer of opinion on the fiscal year 2020 Schedules of the General Fund, Treasury was unable to readily provide sufficient appropriate evidence to support certain information reported in the Schedules of the General Fund.⁵⁵ With regard to the Reconciliation Statements, such limitations primarily related to readily identifying and tracing transactions to determine whether they were complete and properly recorded in the Schedules of the General Fund. Specifically, certain amounts are netted and recorded at a summarized level thus preventing Treasury from readily obtaining the necessary details, at the transaction level, to support financial reporting for certain line items in the Statements of Changes in Cash Balance from Budget and Other Activities.

During fiscal year 2021, Treasury continued to implement procedures and develop 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 Reconciliation Statements. Because of the nature and complexity of the issues identified, some of the control deficiencies are expected to be remediated over several years and will largely depend on federal agencies implementing and properly reporting activity using the new transaction codes.

As of the end of fiscal year 2021, 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 2021, as in prior years, we 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.⁵⁶ 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 Reconciliation Statements. Treasury also reports the budget deficit in its *Combined Statement of Receipts, Outlays, and Balances* and in other federal government publications.⁵⁷

⁵⁴The General Fund 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).

⁵⁵GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2020 Schedules of the General Fund*, [GAO-21-362](#) (Washington, D.C.: Apr. 15, 2021). The fiscal year 2021 Schedules of the General Fund were not audited to allow Treasury time to continue to implement a remediation plan to address the issues we reported as part of our disclaimer of opinion on the fiscal year 2020 Schedules of the General Fund.

⁵⁶Statement of Federal Financial Accounting Standards (SFFAS) 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 an entity's net outlays on a budgetary basis and its net cost of operations during the period.

⁵⁷Treasury'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 two other continuing material weaknesses in internal control. This appendix describes these weaknesses and highlights their primary effects on the accrual-based consolidated financial statements and on the management of federal government operations.

Improper Payments

We have reported improper payments—payments that should not have been made or that were made in an incorrect amount—as a material deficiency or material weakness in internal control in our audit reports on the U.S. government's consolidated financial statements since fiscal year 1997.⁵⁸ 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. The Payment Integrity Information Act of 2019 (PIIA)⁵⁹ requires federal executive agencies⁶⁰ 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.⁶¹

Sixteen agencies reported improper payment estimates totaling about \$281 billion for fiscal year 2021, based on improper payment estimates reported individually by 86 federal programs or activities in www.paymentaccuracy.gov.⁶² Most of the estimate was concentrated in the following areas: Department of Health and Human Services' (HHS) Medicaid (\$99 billion); Department of Labor's (DOL)

⁵⁸Under the Payment Integrity Information Act of 2019 (PIIA), Pub. L. No. 116-117, 134 Stat. 113 (Mar. 2, 2020), 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. See 31 U.S.C. § 3351(4). PIIA also provides that when an executive 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 included in the improper payment estimate. 31 U.S.C. § 3352(c)(2).

⁵⁹PIIA, Pub. L. No. 116-117, 134 Stat. 25413 (Mar. 2, 2020), which is codified at 31 U.S.C. §§ 3351-58.

⁶⁰An executive agency, as that term is defined under title 31 of the U.S. Code, means a department, an agency, or an instrumentality in the executive branch of the U.S. government. 31 U.S.C. § 102.

⁶¹See 31 U.S.C. § 3352.

⁶²An official U.S. government website managed by Office of Management and Budget (OMB), www.paymentaccuracy.gov contains, among other things, information about current and historical rates and amounts of estimated improper payments.

Unemployment Insurance (\$78 billion); and HHS's Medicare—comprising three programs—(\$50 billion).⁶³ In addition, four other programs reported improper payment estimates of \$5 billion or more.⁶⁴

The fiscal year 2021 government-wide total of reported estimated improper payments, among programs and activities that reported estimates, increased by about \$75 billion from the fiscal year 2020 estimate of about \$206 billion. The specific programs and activities included in the government-wide total of reported improper payment estimates may change from year to year. While decreases in estimated improper payments were reported for several programs and activities, these were more than offset by increases for certain other programs and activities.⁶⁵ For example, DOL reported an increase of about \$70 billion in estimated improper payments for Unemployment Insurance in fiscal year 2021. This large increase resulted from (1) the doubling of the improper payment rate from 9.2 percent in fiscal year 2020 to 18.9 percent in fiscal year 2021 and (2) the large increase of reported outlays in the Unemployment Insurance program from \$87 billion in fiscal year 2020 to \$413 billion in fiscal year 2021. In addition, HHS reported an increase of estimated improper payments of about \$12 billion for Medicaid in fiscal year 2021.

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 over 91 percent of the government-wide estimate as overpayments.

The \$281 billion of reported improper payment estimates for fiscal year 2021 generally do not include estimates related to the expenditures to fund response and recovery efforts for the COVID-19 pandemic, such as the Small Business Administration's Paycheck Protection Program.⁶⁶ Under OMB guidance, a risk assessment to determine susceptibility to significant improper payments should be completed after the first 12 months of program operations.⁶⁷ OMB guidance also states that in the fiscal year following the fiscal year in which the risk assessment was conducted, programs that are determined to be susceptible to the risk of significant improper payments are to develop and report improper payment estimates, including root causes and corrective actions. In addition to the COVID-19 programs, we also identified some risk-susceptible programs for which agencies did not report fiscal year 2021 estimated improper payment amounts, including HHS's Temporary Assistance for Needy

⁶³Medicare comprises Fee-For-Service, Part C, and Part D programs.

⁶⁴The other four programs with reported improper payment estimates greater than \$5 billion in fiscal year 2021 were the (1) Department of the Treasury's Earned Income Tax Credit, (2) Social Security Administration's Supplemental Security Income, (3) HHS's Children's Health Insurance Program, and (4) Treasury's Additional Child Tax Credit.

⁶⁵For fiscal year 2021, agencies reported decreases in total estimated improper payments in excess of \$1 billion for four programs and activities and increases in total estimated improper payments in excess of \$1 billion for five programs and activities. The four programs and activities with a decrease in excess of \$1 billion were the Department of Veterans Affairs' Community Care, Department of Defense's (DOD) Civilian Pay, DOD's Military Pay-Air Force, and DOD's Military Pay-Army. The five programs and activities with increases in excess of \$1 billion were the Department of Education's Title I Grants to Local Educational Agencies, HHS's Medicaid, HHS's Medicare Advantage (Part C), Treasury's Earned Income Tax Credit, and DOL's Unemployment Insurance.

⁶⁶See the Payment Integrity enclosure to GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020), for our matter for congressional consideration related to accelerating the reporting of improper payments estimates for COVID-19 relief funds.

⁶⁷OMB, *Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, OMB Memorandum M-21-19 (Washington, D.C.: Mar. 5, 2021).

Families, HHS's Advance Premium Tax Credit, and the Department of Agriculture's Supplemental Nutrition Assistance Program.

If an agency's inspector general determines that the entity is not in compliance with the criteria listed in PIIA, 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. For example, the Department of Defense (DOD) Office of Inspector General (OIG) found that DOD did not comply with two such criteria. Specifically, DOD OIG reported that DOD did not publish reliable improper payment estimates for seven of its 11 risk-susceptible programs and did not meet its improper payment reduction targets. For fiscal year 2021, agencies reported estimated improper payment rates of 10 percent or greater for 26 risk-susceptible programs and activities,⁶⁸ accounting for about 87 percent of the government-wide total of reported estimated improper payments.

Further, agency auditors continued to report internal control deficiencies over financial reporting in their fiscal year 2021 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 fiscal year 2021 President's Budget included program integrity proposals at multiple agencies aimed at reducing improper payments.⁶⁹ Also, efforts continue to implement PIIA requirements to better identify and prevent improper payments, waste, fraud, and abuse, as well as to recover overpayments. In addition, the statutory Do Not Pay initiative under PIIA requires 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 federal funds. PIIA also directs the Office of Management and Budget 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 submit a program report to its inspector general annually and make the report available to the public.⁷⁰ Finally, the federal government reported recovery of over \$22 billion in overpayments for fiscal year 2021.

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 (controls in information technology systems, or IT controls) as a government-wide material weakness since fiscal year 1997.⁷¹ During our fiscal year 2021 audit, we found that serious and widespread IT control deficiencies continued to place federal assets at risk of

⁶⁸The improper payment rate reflects the estimated improper payments as a percentage of total annual outlays.

⁶⁹Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2021* (Washington, D.C.: Feb. 10, 2020).

⁷⁰OMB has designated high-priority programs as those programs and activities with improper payment monetary loss (also known as overpayments) estimates that exceed \$100 million annually.

⁷¹We have also designated information security as a government-wide high-risk area since 1997. For more information, see GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

inadvertent or deliberate misuse, unauthorized modification or destruction of financial information, inappropriate disclosure of sensitive information, and disruption of critical operations. Seventeen of the 24 agencies covered by the Chief Financial Officers Act of 1990 reported material weaknesses or significant deficiencies in IT controls. 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 control deficiencies increase the risk of unauthorized access to, modification of, or disclosure of sensitive data and programs and disruptions of critical operations.

Most of the significant component entities that reported IT controls as a material weakness or significant deficiency for fiscal year 2021 identified weaknesses related to security management, access controls, configuration management, or combinations thereof. Security management is the foundation of a security-control structure and reflects senior management's commitment to addressing security risks. Security management programs should provide a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning responsibilities, and monitoring the adequacy of the entity's IT controls. Without a well-designed security management program, IT controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. In addition, such conditions may lead to insufficient protection of sensitive or critical resources, improper or unauthorized changes to information systems, and disproportionately low expenditures for controls over high-risk resources.

Recent IT security events highlight the urgent need for federal entities to strengthen their security management program to identify and resolve deficiencies. Over the past 2 years, the Cybersecurity & Infrastructure Security Agency has issued eight emergency directives and alerts identifying certain vulnerabilities that posed an unacceptable risk to federal entities. Additionally, in May 2021, the President issued Executive Order 14028, *Improving the Nation's Cybersecurity*, which directed the Secretary of Homeland Security, in consultation with the Attorney General, to establish a Cyber Safety Review Board to review and assess the threat activity, vulnerabilities, and mitigation activities of, and federal entity responses to, significant cyber incidents.⁷²

Until federal entities strengthen their security management program and resolve their reported deficiencies, federal information technology systems will continue to be at risk of inadvertent or deliberate misuse, unauthorized modification or destruction of financial information, inappropriate disclosure of sensitive information, and disruption of critical operations.

⁷²The White House, *Improving the Nation's Cybersecurity*, Executive Order 14028 (Washington, D.C.: May 12, 2021), reprinted in 86 Fed. Reg. 26,633 (May 17, 2021).

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 2021, 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 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 2021, several federal entities' auditors continued to identify internal control deficiencies related to grants management.⁷³ Reported deficiencies primarily related to accounting for grants, monitoring of grant activities, and conducting grant closeout. 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 2021, 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 that HHS used to prepare its Statement of Social Insurance for the Medicare program. Specifically, HHS's auditor identified formula errors in certain spreadsheets used to prepare the Statement of Social Insurance that HHS's monitoring and review function did not detect. Such control deficiencies could result in misstatements to the Statement of Social Insurance.

⁷³Key entities contributing to the significant deficiency for federal grants management include the Small Business Administration, the Department of Homeland Security, and the Department of Health and Human Services.