GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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Washington, DC 20548

Independent Auditor's Report

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

In our audits of the U.S. government's consolidated financial statements as of and for the fiscal years ended September 30, 2022, and 2021, we found the following:

- Certain material weaknesses[1] in internal control over financial reporting and other limitations on the scope of our work resulted in conditions that continued to prevent us from expressing an opinion on the accompanying accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2022, and 2021.[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 accompanying sustainability financial statements,[3] which consist of the 2022 and 2021 Statements of Long-Term Fiscal Projections;[4] the 2022, 2021, 2020, 2019, and 2018 Statements of Social Insurance;[5] and the 2022 and 2021 Statements of

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

[2]The accrual-based consolidated financial statements comprise the (1) Statements of Net Cost, Statements of Operations and Changes in Net Position, Reconciliations of Net Operating Cost and Budget Deficit, and Statements of Changes in Cash Balance from Budget and Other Activities, for the fiscal years ended September 30, 2022, and 2021; (2) Balance Sheets as of September 30, 2022, and 2021; and (3) 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 2021.

[3]We 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 2021 and Statements of Long-Term Fiscal Projections for fiscal years 2015 through 2021). 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.

[4]The 2022 and 2021 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.

[5]The 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.

Changes in Social Insurance Amounts. A material weakness in internal control also prevented us from expressing an opinion on the 2022 and 2021 Statements of Long-Term Fiscal Projections.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2022.
- 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 2022.

This audit report discusses the following in more detail.

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

<u>Disclaimers of Opinion</u>

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. The consolidated financial statements consist of the

- accrual-based consolidated financial statements, comprising the (1) Statements of Net Cost, Statements of Operations and Changes in Net Position, Reconciliations of Net Operating Cost and Budget Deficit, and Statements of Changes in Cash Balance from Budget and Other Activities, for the fiscal years ended September 30, 2022, and 2021; (2) Balance Sheets as of September 30, 2022, and 2021; and (3) related notes to these financial statements and
- sustainability financial statements, comprising the 2022 and 2021 Statements of Long-Term Fiscal Projections; the 2022, 2021, 2020, 2019, and 2018 Statements of Social Insurance; the 2022 and 2021 Statements of Changes in Social Insurance Amounts; and related notes to the financial statements.

[6]The RSI consists of Management's Discussion and Analysis and information in the Required Supplementary Information section of the *Fiscal Year 2022 Financial Report of the United States Government*, which are included with 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 section below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the accompanying accrual-based consolidated financial statements. Accordingly, we do not express an opinion on the accrual-based consolidated financial statements.

Sustainability Financial Statements

Because of the significance of the related matters described in the Basis for Disclaimers of Opinion section below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the accompanying sustainability financial statements. Accordingly, we do not express an opinion on the sustainability 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 sufficient audit work to provide this report on the consolidated financial statements. We performed our work in accordance with U.S. generally accepted government auditing standards.

Basis for Disclaimers of Opinion

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, 2022, and 2021, 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.[7] 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 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;

[7]Such limitations include the following: (1) The Department of Defense received a disclaimer of opinion on its fiscal years 2022 and 2021 financial statements. (2) The Small Business Administration (SBA) received a disclaimer of opinion on its fiscal years 2022 and 2021 balance sheets, and its remaining statements were unaudited. (3) The Department of Education received a disclaimer of opinion on its fiscal year 2022 financial statements and an unmodified opinion on its fiscal year 2021 financial statements. (4) The Department of Labor received a qualified opinion on its fiscal years 2022 and 2021 financial statements. (5) The Security Assistance Accounts received a disclaimer of opinion on its fiscal year 2022 financial statements, and its fiscal year 2021 financial information was unaudited. (6) As of the date of our audit report, the audited Schedules of the General Fund of the U.S. Government for fiscal year 2022 were not issued. The fiscal year 2021 Schedules of the General Fund 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.

- reasonably estimate the value of loans receivable and loan guarantee liabilities, most notably at the Small Business Administration (SBA) and the Department of Education;

- 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, SBA, and Education, 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 (SFA) program established by the American Rescue Plan Act of 2021.[8] The SFA program is to provide payments to eligible multiemployer pension plans to enable them to pay benefits at plan levels through 2051. 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.[9]

Total cost of payments to eligible multiemployer pension plans under the SFA program is estimated to range from $66 billion to $100 billion, with an estimated mean of $83 billion.[10] Fiscal year 2021 liabilities

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

[9]The 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).

[10]See Pension Benefit Guaranty Corporation, *FY 2021 Projections Report* (Sept. 2022), accessed on Feb. 8, 2023, https://www.pbgc.gov/sites/default/files/documents/fy-2021-projections-report.pdf.

and net costs were reduced by $60 billion, representing the 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 liabilities and costs related to the estimated SFA program payments to those plans. In fiscal year 2022, the federal government approved SFA program applications for $7.6 billion and recorded the related cost.

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 2022 and 2021 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 2022 and 2021 Statements of Long-Term Fiscal Projections; the 2022, 2021, 2020, 2019, and 2018 Statements of Social Insurance; the 2022 and 2021 Statements of Changes in Social Insurance Amounts; and 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 arise from the following:

- Medicare projections in the 2022 and 2021 Statements of Long-Term Fiscal Projections and the 2022, 2021, 2020, 2019, and 2018 Statements of Social Insurance were based on benefit formulas under current law and included a significant reduction in Medicare payment rate updates for productivity improvements for most categories of Medicare providers,[11] based on full implementation of the provisions of the Patient Protection and Affordable Care Act, as amended (PPACA),[12] and physician payment updates specified by the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).[13]

- Management[14] has noted that certain features of current law may result in some challenges for the Medicare program, including physician payments, payment rate updates for most nonphysician categories, and productivity adjustments. The financial projections under current law presented in the 2022, 2021, 2020, 2019, and 2018 Statements of Social Insurance reflect substantial, but very uncertain, cost savings deriving from current-law provisions that lower increases in Medicare

[11]Under the Patient Protection and Affordable Care Act's productivity adjustment provisions, productivity improvements are expected to result in lower overall Medicare spending because of smaller annual increases in the Medicare payment rates paid to many health care providers. This is often referred to as a reduction in Medicare payment rate updates. The health care provider categories affected include inpatient and outpatient hospital services, skilled nursing facilities, home health care, ambulance, ambulatory surgical centers, durable medical equipment, and prosthetics.

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

[13]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.

[14]Management, as used in this audit report, refers to the management of the federal government.

payment rates to most categories of health care providers. Without fundamental change in the current delivery system, these adjustments would probably not be viable indefinitely. Should payment rates prove to be inadequate for any service, beneficiaries' access to and the quality of Medicare benefits would deteriorate over time, or future legislation would need to be enacted that would likely increase program costs beyond those projected under current law. 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 and quantify the potential understatement 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 $52.5 trillion estimate in the 2022 Statement of Social Insurance by $11.3 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 2022 and 2021 Statements of Long-Term Fiscal Projections.

Projections of Medicare costs are sensitive to assumptions about future policy 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.[15] 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. As discussed in the RSI section of the *2022 Financial Report of the United States Government* (*2022 Financial Report*), the projections are very sensitive to changes in the health care cost growth assumption.

As discussed in Notes 24, *Long-Term Fiscal Projections*, and 25, *Social Insurance*, 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 spending using a projection period sufficient to illustrate long-term sustainability.[16] The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due.

In preparing the sustainability financial statements, management selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy is sustainable. As discussed in

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

[16]The projection period used in the Statements of Long-Term Fiscal Projections is 75 years. The projection period for the Statements of Social Insurance is 75 years for the Social Security, Medicare, and Railroad Retirement social insurance programs and 25 years for the Black Lung program.

the *2022 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 Hospital Insurance (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 *2022 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 2022 sustainability financial statements are based on the economic assumptions that underlie the 2022 *Social Security Trustees' Report*. Those assumptions include the Trustees' best estimates of the remaining effects of the COVID-19 pandemic. In the Statements of Long-Term Fiscal Projections, it was not possible to identify the portion of 2022 Medicaid spending that reflected temporary spending increases related to the COVID-19 pandemic. Future Medicaid outlays were projected from these 2022 outlays, resulting in higher projections of future Medicaid spending, which increases the uncertainty surrounding the projections.

As discussed in the unaudited RSI section of the *2022 Financial Report*, the combined Social Security trust funds are projected to be depleted in 2035.[17] Further, based on the achievement of the cost growth reductions discussed above, the Medicare Part A trust fund is projected to be depleted in 2028. After depletion, the trust funds would be unable to pay the full amount of scheduled benefits. For Social Security, future revenues were projected to be sufficient to pay 80 percent of scheduled benefits in 2035, the year of projected combined trust funds depletion, and decreasing to 74 percent of scheduled benefits in 2096. For Medicare Part A, future revenues were projected to be sufficient to pay 90 percent of scheduled benefits in 2028, the year of projected trust fund depletion, declining to 80 percent by 2046, and then increasing to 93 percent of scheduled benefits in 2096.

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.

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[17]The 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 77 percent of scheduled benefits in 2034, the year of projected trust fund depletion, decreasing to 72 percent in 2096. For the Federal Disability Insurance trust fund, asset reserves are not projected to become depleted during the 75-year period ending in 2096.

Other Limitations on the Scope of Our Work

For fiscal years 2022 and 2021, 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 regarding the financial statements. 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 2022 and 2021, primarily because certain federal entities were not able to provide them sufficient representations.

Emphasis of Matters

The following matters deserve emphasis to put the information in the consolidated financial statements and the Management's Discussion and Analysis section of the *2022 Financial Report* into context. Our disclaimers of opinion are not modified with respect to these matters.

Long-Term Fiscal Challenges

The 2022 Statement of Long-Term Fiscal Projections and related information in Note 24, *Long-Term Fiscal Projections*, to the consolidated financial statements and the unaudited RSI section of the *2022 Financial Report* show that based on current revenue and spending policies, the federal government continues to face an unsustainable long-term fiscal path. At the end of fiscal year 2022, debt held by the public was approximately 97 percent of gross domestic product (GDP). The projections show that debt held by the public will reach its historical high of 106 percent of GDP in 2029 and will grow faster than the economy over the long term. For the 2022 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 566 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 *2022 Financial Report* projections, spending for 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 *2022 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 2036. Net interest is projected to increase from 1.9 percent of GDP in fiscal year 2022 to 6.0 percent of GDP in fiscal year 2036 (about 21 percent of 2036 projected total spending), and to 25.6 percent of GDP in fiscal year 2097 (about 52 percent of 2097 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.[18] GAO, CBO, and the *2022 Financial Report* all project that debt-to-GDP will surpass its historical high (106 percent in 1946) by 2031. Each of these projections uses somewhat different assumptions, but their overall conclusions are the same: based on current revenue and spending policies, the federal government's long-term fiscal path is unsustainable.

Further, these projections do not fully account for other risks—such as natural disasters and climate change, global or regional military conflicts, housing finance, and public health crises—that could affect the federal government's financial condition in the future. These risks, 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.

The *2022 Financial Report* also discusses the fiscal gap, which is a measure of policy changes (some combination of revenue increases or spending cuts) that must be made over the next 75 years to reach a target ratio of debt-to-GDP at the end of the projection period. For example, based on projections in the *2022 Financial Report*, if policymakers choose to achieve a debt-to-GDP target of 97 percent—the level the federal government reached at the end of fiscal year 2022—over a 75-year period (fiscal years 2023 through 2097), they would need to make policy changes that increase projected revenues by 26 percent, reduce projected noninterest spending by 21 percent, or a combination of the two, over this period. The projections show that the longer 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 8, *Investments in Government-Sponsored Enterprises*, and 20, *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 these GSEs could affect the federal government's financial condition. As of September 30, 2022, the federal government reported about $224 billion of investments in these GSEs, which is net of about $66 billion in valuation losses. The reported maximum remaining contractual commitment to these 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 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, 2022, 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

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[18]For more information on GAO's simulations, see GAO, *America's Fiscal Future*, accessed on Feb. 8, 2023, https://www.gao.gov/americas_fiscal_future. For more information on CBO's simulations, see Congressional Budget Office, *The 2022 Long-Term Budget Outlook* (Washington, D.C.: July 27, 2022).

determined that these entities do not meet the criteria for consolidation.[19] The ultimate role of these 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 21, *Contingencies*, to the consolidated financial statements, the Government National Mortgage Association (Ginnie Mae) guarantees the performance of about $2.3 trillion in securities backed by federally insured mortgages—$1.2 trillion of which were insured by FHA and $1.1 trillion by other federal entities, such as the Department of Veterans Affairs.

Other Matter

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.[20] 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 also 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 2022 and 2021, auditors of eight (2022) and nine (2021) 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 requirements. Agency management at the 24 CFO Act agencies also annually report on FFMIA compliance. For fiscal years 2022 and 2021, agency management of seven (2022) and eight (2021) 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

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[19]For additional information on the GSE preferred stock purchase agreements and valuation of the investment in the GSEs, see Note 8, *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 *2022 Financial Report*.

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

challenge in providing accountability and contribute significantly to certain material weaknesses and other limitations discussed in this audit report.

Responsibilities of Management for the Consolidated Financial Statements

Management of the federal government is responsible for (1) the preparation and fair presentation of the consolidated financial statements 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; and (3) designing, implementing, and maintaining effective 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 Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the consolidated financial statements in accordance with U.S. generally accepted government auditing standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimers of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.

We are required to be independent with respect to the U.S. government's consolidated financial statements and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

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 *2022 Financial Report* to supplement the financial statements. Such information is the responsibility of management and, although the RSI is not a part of the financial statements, is required by FASAB, which 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.

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 that is taken from the same data sources as the accrual-based consolidated financial statements and the sustainability financial statements.

Report on Internal Control over Financial Reporting

In connection with our audits of the U.S. government's consolidated financial statements, we considered the federal government's internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of the U.S. government's internal control over financial reporting. Given this limitation and other limitations discussed in this audit report, material weaknesses or significant deficiencies may exist that have not been identified.[21]

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 system control deficiencies and manage information security risks on an ongoing basis.

These other 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 internal controls related to 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.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to the federal government's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Internal Control over Financial Reporting

Management of the federal government is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of the U.S. government's consolidated financial statements as of and for the fiscal year ended September 30, 2022, in accordance with U.S. generally accepted government auditing standards, we considered internal control relevant to the financial statement audit in order 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 the federal government's internal control over financial reporting. We are required to report significant deficiencies or material weaknesses identified during our audit. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Intended Purpose of Report on Internal Control over Financial Reporting

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

In connection with our audits of the U.S. government's consolidated financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements were limited by certain of the material weaknesses and other scope limitations discussed in this audit report. The objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the federal government. Accordingly, we do not express such an opinion. 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.

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

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to the federal government that have a direct effect on the determination of material amounts and disclosures in the U.S. government's consolidated financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the federal government. We caution that, because of the limitations discussed above and the scope of our procedures, noncompliance may occur and not be detected by these tests.

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

The purpose of this report 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 is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

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

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

February 8, 2023

Appendix I

Objectives, Scope, and Methodology

Our objectives were to audit the consolidated financial statements consisting of the accrual-based consolidated financial statements and sustainability financial statements. The accrual-based consolidated financial statements consist of the (1) Statements of Net Cost, Statements of Operations and Changes in Net Position, Reconciliations of Net Operating Cost and Budget Deficit, and Statements of Changes in Cash Balance from Budget and Other Activities, for the fiscal years ended September 30, 2022, and 2021; (2) Balance Sheets as of September 30, 2022, and 2021; and (3) related notes to these financial statements. The sustainability financial statements consist of the 2022 and 2021 Statements of Long-Term Fiscal Projections; the 2022, 2021, 2020, 2019, and 2018 Statements of Social Insurance; the 2022 and 2021 Statements of Changes in Social Insurance Amounts; and related notes to these financial statements. 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.[22] GMRA requires GAO to be responsible for the audit of the U.S. government's consolidated financial statements.[23] The Accountability of Tax Dollars Act of 2002 requires most other executive branch entities to prepare financial statements annually and have them audited.[24] The Office of Management and Budget and the Department of the Treasury have identified 40 federal entities that are significant to the U.S. government's fiscal year 2022 consolidated financial statements, including the 24 CFO Act agencies.[25] We consider these 40 entities to be significant component entities for purposes of our audit of the consolidated financial statements.

For the significant component entities audited by inspectors general 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 were included in our audit report on the consolidated financial statements for fiscal year 2021.[26] We also separately audited the financial statements of certain component entities, and parts of a significant component entity, including the following.

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

[23] 31 U.S.C. § 331(e)(2).

[24] 31 U.S.C. § 3515.

[25] See app. A of the *Fiscal Year 2022 Financial Report of the United States Government* for a list of the 40 entities.

[26] GAO, *Financial Audit: FY 2021 and FY 2020 Consolidated Financial Statements of the U.S. Government*, GAO-22-105122 (Washington, D.C.: Feb. 17, 2022).

- 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, 2022, and 2021.[27] In fiscal years 2022 and 2021, IRS collected taxes of about $4.9 trillion (2022) and $4.1 trillion (2021) and paid refunds and other payments to taxpayers of about $642 billion (2022) and $1.1 trillion (2021). We also reported that although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022. In addition, we reported that we found no reportable noncompliance for fiscal year 2022 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

- We audited and expressed an unmodified opinion on the Schedules of Federal Debt managed by Treasury's Bureau of the Fiscal Service (Fiscal Service) for the fiscal years ended September 30, 2022, and 2021.[28] For these fiscal years, the schedules reported (1) federal debt held by the public of about $24.3 trillion (2022) and $22.3 trillion (2021),[29] (2) intragovernmental debt holdings of about $6.6 trillion (2022) and $6.1 trillion (2021),[30] and (3) interest on federal debt held by the public of about $497 billion (2022) and $392 billion (2021). We also reported that Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2022. In addition, we reported that we found no reportable noncompliance for fiscal year 2022 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, 2022, and 2021.[31] We also reported that SEC maintained, in all material respects, effective internal control over financial reporting for both the entity as a whole and IPF as of September 30, 2022. In addition, we reported that we found no reportable noncompliance for either SEC or IPF for fiscal year 2022 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, 2022, and 2021.[32] We also reported that FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022. In addition, we reported that we found no reportable noncompliance for fiscal year 2022 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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[27]GAO, *Financial Audit: IRS's FY 2022 and FY 2021 Financial Statements*, GAO-23-105564 (Washington, D.C.: Nov. 10, 2022).

[28]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2022 and FY 2021 Schedules of Federal Debt*, GAO-23-105586 (Washington, D.C.: Nov. 9, 2022).

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

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

[31]GAO, *Financial Audit: Securities and Exchange Commission's FY 2022 and FY 2021 Financial Statements*, GAO-23-105791 (Washington, D.C.: Nov. 15, 2022).

[32]GAO, *Financial Audit: Federal Housing Finance Agency's FY 2022 and FY 2021 Financial Statements*, GAO-23-105910 (Washington, D.C.: Nov. 15, 2022).

- 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, 2022, and 2021.[33] We also reported that OFS maintained, in all material respects, effective internal control over financial reporting for TARP as of September 30, 2022. In addition, we reported that we found no reportable noncompliance for fiscal year 2022 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.
- We audited and expressed an unmodified opinion on the Consumer Financial Protection Bureau's (CFPB) financial statements as of and for the fiscal years ended September 30, 2022, and 2021.[34] We also reported that CFPB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022. In addition, we reported that we found no reportable noncompliance for fiscal year 2022 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

We performed work related to Treasury's 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.[35]

We considered the significant entities' fiscal years 2022 and 2021 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, 2022, and 2021.[36] 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,[37] 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 both fiscal year 2022 and fiscal year 2021), including those related to (1) property, plant, and equipment; (2) inventory and related property; (3) environmental and disposal liabilities; (4) reconciliations of disbursement activity; (5) intragovernmental transactions; and (6) information system controls.

[33]GAO, *Financial Audit: Office of Financial Stability's (Troubled Asset Relief Program) FY 2022 and FY 2021 Financial Statements*, GAO-23-106015 (Washington, D.C.: Nov. 10, 2022).

[34]GAO, *Financial Audit: Consumer Financial Protection Bureau's FY 2022 and FY 2021 Financial Statements*, GAO-23-105879 (Washington, D.C.: Nov. 15, 2022).

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

[36]Department of Defense, *United States Department of Defense Agency Financial Report for Fiscal Year 2022* (Arlington, Va.: Nov. 15, 2022).

[37]The U.S. Marine Corps is undergoing a 2-year audit cycle, which will conclude in November 2023. The U.S. Marine Corps' financial statements as of and for the fiscal year ended September 30, 2022, were not audited. A disclaimer of opinion was issued for the U.S. Marine Corps' financial statements as of and for the fiscal year ended September 30, 2021.

We considered the disclaimers of opinion that the Small Business Administration's (SBA) auditor issued on SBA's balance sheets as of September 30, 2022, and 2021 (its remaining statements were unaudited).[38] 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 COVID-19 Economic Injury Disaster Loan program, because of inadequate processes and controls. SBA's auditor also reported six material weaknesses in internal control over financial reporting in fiscal years 2022 and 2021, largely because of deficiencies related to these programs.

We considered the disclaimer of opinion that the Department of Education's auditor issued on the department's financial statements as of and for the fiscal year ended September 30, 2022. The disclaimer of opinion was based on Education's inability to provide adequate evidential matter to support certain key assumptions used to estimate the cost it recorded for the broad-based debt relief for eligible student loan borrowers that was announced during fiscal year 2022.[39] Education's auditor reported a material weakness in internal control over financial reporting in fiscal years 2022 and 2021 related to loans receivable and loan guarantees.

Our audit approach for the 2022 and 2021 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,[40] we considered the entity's 2022, 2021, 2020, 2019, and 2018 Statements of Social Insurance and the 2022 and 2021 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.

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[38]Small Business Administration, *Agency Financial Report for Fiscal Year 2022* (Washington, D.C.: Nov. 15, 2022).

[39]Education announced a student debt relief plan on August 24, 2022, under its authority provided by the Higher Education Relief Opportunities for Students Act of 2003, Pub. L. No. 108-76. This plan provided for forgiving up to $10,000 (non–Pell Grant recipients) or up to $20,000 (Pell grant recipients) in student loans for eligible borrowers earning less than $125,000 (for individuals) or $250,000 (for married couples or heads of household) in annual income. After a federal appeals court issued an injunction in November 2022, the plan has been paused, pending the outcome of litigation before the U.S. Supreme Court.

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

Appendix II

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

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.[41] 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 these 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 COVID-19 Economic Injury Disaster Loan program. In addition, the auditor reported that SBA did not properly design and implement effective entity-level controls, such as risk assessment and monitoring controls that produce reliable and accurate financial reporting.

The auditor of the Department of Education continued to report a material weakness related to the department's controls over the data used for estimating the costs of its loan and loan guarantee programs. For example, Education was unable to adequately support certain key assumptions used to

[41]The material weakness related to the Reconciliations of Budget Deficit to Net Operating Cost and Changes in Cash Balance also contributed to our disclaimer of opinion on the 2022 and 2021 Statements of Long-Term Fiscal Projections.

estimate the cost it recorded for the broad-based debt relief for eligible student loan borrowers that was announced during fiscal year 2022.[42]

In addition, internal control deficiencies related to loans receivable and loan guarantee liabilities continued to exist at other federal entities. These deficiencies, and the complexities associated with accounting and reporting for loan and loan guarantee 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 related to 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, SBA, and Education.

With respect to disbursements, auditors of DOD and certain other federal entities reported (1) continued control deficiencies in reconciling disbursement activity 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.

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[42]Education announced a student debt relief plan on August 24, 2022, under its authority provided by the Higher Education Relief Opportunities for Students Act of 2003, Pub. L. No. 108-76. This plan provided for forgiving up to $10,000 (non–Pell Grant recipients) or up to $20,000 (Pell grant recipients) in student loans for eligible borrowers earning less than $125,000 (for individuals) or $250,000 (for married couples or heads of household) in annual income. After a federal appeals court issued an injunction in November 2022, the plan has been paused, pending the outcome of litigation before the U.S. Supreme Court.

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 misstatements (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 2022, 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 process[43] highlights differences needing the entities' attention, identifies differences that need to be resolved through a formal dispute resolution process,[44] 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 federal entity trading partners reported to Treasury were not in agreement by significant amounts. Several CFOs cited that the reasons for these differences 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

[43]Treasury produces a quarterly 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.

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

risk of material misstatements. In addition, other material weaknesses reported by DOD's auditor could contribute to this material weakness.

These control deficiencies over intragovernmental activity and balances along with the unresolved intragovernmental differences could result in misstatements that are material to the accrual-based consolidated financial statements. Addressing the intragovernmental transactions problem remains a difficult challenge and will require federal entities' strong and sustained commitment to resolving differences with their trading partners timely, as well as Treasury's and OMB's continued strong leadership.

Preparation of Consolidated Financial Statements

Treasury, in coordination with OMB, has implemented corrective actions in recent years related to the preparation of the consolidated financial statements. Corrective actions included improving systems and implementing new processes for preparing the consolidated financial statements, enhancing guidance for collecting data from component entities, and implementing procedures to address certain internal control deficiencies detailed in our previously issued management reports.[45] 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 2022 audit, deficiencies in the preparation of the consolidated financial statements included the following.

- For fiscal year 2022, 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 2022, 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 2022 and 2021 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.

[45]Most of the issues that we identified in fiscal year 2022 existed in fiscal year 2021 and many have existed for a number of years. Most recently, in August 2022, we reported on the status of the issues we identified to Treasury and OMB and provided recommendations for corrective action. See GAO, *Management Report: Improvements Needed in Controls over the Processes Treasury and OMB Used to Prepare the U.S. Consolidated Financial Statements*, GAO-22-105851 (Washington, D.C.: Aug. 16, 2022).

Specifically, for fiscal years 2022 and 2021, Treasury recorded a net decrease to net position of $0.2 billion (2022 and 2021) on the Statements of Operations and Changes in Net Position. Treasury recorded net unmatched transactions and balances of $1.3 billion (2022) and $1.7 billion (2021) on the Balance Sheets as of September 30. Treasury recorded additional net unmatched transactions of $0.6 billion (2022) and $1.5 billion (2021) in the Statements of Net Cost.

- Over the past several years, Treasury has taken significant actions to work toward reporting and disclosing financial information in the consolidated financial statements in accordance with U.S. GAAP. For example, Treasury has developed and improved U.S. GAAP compliance operating procedures and checklists. Also, Treasury, along with the Department of State, performed the first two phases of 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, 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 years 2022 and 2021, Treasury did not have adequate policies and procedures to reasonably assure appropriate accounting and reporting for significant, unusual transactions or events, such as the Special Financial Assistance (SFA) program established by the American Rescue Plan Act of 2021 (ARPA).[46] 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 2022, Treasury continued to take corrective actions intended to resolve internal control deficiencies in the processes used to prepare the consolidated financial statements. For example, Treasury enhanced existing procedures to reasonably assure that significant accounting policies are appropriately disclosed in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements and, as applicable, are consistent with significant component entity audited financial statements. In addition, Treasury and OMB continued to enhance guidance for component entity financial reporting, including guidance for reporting funds from dedicated collections.

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

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[46]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.

cash balances. The budget deficit is calculated by subtracting actual budget outlays (outlays) from actual budget receipts (receipts).[47] The outlays and receipts are key inputs to the Statements of Long-Term Fiscal Projections.

Treasury continued to develop its process for preparing the Reconciliation Statements. 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.[48] 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.[49] 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.

As of the end of fiscal year 2022, Treasury continued to coordinate with federal entities on the implementation of newly developed transaction codes designed 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. However, while assessing alternative options, Treasury paused the development of any additional transaction codes. Final remediation is expected to occur over the next couple of years and will largely depend on federal entities implementing and properly reporting activity using the new transaction codes.

As of the end of fiscal year 2022, 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 2022, 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.[50] These control deficiencies could affect the reporting and calculation of the net outlay amounts in the entities'

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

[48]The 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).

[49]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2020 Schedules of the General Fund*, GAO-21-362 (Washington, D.C.: Apr. 15, 2021). As of the date of this report, the audited Schedules of the General Fund of the U.S. Government for fiscal year 2022 were not issued. 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.

[50]Statement 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 to replace the statement of financing. The reconciliation explains the relationship between an entity's net outlays on a budgetary basis and its net cost of operations during the period.

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.[51]

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

Appendix III

Other Material Weaknesses

Material weaknesses in internal control discussed in this audit report resulted in ineffective controls over financial reporting. In addition to the material weaknesses discussed in appendix II that contributed 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.[52] 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)[53] requires federal executive agencies[54] 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.[55]

Eighteen agencies reported improper payment estimates totaling about $247 billion for fiscal year 2022, based on improper payment estimates reported individually by 82 federal programs or activities in www.paymentaccuracy.gov.[56] Most of the estimate was concentrated in the following areas: Department of Health and Human Services' (HHS) Medicaid ($81 billion); HHS's Medicare—consisting

[52]Under 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).

[53]PIIA, *codified at* 31 U.S.C. §§ 3351-58.

[54]An 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.

[55]See 31 U.S.C. § 3352.

[56]An 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.

of several parts—($47 billion);[57] and Small Business Administration's (SBA) Paycheck Protection Program ($29 billion). In addition, six other programs reported improper payment estimates of $5 billion or more.[58]

The fiscal year 2022 government-wide total of reported estimated improper payments, among programs and activities that reported estimates, decreased by about $34 billion from the fiscal year 2021 estimate of about $281 billion. The specific programs and activities included in the government-wide total of reported improper payment estimates may change from year to year. While increases in estimated improper payments were reported for several programs and activities, these were more than offset by decreases for certain other programs and activities.[59] For example, the Department of Labor reported a decrease of estimated improper payments of about $59 billion for Unemployment Insurance in fiscal year 2022, due to a decrease in outlays. In addition, HHS reported a decrease of about $18 billion in estimated improper payments for Medicaid in fiscal year 2022. This decrease was due to certain flexibilities afforded to states during the COVID-19 pandemic, such as postponed eligibility determinations and reduced requirements around provider enrollment or revalidations.

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 80 percent of the government-wide estimate as overpayments.

The $247 billion of reported improper payment estimates for fiscal year 2022 does not include estimates related to certain significant expenditures to fund response and recovery efforts for the COVID-19 pandemic, such as Labor's Pandemic Unemployment Assistance program. In addition to the COVID-19 programs, we also identified some risk-susceptible programs for which agencies did not report fiscal year 2022 estimated improper payment amounts, including HHS's Temporary Assistance for Needy Families 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 one such criteria. Specifically, DOD OIG reported that DOD did not publish reliable improper payment estimates for nine of its 11 risk-susceptible programs. For

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[57]The Medicare program consists of Fee-For-Service (Part A and Part B), Medicare Advantage (Part C), and Medicare Prescription Drug (Part D).

[58]The other six programs with reported improper payment estimates greater than $5 billion in fiscal year 2022 were (1) Department of Education's Education Stabilization Fund, (2) Education's Title I Grants to Local Education Agencies, (3) Department of Labor's Unemployment Insurance, (4) SBA's COVID-19 Economic Injury Disaster Loans, (5) Department of the Treasury's Additional Child Tax Credit, and (6) Treasury's Earned Income Tax Credit.

[59]For fiscal year 2022, 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 six programs and activities. The four programs and activities with a decrease in excess of $1 billion were Department of Labor's Unemployment Insurance, HHS's Children's Health Insurance Program, HHS's Medicaid, and HHS's Medicare Advantage (Part C). The six programs and activities with increases in excess of $1 billion were Education's Education Stabilization Fund, Education's Special Education Grants to States, Education's Title I Grants, HHS's Medicare Fee-For-Service, SBA's COVID-19 Economic Injury Disaster Loans, and SBA's Paycheck Protection Program. Education's Education Stabilization Fund, Education's Special Education Grants to States, SBA's COVID-19 Economic Injury Disaster Loans, and SBA's Paycheck Protection Program did not report improper payment estimates for fiscal year 2021.

fiscal year 2022, agencies reported estimated improper payment rates of 10 percent or greater for 17 risk-susceptible programs and activities,[60] accounting for about 59 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 2022 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 2022 President's Budget included program integrity proposals at multiple agencies aimed at reducing improper payments.[61] 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.[62] Finally, the federal government reported recovery of over $23 billion in overpayments for fiscal year 2022.

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 System Controls

We have reported information security (controls in information systems) as a government-wide material weakness since fiscal year 1997.[63] During our fiscal year 2022 audit, we found that serious and widespread information system control deficiencies continued to place the federal government at risk of inadvertent or deliberate misuse of federal assets, unauthorized modification or destruction of financial information, inappropriate disclosure of sensitive information, and disruption of critical operations. Twelve of the 24 agencies covered by the Chief Financial Officers Act of 1990 reported material weaknesses or significant deficiencies in information system controls. Specifically, auditors identified control deficiencies 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.

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

[61]Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2022* (Washington, D.C.: May 28, 2021).

[62]OMB has designated high-priority programs as those programs and activities with improper payment monetary loss estimates that exceed $100 million annually.

[63]We 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).

Most of the significant component entities that reported information system controls as a material weakness or significant deficiency for fiscal year 2022 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 information system controls. Without a well-designed security management program, information system 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 information security events highlight the urgent need for federal entities to strengthen their security management programs to identify and resolve deficiencies. Over the past 3 years, the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency has issued nine emergency directives and alerts identifying certain vulnerabilities that posed an unacceptable risk to federal entities. Additionally, in February 2022, the Department of Homeland Security reported that it had established a Cyber Safety Review Board, in accordance with the May 2021 Executive Order 14028, *Improving the Nation's Cybersecurity*.[64] The Cyber Safety Review Board was established to review and assess the threat activity, vulnerabilities, and mitigation activities of, and federal entity responses to, significant cyber incidents.[65]

Until federal entities strengthen security management programs and resolve reported information system control deficiencies, the federal government will continue to be at increased risk of inadvertent or deliberate misuse of federal assets, unauthorized modification or destruction of financial information, inappropriate disclosure of sensitive information, and disruption of critical operations.

[64]Department of Homeland Security, *DHS Launches First-Ever Cyber Safety Review Board* (Feb. 3, 2022).

[65]The 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 2022, 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 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 2022, several federal entities' auditors continued to identify internal control deficiencies related to grants management.[66] Reported deficiencies primarily related to accounting for grants, monitoring of grant activities, and estimating grant accruals. 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 2022, auditors for the Department of Health and Human Services (HHS) continued to identify 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 and input errors of source information 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.

[66]Key entities contributing to the significant deficiency for federal grants management include the Small Business Administration, Department of Homeland Security, and Department of Housing and Urban Development.