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United States Government Accountability Office
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The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required annually to submit financial statements for the U.S. government to the President and the Congress. GAO is required to audit these statements.[1] This is our report on the accompanying U.S. government's consolidated financial statements for the fiscal years ended September 30, 2007 and 2006, and our associated reports on internal control and compliance with significant laws and regulations. As used in this report, accrual basis financial statements refer to all of the consolidated financial statements and notes, except for those related to the Statement of Social Insurance.[2]

The federal government is responsible for (1) preparing annual consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the control objectives of the Federal Managers' Financial Integrity Act (FMFIA)[3] are met; and (3) complying with significant laws and regulations. Also, the 24 Chief Financial Officers (CFO) Act agencies are responsible for implementing and maintaining financial management systems that substantially comply with Federal Financial Management Improvement Act of 1996 (FFMIA)[4] requirements. Our objective was to

[1] The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. 31 U.S.C. 331(e). The federal government has elected to include certain financial information on the legislative and judicial branches in the consolidated financial statements as well.

[2] The accrual basis consolidated financial statements for the fiscal years ended September 30, 2007 and 2006 consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Unified Budget Deficit, (4) Statements of Changes in Cash Balance from Unified Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis. The 2007 and 2006 Statements of Social Insurance, including the related notes, are also included in the consolidated financial statements. The Statements of Social Insurance do not interrelate to the accrual basis consolidated financial statements.

[3] 31 U.S.C. 3512 (c), (d) (commonly referred to as FMFIA). This act requires executive agency heads to evaluate and report annually to the President and the Congress on the adequacy of their internal control and accounting systems and on actions to correct significant problems.

[4] 31 U.S.C. 3512 note (Federal Financial Management Improvement Act).

audit the consolidated financial statements for the fiscal years ended September 30, 2007 and 2006. Appendix I discusses the scope and methodology of our work.

A significant number of material weaknesses[5] related to financial systems, fundamental recordkeeping and financial reporting, and incomplete documentation 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 financial information to operate in an economical, efficient, and effective manner. We found the following:

- Certain material weaknesses in financial reporting and other limitations on the scope of our work[6] resulted in conditions that continued to prevent us from expressing an opinion on the accompanying accrual basis consolidated financial statements for the fiscal years ended September 30, 2007 and 2006.[7]
- The 2007 Statement of Social Insurance[8] is presented fairly, in all material respects, in conformity with GAAP; we disclaim an opinion on the 2006 Statement of Social Insurance.[9]
- The federal government did not maintain effective internal control over financial reporting (including safeguarding assets) and compliance with significant laws and regulations as of September 30, 2007.

[5] A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A control deficiency 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 misstatements on a timely basis.
[6] Three major impediments continue to prevent us from rendering an opinion on the accrual basis consolidated financial statements: (1) serious financial management problems at the Department of Defense, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the federal government's ineffective process for preparing the consolidated financial statements.
[7] We previously reported that certain material weaknesses prevented us from expressing an opinion on the consolidated financial statements of the U.S. government for fiscal years 1997 through 2006.
[8] The valuation date is January 1 for all social insurance programs except the Black Lung program, for which the valuation date is September 30.
[9] We disclaimed an opinion on the fiscal year 2006 consolidated financial statements, including the Statement of Social Insurance.

- Our work to test compliance with selected provisions of significant laws and regulations in fiscal year 2007 was limited by the material weaknesses and scope limitations discussed in this report.

Significant Matter of Emphasis—The Nation's Long-Term Fiscal Challenge

Before discussing our disclaimer of opinion on the accrual basis consolidated financial statements and unqualified opinion on the Statement of Social Insurance, the following key items deserve emphasis in order to put the information contained in the financial statements and the Management's Discussion and Analysis section of the *2007 Financial Report of the United States Government* (*2007 Financial Report*) into context. Despite continued improvement in both the reported annual net operating cost and cash-based budget deficit, the U.S. government's total reported liabilities, net social insurance commitments, and other fiscal exposures continue to grow and now total approximately $53 trillion—up more than $2 trillion during fiscal year 2007 and more than $32 trillion from about $20 trillion in fiscal year 2000. The fiscal and cash flow implications of our large and growing Social Security and Medicare commitments will be felt as the large "baby boom" generation leaves the work force and collects benefits. In fact, the first boomers already have filed for early retirement benefits. The budget and economic implications of the baby boom generation's retirement will only intensify as the baby boomers age. Given these and other factors, it seems clear that our nation is on an imprudent and unsustainable long-term fiscal path that is getting worse with the passage of time. The issues raised by this long-term fiscal challenge are issues of significance that affect every American. Leadership and the efforts of many people will be needed to put our nation on a more prudent and sustainable longer-term fiscal path.

DISCLAIMER OF OPINION ON THE ACCRUAL BASIS CONSOLIDATED FINANCIAL STATEMENTS

Because of the federal government's inability to demonstrate the reliability of significant portions of the U.S. government's accompanying accrual basis consolidated financial statements for fiscal years 2007 and 2006, principally resulting from certain material weaknesses, and other limitations on the scope of our work, described in this report, we are unable to, and we do not, express an opinion on such financial statements.

As a result of these limitations, readers are cautioned that amounts reported in the accrual basis consolidated financial statements and related notes may not be reliable. These material weaknesses and other scope limitations also affect the reliability of certain information contained in the accompanying Management's Discussion and Analysis and other financial management information—including information used to manage the government day to day and budget information reported by federal agencies—that is taken from the same data sources as the accrual basis consolidated financial statements.

We have not audited and do not express an opinion on the Management's Discussion and Analysis, Stewardship Information, Supplemental Information, or other information included in the accompanying fiscal year *2007 Financial Report*.

Limitations on the Scope of Our Work

For fiscal years 2007 and 2006, there were limitations on the scope of our work in addition to the material weaknesses that contributed to our disclaimer of opinion on the accrual basis consolidated financial statements. First, the Department of the Treasury (Treasury) and the Office of Management and Budget (OMB) depend on certain federal agencies' representations 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 basis consolidated financial statements primarily because of insufficient representations provided to them by one CFO Act agency for fiscal year 2007, and two CFO Act agencies for fiscal year 2006.[10] Second, Treasury was unable to provide the final accrual basis consolidated financial statements and certain supporting documentation in time for us to complete all of our planned auditing procedures related to the compilation of these financial statements.

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

The federal government did not maintain adequate systems or have sufficient, reliable evidence to support certain material information reported in the accompanying accrual basis consolidated financial statements, as briefly described below. The underlying material weaknesses in internal control, which generally have existed for years, contributed to our disclaimer of opinion on the accrual basis consolidated financial statements. Appendix II describes the material weaknesses in more detail and highlights the primary effects of these material weaknesses on the accompanying accrual basis consolidated financial statements and on the management of federal government operations. The material weaknesses that contributed to our disclaimer of opinion on the accrual basis consolidated financial statements were 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 consolidated financial statements;

- implement effective credit reform estimation and related financial reporting processes at certain federal credit agencies;

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[10] The agencies are the Department of Defense, for fiscal years 2007 and 2006, and the Department of Homeland Security for fiscal year 2006.

- 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 total net cost of operations, most notably related to DOD, and adequately reconcile disbursement activity at certain agencies;

- adequately account for and reconcile intragovernmental activity and balances between federal agencies;

- ensure that the federal government's consolidated financial statements were (1) consistent with the underlying audited agency financial statements, (2) properly balanced, and (3) in conformity with GAAP; and

- identify and either resolve or explain material differences that exist between certain components of the budget deficit reported in Treasury's records, used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities, and related amounts reported in federal agencies' financial statements and underlying financial information and records.

Due to the material weaknesses and the additional limitations on the scope of our work discussed above, there may also be additional issues that could affect the accrual basis consolidated financial statements that have not been identified.

UNQUALIFIED OPINION ON THE 2007 STATEMENT OF SOCIAL INSURANCE

In our opinion, the 2007 Statement of Social Insurance presents fairly, in all material respects, the financial condition of the U.S. government's social insurance programs, in conformity with GAAP. We disclaim an opinion on the 2006 Statement of Social Insurance[11] and have not audited and do not express an opinion on the Statements of Social Insurance for 2005, 2004, and 2003, and other information related to such statements, that is included in the accompanying fiscal year *2007 Financial Report*.

As discussed in Note 22 to the consolidated financial statements, the Statement of Social Insurance presents the actuarial present value of the federal government's estimated future revenue to be received from or on behalf of participants and estimated future expenditures to be paid to or on behalf of participants, based on benefit formulas in current law and using a projection period sufficient to illustrate the long-term

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[11] Beginning in fiscal year 2006, the Statement of Social Insurance became a principal financial statement and was audited as part of the applicable federal agencies' financial statements. We disclaimed an opinion on the fiscal year 2006 consolidated financial statements, including the Statement of Social Insurance. For fiscal year 2007, we designed our audit to provide an opinion on the 2007 consolidated Statement of Social Insurance.

sustainability of the social insurance programs.[12] In preparing the Statement of Social Insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the Statement of Social Insurance and the fact that such assumptions are inherently subject to substantial uncertainty (arising from the likelihood of future changes in general economic, regulatory, and market conditions, as well as other more specific future events, significant uncertainties, and contingencies), there will be differences between the estimates in the Statement of Social Insurance and the actual results, and those differences may be material. The Supplemental Information section of the *2007 Financial Report* includes unaudited information concerning the effects of changes in various assumptions on the present value of future estimated expenditures in excess of future revenue. As discussed in that section, Medicare projections are very sensitive to changes in the health care cost growth assumption.

In addition to the inherent uncertainty that underlies the expenditure projections prepared for all parts of Medicare, the Supplementary Medical Insurance (SMI) Part D projections have an added uncertainty in that they were prepared using very little program experience upon which to base the estimates, and the SMI Part B projections assume significant reductions in physician payments, as required under current law, which may or may not occur. The Congress has overridden scheduled reductions in physician payments calculated for each of the last 5 years, including for 2007.[13] No legislation has been enacted to override scheduled reductions in payments for 2008.[14] It is not possible to anticipate what other actions the Congress might take, either in the near or long-term, to alter the scheduled reductions in physician payments. If scheduled reductions continue to be overridden in the future, actual SMI Part B expenditures could be materially more than the amounts presented in the 2007 Statement of Social Insurance.

The scheduled future benefits reported in the Statement of Social Insurance are based on benefit formulas in current law. However, consistent with the respective annual Trustees Reports, the Social Security and Medicare programs are not sustainable under current financing arrangements. Also, the law concerning these programs can be changed at any time by the Congress. In fact, payment of Social Security and Medicare Hospital Insurance (Part A) benefits are limited by law to the balances in the respective trust funds. Consequently, future scheduled benefits are limited to future revenues plus existing trust fund assets. As discussed in Supplemental Information, the Social Security and Medicare Part A trust funds are projected to be exhausted in 2041 and 2019, respectively, at which time they will be unable to pay the full amount of scheduled future benefits. For Social Security, projected future revenues would be sufficient to pay 75 percent of scheduled benefits in 2041, the year of trust fund exhaustion, and decreasing to 70 percent of scheduled benefits in 2081. Similarly, for Medicare Part A, projected

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[12] The projection period used for the Social Security, Medicare, and Railroad Retirement social insurance programs is 75 years. For the Black Lung program, the projections are through 2040, when the program is scheduled to terminate.

[13] Pub. L. No. 109-432, div. B, title I, § 101(a), 120 Stat. 2922, 2975 (Dec. 20, 2006).

[14] As of December 10, 2007, the House of Representatives had passed a bill, H.R. 3162, that would modify the method of calculating physician fee schedules, but the Senate had not passed any such legislation.

future revenues would be sufficient to pay 79 percent of scheduled benefits in 2019, the year of trust fund exhaustion, and decreasing to 29 percent of scheduled benefits in 2081.

Management's Discussion and Analysis and Supplemental Information included in the accompanying fiscal year *2007 Financial Report* contains information directly related to the Statements of Social Insurance. We did not audit and do not express an opinion on this information. However, we compared the information that directly related to the Statements of Social Insurance for consistency with the Statements of Social Insurance and discussed the methods of measurement and presentation of such information with Treasury officials. Based on this limited work, we found no material inconsistencies with the Statements of Social Insurance or GAAP.

ADVERSE OPINION ON INTERNAL CONTROL

Because of the effects of the material weaknesses discussed in this report, in our opinion, the federal government did not maintain effective internal control as of September 30, 2007, to meet the following objectives: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and stewardship information in conformity with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority and with other significant laws and regulations that could have a direct and material effect on the financial statements and stewardship information. Consequently, the federal government's internal control did not provide reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis. Our adverse opinion on internal control over financial reporting and compliance is based upon the criteria established under FMFIA.

In addition to the material weaknesses that contributed to our disclaimer of opinion on the accrual basis consolidated financial statements, which were discussed above, we found the following three other material weaknesses in internal control as of September 30, 2007. These weaknesses are discussed in more detail in appendix III, including the primary effects of the material weaknesses on the accompanying accrual basis consolidated financial statements and on the management of federal government operations. These other material weaknesses were the federal government's inability to:

- determine the full extent to which improper payments occur;

- identify and resolve information security control weaknesses and manage information security risks on an ongoing basis; and

- effectively manage its tax collection activities.

Further, we found the following significant deficiencies[15] in internal control as of September 30, 2007, which are discussed in more detail in appendix IV. These significant deficiencies involve the following areas:

- preparing the Statement of Social Insurance for certain programs, and

- monitoring and oversight regarding certain federal grants and entities that offer Medicare health plan options.

Individual federal agency financial statement audit reports identify additional control deficiencies, which were reported by agency auditors as either material weaknesses or significant deficiencies at the individual agency level. We do not deem these additional deficiencies to be material weaknesses or significant deficiencies at the governmentwide level. Also, due to the issues noted throughout this report, additional material weaknesses and significant deficiencies may exist that have not been reported.

COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

Our work to test compliance with selected provisions of significant laws and regulations related to financial reporting was limited by the material weaknesses and scope limitations discussed in this report. U.S. generally accepted government auditing standards and OMB guidance require auditors to report on the agency's compliance with significant laws and regulations. Certain individual agency audit reports contain instances of noncompliance. None of these instances were deemed to be reportable noncompliances with regard to the accompanying consolidated financial statements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with significant laws and regulations.

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[15] In fiscal year 2006 and in prior years, we reported that individual federal agency financial statement audit reports identified reportable conditions in internal control, some of which were reported by agency auditors as being material weaknesses at the individual agency level, but did not represent material weaknesses at the governmentwide level. Reportable conditions involved matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, and could adversely affect an agency's ability to meet key control objectives. In May 2006, the American Institute of Certified Public Accountants issued Statement on Auditing Standards (SAS) 112, and subsequently made conforming changes to the Statements on Standards for Attestation Engagements (AT) 501. AT 501 eliminated the term reportable condition and it is no longer used. AT 501 also established standards related to a new definition for the terms "material weakness" and "significant deficiency," as defined in footnote 5, and the auditor's responsibilities for identifying, evaluating, and communicating matters related to an entity's internal control over financial reporting. Under these new standards, the auditor is required to communicate control deficiencies that are considered to be material weaknesses or significant deficiencies in internal controls.

AGENCY FINANCIAL MANAGEMENT SYSTEMS

To achieve the financial management improvements envisioned by the CFO Act, FFMIA, and the President's Management Agenda, federal agencies need to modernize their financial management systems to generate reliable, useful, and timely financial and performance information throughout the year and at year-end. As discussed throughout this report, serious financial management weaknesses have contributed significantly to our inability to determine the reliability of the accrual basis consolidated financial statements. The size and complexity of the federal government and the long-standing nature of its financial management systems weaknesses continue to present a formidable management challenge in providing accountability to the nation's taxpayers.

FFMIA requires auditors, as part of the 24 CFO Act agencies' financial statement audits, to report whether agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's Standard General Ledger at the transaction level. For fiscal years 2007 and 2006, auditors for 13 and 17 of the 24 CFO Act agencies, respectively, reported that the agencies' financial management systems did not substantially comply with one or more of these three FFMIA requirements. Although this represents an improvement, the majority of federal agencies' financial management systems are still unable to routinely produce reliable, useful, and timely financial information. Consequently, the federal government's capacity to manage with timely and objective data is limited, thereby hampering its ability to effectively administer and oversee its major programs.

OMB CIRCULAR NO. A-123, *Management's Responsibilities for Internal Control*

In December 2004, OMB revised OMB Circular No. A-123, *Management's Responsibility for Internal Control*, which became effective for fiscal year 2006. In fiscal year 2006, agencies began to implement the more rigorous requirements of the revised OMB Circular No. A-123, which include management identification, assessment, testing, correction, and documentation of internal controls over financial reporting for each account or group of accounts, as well as an annual assurance statement from the agency head as to whether internal control over financial reporting is effective.

OMB recognized that due to the complexity of some agencies, implementation of these new requirements may span more than 1 year. Accordingly, certain agencies have adopted multi-year implementation plans. According to OMB's *Federal Financial Management Report for 2007*, 16 of the 24 CFO Act agencies have performed assessments required by OMB Circular No. A-123 for all key processes, while the remaining 8 CFO Act agencies are phasing in implementation of the requirements by testing a portion of the key processes and providing plans for testing the remaining processes within 3 years. Also, according to that report, to achieve its strategic goal of improving effectiveness of internal control over financial reporting, OMB has developed priority actions that include updating guidance, as necessary, based on lessons learned from agencies' implementation of the circular. It will be important that OMB continue to monitor and oversee federal agencies' implementation of these new requirements.

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

David M. Walker
Comptroller General
of the United States

December 10, 2007

APPENDIX I

Objectives, Scope, and Methodology

The Government Management Reform Act of 1994 expanded the requirements of the Chief Financial Officers (CFO) Act of 1990 by making the inspectors general of 24 major federal agencies[16] responsible for annual audits of agencywide financial statements prepared by these agencies and GAO responsible for the audit of the U.S. government's consolidated financial statements. The Accountability of Tax Dollars (ATD) Act of 2002[17] requires most other executive branch agencies to prepare and have audited annual financial statements. The Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) have identified 35 agencies[18] that are significant to the U.S. government's consolidated financial statements. Our work was performed in coordination and cooperation with the inspectors general and independent public accountants for these 35 agencies to achieve our joint audit objectives. Our audit approach regarding the accrual basis consolidated financial statements focused primarily on determining the current status of the material weaknesses that contributed to our disclaimer of opinion on the accrual basis consolidated financial statements and the other material weaknesses affecting internal control that we had previously reported in our report on the consolidated financial statements for fiscal year 2006.[19] Our work included separately auditing the financial statements of the following significant federal agencies and federal agency components:

- We audited and expressed an unqualified opinion on the Internal Revenue Service's (IRS) fiscal years 2007 and 2006 financial statements. In fiscal years 2007 and 2006, IRS collected about $2.7 trillion and $2.5 trillion, respectively, in tax payments and paid about $292 billion and $277 billion, respectively, in refunds to taxpayers.[20] For fiscal year 2007, we continued to report material internal control weaknesses that resulted in ineffective internal control. We also reported a significant deficiency. Our tests of IRS's compliance with selected provisions of significant laws and regulations disclosed one area of noncompliance. We also found that IRS's financial management systems did not substantially comply with the three requirements of the Federal Financial Management Improvement Act of 1996.

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[16] 31 U.S.C. 901(b), 3521(e). The 1994 act authorized the Office of Management and Budget to designate agency components that also would receive a financial statement audit. 31 U.S.C. 3515(c); see footnote 1.
[17] Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002); see 31 U.S.C. 3515.
[18] See *Treasury Financial Manual*, volume I, part 2, chapter 4700, for a listing of the 35 agencies.
[19] For our report on the U.S. government's consolidated financial statements for fiscal year 2006, see U. S. Department of the Treasury, *Fiscal Year 2006 Financial Report of the United States Government* (Washington, D.C.: Dec. 2006), pp. 149-168, which can be found on GAO's Internet site at www.gao.gov.
[20] GAO, *Financial Audit: IRS's Fiscal Years 2007 and 2006 Financial Statements*, GAO-08-166 (Washington, D.C.: Nov. 9, 2007).

- We audited and expressed an unqualified opinion on the Schedules of Federal Debt managed by Treasury's Bureau of the Public Debt (BPD) for the fiscal years ended September 30, 2007 and 2006.[21] For these 2 fiscal years, the schedules reported (1) approximately $5.0 trillion (2007) and $4.8 trillion (2006) of federal debt held by the public;[22] (2) about $3.9 trillion (2007) and $3.7 trillion (2006) of intragovernmental debt holdings;[23] and (3) about $239 billion (2007) and $222 billion (2006) of interest on federal debt held by the public. We reported that as of September 30, 2007, BPD had effective internal control over financial reporting and compliance with laws and regulations relevant to the Schedule of Federal Debt. Further, we reported that there was no reportable BPD noncompliance in fiscal year 2007 with a selected provision of law we tested.

- We audited and expressed unqualified opinions on the fiscal years 2007 and 2006 financial statements of the United States Securities and Exchange Commission (SEC).[24] For fiscal year 2007, we reported that SEC did not have effective internal control over financial reporting because of a material weakness. We also reported three significant deficiencies. Although certain compliance controls should be improved, SEC maintained effective internal control over compliance with significant laws and regulations. Further, we reported that there was no reportable noncompliance with selected provisions of laws and regulations we tested.

- We audited and expressed unqualified opinions on the December 31, 2006 and 2005, financial statements of the funds administered by the Federal Deposit Insurance Corporation (FDIC), including the Deposit Insurance Fund (DIF)[25] and the FSLIC Resolution Fund.[26] We reported that as of December 31, 2006, FDIC had effective internal control over financial reporting and compliance with significant laws and regulations. In addition, we performed certain procedures and tests of internal control over certain material balances of the funds administered by FDIC as of September 30, 2007.

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[21] GAO, *Financial Audit: Bureau of the Public Debt's Fiscal Years 2007 and 2006 Schedules of Federal Debt*, GAO-08-168 (Washington, D.C.: Nov. 7, 2007).
[22] The public holding federal debt is comprised of individuals, corporations, state and local governments, the Federal Reserve Banks, and foreign governments and central banks.
[23] Intragovernmental debt holdings represent federal debt issued by Treasury and held by certain federal government accounts such as the Social Security and Medicare trust funds.
[24] GAO, *Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Years 2007 and 2006*, GAO-08-167 (Washington, D.C.: Nov. 16, 2007).
[25] On February 8, 2006, the President signed into law the Federal Deposit Insurance Reform Act of 2005. Among its provisions, the act called for the merger of the Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) into a single deposit insurance fund. In accordance with the act, FDIC merged BIF and SAIF into the newly established DIF on March 31, 2006. The financial results of the newly formed DIF were retrospectively applied as though they had been combined at the beginning of the reporting year as well as for prior periods presented for comparative purposes.
[26] GAO, *Financial Audit: Federal Deposit Insurance Corporation Funds' 2006 and 2005 Financial Statements*, GAO-07-371 (Washington, D.C.: Feb. 13, 2007).

In addition, we considered the CFO Act agencies' and certain other federal agencies' fiscal years 2007 and 2006 financial statements and the related auditors' reports prepared by the inspectors general or contracted independent public accountants. Financial statements and audit reports for these agencies provide information about the operations of each of these entities. We did not audit, and we do not express an opinion on, any of these individual federal agency financial statements.

We considered the Department of Defense's (DOD) assertion that DOD management prepared and submitted pursuant to the provisions of the National Defense Authorization Act for Fiscal Year 2002.[27] In accordance with section 1008 of this act, DOD reported that certain major deficiencies related to (1) noncompliant systems, (2) financial processes, and (3) business processes continued to impact the department's ability to prepare reliable financial statements. In addition, DOD refers to its ongoing efforts to address related material weaknesses reported by the DOD Inspector General. In the DOD Inspector General's fiscal year 2007 report on internal control over financial reporting, the Inspector General cited material weaknesses in several areas including (1) property, plant, and equipment; (2) inventory and operating material and supplies; (3) environmental liabilities; and (4) intragovernmental eliminations.

Because of the significance of the amounts included in the Statement of Social Insurance related to the Social Security Administration (SSA) and the Department of Health and Human Services (HHS), our audit approach regarding the Statement of Social Insurance focused primarily on these two agencies. For each federal agency preparing a Statement of Social Insurance,[28] we considered the agencies' fiscal year 2007 and 2006 financial statements and the related auditors' reports prepared by the inspectors general or contracted independent public accountants. We performed sufficient audit work, including internal control and substantive audit procedures, reperformance procedures, and review of the other auditors' Statement of Social Insurance-related audit work, to support our opinion on the 2007 Statement of Social Insurance.

We performed sufficient audit work to provide this report on the consolidated financial statements, internal control, and compliance with selected provisions of significant laws and regulations. We considered the limitations on the scope of our work regarding the accrual basis consolidated financial statements in forming our conclusions. Our work was performed in accordance with U.S. generally accepted government auditing standards.

[27] Pub. L. No. 107-107, §1008, 115 Stat. 1012, 1204 (Dec. 28, 2001).
[28] These agencies include SSA, HHS, the Railroad Retirement Board, and the Department of Labor.

APPENDIX II

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

The continuing material weaknesses discussed below contributed to our disclaimer of opinion on the federal government's accrual basis consolidated financial statements. The federal government did not maintain adequate systems or have sufficient, reliable evidence to support information reported in the accompanying accrual basis 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 consolidated financial statements. Most of the PP&E and inventories and related property are the responsibility of DOD. As in past years, DOD did not maintain adequate systems or have sufficient records to provide reliable information on these assets. Other agencies, most notably the National Aeronautics and Space Administration, reported continued weaknesses in internal control procedures and processes related to PP&E.

Without reliable asset information, the federal government does not fully know the assets it owns and their location and condition and cannot effectively (1) safeguard assets from physical deterioration, theft, or loss; (2) account for acquisitions and disposals of such assets; (3) ensure that the assets are available for use when needed; (4) prevent unnecessary storage and maintenance costs or purchase of assets already on hand; and (5) determine the full costs of programs that use these assets.

Loans Receivable and Loan Guarantee Liabilities

Federal agencies that account for the majority of the reported balances for direct loans and loan guarantee liabilities continue to have internal control weaknesses related to their credit reform estimation and related financial reporting processes. While progress in addressing these long-standing weaknesses was reported by certain federal credit agencies, certain deficiencies in the Department of Agriculture's credit reform processes contributed to its auditor being unable to obtain sufficient, appropriate evidence to support related accounts. As such, for fiscal year 2007, we have added this area to the list of material weaknesses contributing to our disclaimer of opinion on the accrual basis consolidated financial statements.

These issues and the complexities associated with estimating the costs of lending activities significantly increase the risk that material misstatements in agency and governmentwide financial statements could occur and go undetected. Moreover, these weaknesses continue to adversely affect the federal government's ability to support annual budget requests for federal lending 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, DOD was not able to estimate with assurance key components of its environmental and disposal liabilities. In the past, 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 related to the cost of direct health care provided by DOD-managed military treatment facilities. This year, the auditor's report on the financial statements that include the estimated military postretirement health benefits liabilities had not been issued as of the date of this report. Further, the federal government could not determine whether commitments and contingencies, including those related to treaties and other international agreements entered into to further the U.S. 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, weaknesses in internal control supporting the process for estimating environmental and disposal liabilities could result in improperly stated liabilities as well as 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, if 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

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

With respect to disbursements, DOD and certain other federal agencies reported continued weaknesses in reconciling disbursement activity. For fiscal years 2007 and 2006, there was unreconciled disbursement activity, including unreconciled differences between federal agencies' and Treasury's records of disbursements and unsupported federal agency adjustments, totaling billions of dollars, 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. If disbursements are improperly recorded, this could result in misstatements in the financial statements and in certain data provided by federal agencies for inclusion in *The Budget of the United States Government* (hereafter referred to as "the President's Budget") concerning obligations and outlays.

Accounting for and Reconciliation of Intragovernmental Activity and Balances

Federal agencies are unable to adequately account for and reconcile intragovernmental activity and balances. OMB and Treasury require the chief financial officers (CFO) of 35 executive departments and agencies to reconcile, on a quarterly basis, selected intragovernmental activity and balances with their trading partners. In addition, these agencies are required to report to Treasury, the agency's inspector general, and GAO on the extent and results of intragovernmental activity and balances reconciliation efforts as of the end of the fiscal year.

A substantial number of the agencies did not adequately perform the required reconciliations for fiscal years 2007 and 2006. For these fiscal years, based on trading partner information provided to Treasury via agencies' closing packages, Treasury produced a "Material Difference Report" for each agency showing amounts for certain intragovernmental activity and balances that significantly differed from those of its corresponding trading partners as of the end of the fiscal year. Based on our analysis of the "Material Difference Reports" for fiscal year 2007, we noted that a significant number of CFOs were unable to adequately explain the differences with their trading partners or did not provide adequate documentation to support responses on the CFO Representations. For both fiscal years 2007 and 2006, amounts reported by federal agency trading partners for certain intragovernmental accounts were not in agreement by significant amounts. In addition, a significant number of CFOs cited differing accounting methodologies, accounting errors, and timing differences for their material differences with their trading partners. Some CFOs simply indicated that they were unable to explain the differences with their trading partners with no indication when the differences will be resolved. As a result of the above, the federal government's ability to determine the impact of these differences on the amounts reported in the accrual basis consolidated financial statements is significantly impaired.

In 2006, OMB issued Memorandum No. M-07-03, *Business Rules for Intragovernmental Transactions* (Nov. 13, 2006), and Treasury issued the Treasury Financial Manual Bulletin No. 2007-03, *Intragovernmental Business Rules* (Nov. 15, 2006). This guidance added criteria for resolving intragovernmental disputes and major differences between trading partners for certain intragovernmental transactions and called for the establishment of an Intragovernmental Dispute Resolution Committee. OMB is currently working with the Chief Financial Officers Council to create the Intragovernmental Dispute Resolution Committee.[29] Treasury is also taking steps to help resolve material differences in intragovernmental activity and balances. For example, Treasury is requiring federal agencies to provide a plan of action on how the agency is addressing certain of its unresolved material differences. Resolving the intragovernmental transactions problem remains a difficult challenge and will require a strong commitment

[29] The U.S. Chief Financial Officers Council is an organization of the CFOs and Deputy CFOs of the largest federal agencies and senior officials of OMB and Treasury who work collaboratively to improve financial management in the U.S. Government.

by federal agencies to fully implement the required business rules and continued strong leadership by OMB and Treasury.

Preparation of Consolidated Financial Statements

While further progress was demonstrated in fiscal year 2007, the federal government continued to have inadequate systems, controls, and procedures to ensure that the consolidated financial statements are consistent with the underlying audited agency financial statements, properly balanced, and in conformity with U.S. generally accepted accounting principles (GAAP). In addition, as discussed in our scope limitation section of this report, Treasury could not provide the final fiscal year 2007 accrual basis consolidated financial statements and adequate supporting documentation in time for us to complete all of our planned auditing procedures. During our fiscal year 2007 audit, we found the following:[30]

- Treasury has showed progress by demonstrating that amounts in the Statement of Social Insurance were consistent with the underlying federal agencies' audited financial statements and that the Balance Sheet and the Statement of Net Cost were consistent with federal agencies' financial statements prior to eliminating intragovernmental activity and balances. However, Treasury's process for compiling the consolidated financial statements did not ensure that the information in the remaining three principal financial statements and notes were fully consistent with the underlying information in federal agencies' audited financial statements and other financial data.

- At the federal agency level, for fiscal year 2007, auditors for many of the CFO Act agencies reported material weaknesses or other significant deficiencies regarding agencies' financial reporting processes which, in turn, could affect the preparation of the consolidated financial statements. For example, auditors for several agencies reported that a significant number of adjustments were required to prepare the agencies' financial statements. These and other auditors are also required to separately audit financial information sent by the federal agencies to Treasury via a closing package. In connection with preparing the consolidated financial statements, Treasury had to create adjustments to correct significant errors found in agencies' audited closing package information.

[30] Most of the issues we identified in fiscal year 2007 existed in fiscal year 2006, and many have existed for a number of years. In July 2007, we reported the issues we identified to Treasury and OMB and provided recommendations for corrective action in GAO, *Financial Audit: Significant Internal Control Weaknesses Remain in the Preparation of the Consolidated Financial Statements of the U.S. Government*, GAO-07-805 (Washington, D.C.: July 23, 2007).

- To make the fiscal years 2007 and 2006 consolidated financial statements balance, Treasury recorded net decreases of $6.7 billion and $11 billion, respectively, to net operating cost on the Statement of Operations and Changes in Net Position, which it labeled "Other - Unmatched transactions and balances."[31] An additional net $2.5 billion and $10.4 billion of unmatched transactions were recorded in the Statement of Net Cost for fiscal years 2007 and 2006, respectively. Treasury is unable to fully identify and quantify all components of these unreconciled activities.

- The federal government could not demonstrate that it had fully identified and reported all items needed to reconcile the operating results, which for fiscal year 2007 showed a net operating cost of $275.5 billion, to the budget results, which for the same period showed a unified budget deficit of $162.8 billion.

- Treasury's elimination of certain intragovernmental activity and balances continues to be impaired by the federal agencies' problems in handling their intragovernmental transactions. As previously discussed, amounts reported for federal agency trading partners for certain intragovernmental accounts were not in agreement by significant amounts. This resulted in the need for intragovernmental elimination entries by Treasury that recorded the net differences between trading partners as "Other – Unmatched transactions and balances," in order to force the Statements of Operations and Changes in Net Position into balance. In addition, differences in other intragovernmental accounts, primarily related to transactions with the General Fund, have not been reconciled, still remain unresolved, and total hundreds of billions of dollars. Therefore, the federal government continues to be unable to determine the impact of unreconciled intragovernmental activity and balances on the accrual basis consolidated financial statements.

- We have consistently reported that certain financial information required by GAAP was not disclosed in the consolidated financial statements. In 2006, the Federal Accounting Standards Advisory Board issued a new standard that eliminated or lessened the disclosure requirements for the consolidated financial statements related to certain information that Treasury had not been reporting.[32] While Treasury made progress in addressing some of the remaining omitted information, there continue to be disclosures required by GAAP that are excluded from the consolidated financial statements. Also, certain material weaknesses noted in this report, for example, commitments and contingencies related to treaties and other international agreements, preclude Treasury from determining if a disclosure is required by GAAP in the consolidated financial statements and us

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

[32] SFFAS No. 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government"* (Washington, D.C.: Sept. 28, 2006).

from determining if the omitted information is material. Further, Treasury's ability to report information in accordance with GAAP will also remain impaired until federal agencies, such as DOD, can provide Treasury with complete and reliable information required to be reported in the consolidated financial statements.

- Other internal control weaknesses existed in Treasury’s process for preparing the consolidated financial statements, involving inadequate or ineffective (1) documentation of certain policies and procedures; (2) management reviews of adjustments and key iterations of the financial statements, notes, and management discussion and analysis provided to GAO for audit; (3) supporting documentation for certain adjustments made to the consolidated financial statements; (4) processes for monitoring the preparation of the consolidated financial statements; and (5) spreadsheet controls.

- The consolidated financial statements include financial information for the executive, legislative, and judicial branches, to the extent that federal agencies within those branches have provided Treasury such information. However, as we have reported in past years, there continue to be undetermined amounts of assets, liabilities, costs, and revenues that are not included, and the federal government did not provide evidence or disclose in the consolidated financial statements that the excluded financial information was immaterial.

- As in previous years, Treasury did not have adequate systems and personnel to address the magnitude of the fiscal year 2007 financial reporting challenges it faced, such as weaknesses in Treasury’s process for preparing the consolidated financial statements noted above. We found that personnel at Treasury’s Financial Management Service had excessive workloads that required an extraordinary amount of effort and dedication to compile the consolidated financial statements; however, there were not enough personnel with specialized financial reporting experience to help ensure reliable financial reporting by the reporting date. In addition, the federal government does not perform quarterly compilations at the governmentwide level, which leads to almost all of the compilation effort being performed during a condensed time period at the end of the year.

During fiscal year 2007, Treasury, in coordination with OMB, continued to develop and implement corrective action plans and milestones for short-term and long-range solutions for certain internal control weaknesses we have reported regarding the process for preparing the consolidated financial statements. Resolving some of these internal control weaknesses will be a difficult challenge and will require a strong commitment from Treasury and OMB as they execute and implement their corrective action plans.

Components of the Budget Deficit

Both the Reconciliation of Net Operating Cost and Unified Budget Deficit and Statement of Changes in Cash Balance from Unified Budget and Other Activities report a budget deficit for fiscal years 2007 and 2006 of $162.8 billion and $247.7 billion, respectively.[33] The budget deficit is calculated by subtracting actual budget outlays (outlays) from actual budget receipts (receipts).

For several years, we have been reporting material unreconciled differences between the total net outlays reported in selected federal agencies' Statement of Budgetary Resources (SBR) and Treasury's central accounting records used to compute the budget deficit[34] reported in the consolidated financial statements. OMB and Treasury have continued to work with federal agencies to reduce these material unreconciled differences. However, billions of dollars of differences still exist in this and other components of the deficit because the federal government does not have effective processes and procedures for identifying, resolving, and explaining material differences in the components of the deficit between Treasury's central accounting records and information reported in agency financial statements and underlying agency financial information and records. Until these differences are timely reconciled by the federal government, their effect on the U.S. government's consolidated financial statements will be unknown.

In fiscal year 2007, we again noted that several agencies' auditors reported internal control weaknesses (1) affecting the agencies' SBRs, and (2) relating to monitoring, accounting, and reporting of budgetary transactions. These weaknesses could affect the reporting and calculation of the net outlay amounts in the agencies' SBRs. In addition, such weaknesses also affect the agencies' ability to report reliable budgetary information to Treasury and OMB and may affect the unified budget outlays reported by Treasury in its *Combined Statement of Receipts, Outlays, and Balances*,[35] and certain amounts reported in the President's Budget.

[33] The budget deficit, receipts, and outlays amounts are reported in Treasury's Monthly Treasury Statement and the President's Budget.
[34] See GAO's audit report on its audit of the federal government's fiscal year 2006 financial statements that was incorporated in the *2006 Financial Report of the U.S. Government* published by Treasury. Also, see GAO, *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Improvement*, GAO-04-45 (Washington, D.C.: Oct. 30, 2003).
[35] 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. Treasury represents this report as the recognized official publication of receipts and outlays of the federal government based on agency reporting.

APPENDIX III

Other Material Weaknesses

The federal government did not maintain effective internal control over financial reporting (including safeguarding assets) and compliance with significant laws and regulations as of September 30, 2007. In addition to the material weaknesses discussed in appendix II that contributed to our disclaimer of opinion on the accrual basis consolidated financial statements, we found the following three other material weaknesses in internal control.

Improper Payments

Although showing progress under OMB's continuing leadership, agencies' fiscal year 2007 reporting under the Improper Payments Information Act of 2002 (IPIA)[36] does not reflect the full scope of improper payments. For fiscal year 2007, federal agencies' estimates of improper payments, based on available information, totaled about $55 billion.[37] The increase from the prior year estimate of $41 billion[38] was primarily attributable to a component of the Medicaid program reporting improper payments for the first time totaling about $13 billion for fiscal year 2007, which we view as a positive step to improve transparency over the full magnitude of improper payments.

Major challenges remain in meeting the goals of the act and ultimately better ensuring the integrity of payments.[39] For fiscal year 2007, four agency auditors reported noncompliance issues with IPIA related to agencies' risk assessments, sampling methodologies, implementing corrective action plans, and recovering improper payments. We also identified issues with agencies' risk assessments such as not completing risk assessments of all programs and activities or not conducting annual reviews of any programs and activities. OMB's current guidance allows for annual risk assessments to be conducted less often than annually (generally every 3 years) for programs where baselines are already established, are in the process of being measured, or are scheduled to be measured by an established date. For fiscal year 2007, we noted that 4 agencies were implementing a 3-year cycle for conducting risk assessments. Furthermore, select agencies have not reported improper payment estimates for 14 risk-susceptible federal programs with total program outlays of about $170 billion for fiscal year 2007. Lastly,

[36] Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002). The IPIA requires federal agencies to review all programs and activities, identify those that may be susceptible to significant improper payments, estimate and report the annual amount of improper payments for those programs, and implement actions to cost-effectively reduce improper payments.

[37] The $55 billion includes 19 newly reported programs with improper payment estimates totaling about $16 billion. Of the 19 programs, 5 reported zero improper payment estimates for fiscal year 2007.

[38] In their fiscal year 2007 Performance and Accountability Reports (PAR), selected federal agencies updated their fiscal year 2006 improper payment estimates to reflect changes since issuance of their fiscal year 2006 PARs. These updates decreased the governmentwide improper payment estimate for fiscal year 2006 from $42 billion to $41 billion.

[39] GAO, *Improper Payments: Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements Continue,* GAO-07-635T (Washington, D.C.: Mar. 29, 2007).

we found that major management challenges and internal control weaknesses continue to plague agency operations and programs susceptible to significant improper payments. For example, in the Department of Education's fiscal year *2007 Performance and Accountability Report*, the Office of Inspector General reported that its recent investigations continue to uncover problems, including inadequate attention to improper payments and failure to identify and take corrective action to detect and prevent fraudulent activities by grantees.

Information Security

Although progress has been made, serious and widespread information security control weaknesses continue to place federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. GAO has reported information security as a high-risk area across government since February 1997. During fiscal year 2007, federal agencies did not consistently implement effective controls to prevent, limit, or detect unauthorized access to computing resources. Specifically, agencies did not always (1) identify and authenticate users to prevent unauthorized access; (2) enforce the principle of least privilege to ensure that authorized access was necessary and appropriate; (3) apply encryption to protect sensitive data on networks and portable devices; (4) log, audit, and monitor security-relevant events; and (5) restrict physical access to information assets. In addition, agencies did not consistently configure network devices and services to prevent unauthorized access and ensure system integrity, such as patching key servers and workstations in a timely manner; assign incompatible duties to different individuals or groups so that one individual does not control all aspects of a process or transaction; and maintain or test continuity of operations plans for key information systems. Such information security control weaknesses unnecessarily increase the risk that the reliability and availability of data that are recorded in or transmitted by federal financial management systems could be compromised. A primary reason for these weaknesses is that federal agencies have not yet fully institutionalized comprehensive security management programs, which are critical to identifying information security control weaknesses, resolving information security problems, and managing information security risks on an ongoing basis. The administration has taken important actions to improve information security, such as issuing extensive guidance on information security and requiring agencies to perform specific actions to protect certain personally identifiable information. However, until agencies effectively and fully implement agencywide information security programs, federal data and systems, including financial information, will remain at risk.

Tax Collection Activities

During fiscal year 2007, material internal control weaknesses and systems deficiencies continued to affect the federal government's ability to effectively manage its tax collection activities, an issue that has been reported in our financial statement audit reports for the past 10 years. Due to errors and delays in recording taxpayer information, payments, and other activities, taxpayers were not always credited for payments made on their taxes owed, which could result in undue taxpayer burden. In addition, the federal government did not always follow up on potential unreported or underreported taxes and did not always pursue collection efforts against taxpayers owing taxes to the federal government. Moreover, the federal government did not have cost benefit information, related cost-based performance measures, or a systematic process for ensuring it is using its resources to maximize its ability to collect what is owed and minimize the disbursements of improper tax refunds. As a result, the federal government is vulnerable to loss of tax revenue and exposed to potentially billions of dollars in losses due to inappropriate refund disbursements.

APPENDIX IV

Significant Deficiencies

In addition to the material weaknesses discussed in appendices II and III, we found the following significant deficiencies in internal control.

Preparation of the Statement of Social Insurance

Deficiencies were identified in certain controls over spreadsheets used by HHS to prepare its Statement of Social Insurance. This federal agency contributes the majority of the amounts reported on the consolidated Statement of Social Insurance. Such control deficiencies could result in misstatements to the Statement of Social Insurance.

Monitoring and Oversight

Federal Grants

The federal government annually awards grants totaling hundreds of billions of dollars. Control deficiencies were identified at several federal agencies regarding the monitoring and oversight of grants. For example, the auditor for one federal agency that awards and manages significant amounts of grants reported issues with obtaining documentation to evidence the agency's ongoing monitoring of open grants. These control deficiencies could adversely affect the federal government's ability to ensure that grant funds are being spent in accordance with applicable program laws and regulations.

Medicare Advantage Organizations

Under the Medicare Advantage program, HHS approves private companies to offer health plan options to Medicare enrollees that include all Medicare-covered services. Control deficiencies were identified at HHS regarding oversight of these Medicare Advantage Organizations (MAOs). These involved (1) the MAO review selection methodology, (2) documentation to support monitoring reviews, (3) review and approval of MAOs' corrective action plans, and (4) information in HHS' tracking system used to monitor the status of MAO oversight. These control deficiencies could adversely affect the federal government's ability to ensure that MAOs are in compliance with regulations established within applicable Medicare law.

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