GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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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, 2015, and 2014, 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, 2015, and 2014.[2]

- Significant uncertainties (discussed in Note 23 to the consolidated financial statements), primarily related to the achievement of projected reductions in Medicare cost growth, and a material weakness in internal control over financial reporting, prevented us from expressing an opinion on the sustainability financial statements,[3] which consist of the 2015 Statement of Long-Term Fiscal Projections; the 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance; and the 2015 and 2014 Statements of Changes in Social Insurance Amounts.[4]

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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 as of and for the fiscal years ended September 30, 2015, and 2014, 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. 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 2014.

[3]As required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 36, "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government," as amended, the federal government presents a new basic financial statement, the Statement of Long-Term Fiscal Projections, for fiscal year 2015, along with the related notes, as part of the consolidated financial statements. The Statement of Long-Term Fiscal Projections presents, 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. The unaudited statement of long-term fiscal projections for the year ended September 30, 2014, is presented for comparison purposes and was not subject to audit.

[4]Statements of Social Insurance are presented for the current year and each of the 4 preceding years in accordance with U.S. generally accepted accounting principles. Also, the sustainability financial statements do not interrelate with the accrual-based consolidated financial statements. In addition, the valuation date is January 1 for all social insurance programs except the Black Lung program, which has a valuation date of September 30. The valuation date for the Statement of Long-Term Fiscal Projections is September 30, 2015.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2015.

- Material weaknesses and other scope limitations discussed in this audit report limited our tests of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2015.

The following sections of this audit report discuss in more detail (1) our report on the accompanying consolidated financial statements, which includes (a) two emphasis of matters—equity investments, related to the federal government's actions to stabilize financial markets and to promote economic recovery, and long-term fiscal challenges, (b) required supplementary information (RSI),[5] required supplementary stewardship information (RSSI),[6] and other information[7] included with the consolidated financial statements in the *Fiscal Year 2015 Financial Report of the United States Government* (*2015 Financial Report*), and (c) information on Chief Financial Officers (CFO) Act agency financial management systems; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) the Department of the Treasury's (Treasury) and the Office of Management and Budget's (OMB) comments on a draft of this audit report. Appendix I discusses our audit objectives, scope, and methodology.

Report on the Consolidated Financial Statements

The Secretary of the Treasury, in coordination with the Director of OMB, is required to annually submit audited financial statements for the U.S. government to the President and Congress. GAO is required to audit these statements.[8] As noted above, the consolidated financial statements consist of the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2015, and 2014, and the sustainability financial statements, consisting of the 2015 Statement of Long-Term Fiscal Projections; the 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance; the 2015 and 2014 Statements of Changes in Social Insurance Amounts; and the related notes to the financial statements.

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

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[5]RSI consists of Management's Discussion and Analysis and information in the Required Supplementary Information section of the *Fiscal Year 2015 Financial Report of the United States Government*.
[6]RSSI consists of information on stewardship investments in the Required Supplementary Stewardship Information section of the *Fiscal Year 2015 Financial Report of the United States Government*.
[7]Other information consists of information in the *Fiscal Year 2015 Financial Report of the United States Government* other than the consolidated financial statements, RSI, RSSI, the auditor's report, and the Statement of the Comptroller General of the United States.
[8]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). Treasury and OMB have elected to include certain financial information on the legislative and judicial branches in the consolidated financial statements as well.

Management's Responsibility

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

Auditor's Responsibility

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

Basis for Disclaimers of Opinion on the Consolidated Financial Statements

Accrual-Based Consolidated Financial Statements

The federal government is not able to demonstrate the reliability of significant portions of the accompanying accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2015, and 2014, principally resulting from limitations related to certain material weaknesses in internal control over financial reporting and other limitations affecting the reliability of these financial statements and the scope of our work as discussed below. 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 have existed for years, contributed to our disclaimer of opinion on the accrual-based consolidated financial statements. Specifically, these weaknesses concerned the federal government's inability to

- satisfactorily determine that property, plant, and equipment and inventories and related property, primarily held by the Department of Defense (DOD), were properly reported in the accrual-based consolidated financial statements;

- reasonably estimate or adequately support amounts reported for certain liabilities, such as environmental and disposal liabilities, or determine whether commitments and contingencies were complete and properly reported;

- support significant portions of the reported total net cost of operations, most notably related to DOD, and adequately reconcile disbursement activity at certain federal entities;

- adequately account for and reconcile 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 Unified Budget Deficit and (2) Statements of Changes in Cash Balance from Unified Budget and Other Activities is complete 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 financial information to operate in an efficient and effective manner. Due to these material weaknesses and to other limitations on the scope of our work discussed below, additional issues may exist that could affect the accrual-based consolidated financial statements that were not identified. Appendix II describes these material weaknesses in more detail and highlights the primary effects of these material weaknesses on the accompanying accrual-based consolidated financial statements and on the management of federal government operations.

Sustainability Financial Statements

Significant uncertainties (discussed in Note 23 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 Unified Budget Deficit and the Statements of Changes in Cash Balance from Unified Budget and Other Activities, discussed above, hampers the federal government's ability to demonstrate the reliability of historical budget information used for certain key inputs to the 2015 Statement of Long-Term Fiscal Projections. As a result of these significant uncertainties and material weakness, readers are cautioned that amounts reported in the 2015 Statement of Long-Term Fiscal Projections; the 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance; the 2015 and 2014 Statements of Changes in Social Insurance Amounts; and the related notes to such 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.

For 2015, these significant uncertainties primarily relate to the following.

- Medicare projections in the 2015 Statement of Long-Term Fiscal Projections and the 2015 Statement of Social Insurance were based on benefit formulas under current law and included a significant reduction in Medicare payment rates for productivity improvements relating to most categories of Medicare providers,[9] based on full implementation of the provisions of the Patient Protection and Affordable Care Act, as amended (ACA),[10] and physician payment updates specified by the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).[11]

- Management has noted that actual future costs for Medicare are likely to exceed those shown by the current law projections presented in the 2015 Statement of Social Insurance due, for example, to the likelihood of modifications to the scheduled reductions in Medicare payment rates for productivity adjustments relating to most categories of Medicare providers and to the specified physician payment updates. The extent to which actual future costs exceed the current law amounts due to changes to the scheduled reductions in Medicare payment rates for productivity adjustments and to specified physician payment updates depends on both the specific changes that might be legislated and whether such 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 rates.

- Management has developed an illustrative alternative projection intended to provide additional context regarding the long-term sustainability of the Medicare program and to illustrate the uncertainties in the Statement of Social Insurance projections. The present value of future estimated expenditures in excess of future estimated revenue for Medicare, included in the illustrative alternative projection in Note 23, exceeds the $27.9 trillion estimate in the 2015 Statement of Social Insurance by $8.9 trillion.

- Management noted that these significant uncertainties about projected reductions in health care cost growth also affect the projected Medicare and Medicaid costs reported in the 2015 Statement of Long-Term Fiscal Projections.

The 2014, 2013, 2012, and 2011 Statements of Social Insurance were affected by significant uncertainties, primarily related to the achievement of projected reductions in Medicare payment rates for productivity improvements. The 2013, 2012, and 2011 Statements of Social Insurance were also affected by uncertainties related to projected reductions in Medicare payment rates for physician services. Specifically, the Medicare projections in the 2013, 2012, and 2011 Statements of Social Insurance were based on benefit formulas in current law and included significant reductions in Medicare payment rates for productivity improvements and physician services. The 2014 Statement of Social Insurance reflected a change from the assumption regarding scheduled reductions in Medicare payment rates for physician services that was used in the 2013, 2012, and 2011 Statements of Social Insurance. Specifically, the 2014 Statement of Social Insurance reflected a projected baseline that assumed that the physician payment rate reductions would not occur and that physician payment rates would annually increase at a rate equal to the average sustainable growth rate (SGR) override that occurred over the 10-year

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[9] These categories include, but are not limited to, inpatient/outpatient hospital services, skilled nursing facilities, home health care, ambulance, ambulatory surgical centers, durable medical equipment, and prosthetics.

[10] ACA, 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 ACA include any amendments made by the Health Care and Education Reconciliation Act of 2010.

[11] MACRA, Pub. L. No. 114-10, title I, § 101, 129 Stat. 87, 89 (Apr. 16, 2015). MACRA included many provisions that affect Medicare, including the repeal of the sustainable growth rate (SGR) 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.

period ending on March 31, 2015. For 2014, 2013, 2012, and 2011, management noted that actual future costs for Medicare were likely to exceed those shown by the current-law projections presented in the 2014, 2013, 2012, and 2011 Statements of Social Insurance due, for example, to the likelihood of modifications to the scheduled reductions in Medicare payment rates for productivity adjustments.

Projections of Medicare costs are sensitive to assumptions about future decisions by policymakers and about the behavioral responses of consumers, employers, and health care providers as policy, incentives, and the health care sector change over time. Such secondary impacts are not fully reflected in the sustainability financial statements but could be expected to influence the excess cost growth rate used in the projections.[12] Key drivers of uncertainty about the excess cost growth rate include the future development and deployment of medical technology, the evolution of personal income, and the cost and availability of insurance, as well as federal policy changes, such as the implementation of the ACA. The Required Supplementary Information section of the *2015 Financial Report* includes unaudited information concerning how changes in various assumptions would change the present value of future estimated expenditures in excess of future estimated revenue. As discussed in that section, the projections are very sensitive to changes in the health care cost growth assumption.

As discussed in Notes 23 and 24 to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the present value of the U.S. government's estimated future receipts and future spending using a projection period sufficient to illustrate long-term sustainability.[13] 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. The Statements of Social Insurance and Changes in Social Insurance Amounts are based on income and benefit formulas in current law (except for the 2014 Medicare projections, which use the projected baseline) and assume that scheduled benefits will continue after any related trust funds are exhausted. The Statements of Long-Term Fiscal Projections are based on the continuation of current policy. The sustainability financial statements are not forecasts or predictions.

In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future receipts, future spending, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion or unsustainable debt levels.

As discussed in the unaudited Required Supplementary Information section of the *2015 Financial Report*, the Social Security and Medicare Hospital Insurance (Part A) trust funds are, based on achievement of the cost reductions discussed above, projected to be exhausted in 2034 and 2030, respectively, at which time they would be unable to pay the full amount of scheduled future benefits.[14] For Social Security, future revenues were projected to be sufficient to pay 79 percent of scheduled benefits in 2034, the year of projected trust funds (combined)

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[12]The excess cost growth rate is the increase in health care spending per person relative to the growth of gross domestic product per person after removing the effects of demographic changes on health care spending.
[13]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 September 30, 2040.
[14]The combined Social Security trust funds consist of the Federal Old-Age and Survivors Insurance trust fund and the Federal Disability Insurance trust fund, whose assets are projected to be exhausted in 2035 and 2022, respectively.

exhaustion, and decreasing to 73 percent of scheduled benefits in 2089. For Medicare Hospital Insurance (Part A), future revenues were projected to be sufficient to pay 86 percent of scheduled benefits in 2030, the year of projected trust fund exhaustion, and then decreasing to 84 percent of scheduled benefits in 2089.

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

Other Limitations on the Scope of Our Work

For fiscal years 2015 and 2014, there were other limitations on the scope of our work, in addition to the material weaknesses and significant uncertainties noted above, that contributed to our disclaimers of opinion on the consolidated financial statements. Such limitations primarily relate to our ability to obtain adequate representations from management. Treasury and OMB depend on representations from certain federal entities to provide their representations to us regarding the U.S. government's consolidated financial statements. Treasury and OMB were unable to provide us with adequate representations regarding the U.S. government's accrual-based consolidated financial statements for fiscal years 2015 and 2014 primarily because of insufficient or no representations provided to them by certain federal entities, including DOD.

Disclaimers of Opinion on the Consolidated Financial Statements

Accrual-Based Consolidated Financial Statements

Because of the significance of the related matters described in the Basis for Disclaimer of Opinion paragraphs above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the accrual-based consolidated financial statements. Accordingly, we do not express an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2015, and 2014.

Sustainability Financial Statements

Because of the significance of the related matters described in the Basis for Disclaimer of Opinion paragraphs above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Statement of Long-Term Fiscal Projections for 2015; the Statements of Social Insurance for 2015, 2014, 2013, 2012, and 2011; and the Statements of Changes in Social Insurance Amounts for 2015 and 2014. Accordingly, we do not express an opinion on these sustainability financial statements. The 2014 Statement of Long-Term Fiscal Projections was not subject to audit.

Emphasis of Matters

The following key items deserve emphasis in order to put the information contained in the consolidated financial statements and the Management's Discussion and Analysis section of the *2015 Financial Report* into context. However, our disclaimers of opinion noted above are not modified with respect to these matters.

Equity Investments Related to the Federal Government's Actions to Stabilize Financial Markets and to Promote Economic Recovery

In 2008, during the financial crisis, the federal government placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises (GSE) to ensure their financial stability. The agreements with the GSEs could affect the federal government's financial position. As of September 30, 2015, the federal government continued to report about $106 billion of investments in the GSEs, which is net of about $88 billion in valuation losses.

In valuing these equity investments, management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated values reported in the accrual-based consolidated financial statements. However, as discussed in Note 1 to the consolidated financial statements, there are many factors affecting these assumptions and estimates that are inherently subject to substantial uncertainty arising from the uniqueness of the transactions and the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will be differences between the estimated values as of September 30, 2015, and the actual results, and such differences may be material. Also, as discussed in Note 1 to the consolidated financial statements, the financial statements do not include the assets, liabilities, or results of operations of entities in which Treasury holds either a direct, indirect, or beneficial equity interest. Treasury and OMB have determined that none of the entities meet the criteria for a federal entity.[15]

Long-Term Fiscal Challenges

While the near-term outlook has improved, the comprehensive long-term fiscal projections presented in the Statement of Long-Term Fiscal Projections, and related information in Note 24 and in the unaudited Required Supplementary Information section of the *2015 Financial Report* show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path. In the near term, the projections in the *2015 Financial Report* show the primary deficit continuing to decline from the recent historic highs. However, these projections do not reflect recent legislation enacted subsequent to September 30, 2015, which, in order to achieve certain national priorities and goals, causes deficits to increase in the near term.[16] Over the long term, the imbalance between spending and revenue that is built into current law and policy is projected to lead to continued growth of debt held by the public as a share of gross domestic product (GDP). This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.

Under these projections, spending for the major health and retirement programs will increase in coming decades more rapidly than GDP as more members of the baby boom generation become eligible for benefits. These projections, with regard to Social Security and Medicare, are based on the same assumptions underlying the information presented in the Statement of

[15]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 Appendix A of the *2015 Financial Report*.
[16]The 2015 Statement of Long-Term Fiscal Projections is based on current policy as of September 30, 2015. This is prior to the enactment of the Bipartisan Budget Act of 2015 and the Consolidated Appropriations Act, 2016; therefore, the projections do not reflect the effects of these two statutes. Management notes that neither statute is expected to have a material effect on the long-term fiscal projections in its report.

Social Insurance and assume that the provisions enacted in the ACA designed to slow the growth of Medicare costs are sustained and remain effective throughout the projection period.[17] They also reflect the effects of the MACRA, which, among other things, revised the methodology for determining physician payment rates.[18] 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' (CMS) Chief Actuary, the Congressional Budget Office, and others—spending on federal health care programs will grow more rapidly than assumed in the projections.

GAO also prepares long-term federal fiscal simulations, using different sets of assumptions, which continue to show debt held by the public rising as a share of GDP.[19] Under GAO's Alternative simulation,[20] using the CMS Office of the Actuary's alternative health care cost projections, future spending in excess of receipts would be greater and debt held by the public as a share of GDP would grow more quickly than the projections in the *2015 Financial Report*. Under the Alternative simulation, debt held by the public as a share of GDP will surpass its historical high (106 percent in 1946) by 2031.

Both the projections in the *2015 Financial Report* and our long-term simulations follow the spending limits enacted in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended.[21] Under these limits, discretionary spending will continue to decline as a share of the economy and within the next 5 years will be lower as a share of GDP than any level seen in the last 50 years. At the same time, the projections in the *2015 Financial Report* show revenues rising in the near term as the economy continues to recover. Our long-term simulations show revenues rising in some years and declining in others in the near term.

Debt held by the public as a share of GDP, however, remains well above the post-war historical average of 43 percent since 1946. At the end of fiscal year 2015, debt held by the public reached about 74 percent of GDP—the second highest (after fiscal year 2014, when it was

[17]ACA, 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).

[18]MACRA, Pub. L. No. 114-10, title I, § 101, 129 Stat. 87, 89 (Apr. 16, 2015), repealed the sustainable growth rate (SGR) 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.

[19]GAO, *Fiscal Outlook: Federal Fiscal Outlook* (2016) (Washington, D.C.: 2016), accessed February 17, 2016, http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview.

[20]Our 2016 Alternative simulation, the most recent one available as of the date of our audit report, incorporates the CMS Office of the Actuary's 2015 alternative projections for health care cost growth, which assume certain cost controls are not maintained over the long term. Our Alternative simulation also assumes that tax provisions that are scheduled to expire, such as the credit for construction of energy-efficient new homes, are extended. In the Alternative simulation, discretionary spending follows the caps established in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, but not the lower caps triggered by the automatic enforcement procedures.

[21]The Budget Control Act of 2011 (BCA) amended BBEDCA, imposing discretionary spending limits for fiscal years 2012 through 2021 to reduce projected spending by about $1 trillion. Pub. L. No. 112-25, 125 Stat. 240 (Aug. 2, 2011). The BCA also established the Joint Select Committee on Deficit Reduction (Joint Committee), which was tasked with proposing legislation to reduce the deficit by at least an additional $1.2 trillion through fiscal year 2021. The Joint Committee did not report a proposal, and Congress and the President did not enact legislation. This triggered the sequestration process in section 251A of BBEDCA. Section 251A, as amended by BCA, required (1) a sequestration for fiscal year 2013 and (2) annual downward adjustments to discretionary spending limits and sequestration of direct spending from fiscal years 2014 through 2021. BBEDCA has been amended several times since August 2011, most recently by the Bipartisan Budget Act (BBA) of 2015, which increased discretionary spending limits for fiscal years 2016 and 2017. The BBA of 2015 also extended the sequestration of direct spending through fiscal year 2025 and made other changes to direct spending and revenue. Pub. L. No. 114-74, §§ 101, 102, 129 Stat. 584, 585-87 (Nov. 2, 2015). GAO's long-term simulations reflect the effects of the BBA of 2015.

slightly higher) it has been as a share of GDP since 1950. Debt held by the public at these high levels could limit the federal government's flexibility to address emerging issues and unforeseen challenges, such as another economic downturn or large-scale disaster. Further, our past work has also identified a variety of fiscal exposures—responsibilities, programs, and activities that explicitly or implicitly expose the federal government to future spending.[22] Fiscal exposures vary widely as to source, extent of the government's legal commitment, and magnitude. Over the past decade, some fiscal exposures have grown because of events and trends and the government's response to them. Increased attention to these fiscal exposures will be important for understanding risks to the federal fiscal outlook and enhancing oversight of federal resources.

Other Matters

Required Supplementary Information and Required Supplementary Stewardship Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that RSI and RSSI be presented in the *2015 Financial Report* to supplement the financial statements. Although not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the RSI and RSSI in accordance with U.S. generally accepted government auditing standards because of the material weaknesses and other scope limitations discussed in this audit report. We did not audit and do not express an opinion or provide any assurance on the RSI or RSSI.

Other Information

Other information included in the *2015 Financial Report* contains a wide range of information, some of which is not directly related to the consolidated financial statements. This information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements, RSI, or RSSI. We read the other information included with the consolidated financial statements in order to identify material inconsistencies, if any, with the consolidated financial statements. We did not audit and do not express an opinion or provide any assurance on the other information in the *2015 Financial Report*.

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

CFO Act Agency Financial Management Systems

The federal government's ability to efficiently and effectively manage and oversee its day-to-day operations and programs relies heavily on the ability of entity financial management systems to produce complete, reliable, timely, and consistent financial information for use by executive

[22]GAO, *Fiscal Outlook: Federal Fiscal Outlook* (2016), accessed February 17, 2016, http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview#t=3, and *Fiscal Exposures: Improving Cost Recognition in the Federal Budget*, GAO-14-28 (Washington, D.C.: Oct. 29, 2013).

branch agencies and Congress.[23] 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-related information with which to measure performance and increase accountability throughout the year.

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

For fiscal years 2015 and 2014, auditors at 12 and 11 of the 24 CFO Act agencies, respectively, reported that the agencies' financial management systems did not substantially comply with one or more of the three FFMIA requirements. Agency management at the 24 CFO Act agencies also annually report on FFMIA compliance. For both fiscal years 2015 and 2014, agency management at 10 of the CFO Act agencies reported that their agencies' financial management systems were not in substantial compliance with one or more of the three FFMIA requirements. Based on agency financial reports, the differences in the assessments of substantial compliance between the auditors and agency management reflected differences in management's and auditors' views of the impact that reported deficiencies had on agencies' financial management systems.

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

Report on Internal Control over Financial Reporting

Management's Responsibility

Management of the federal government is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and (2) evaluating the effectiveness of internal control over financial reporting, based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA).[24]

[23]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.

[24]31 U.S.C. § 3512 (c), (d) (commonly referred to as FMFIA). This act requires executive agency heads to evaluate and report annually to the President and Congress on the adequacy of their internal control and accounting systems and on actions to correct significant problems.

Auditor's Responsibility

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

Our responsibility is to report any material weaknesses or significant deficiencies in internal control over financial reporting for fiscal year 2015 that come to our attention as a result of our audit. Based on the scope of our work and the effects of the other limitations on the scope of our audit noted throughout this audit report, our internal control work was not designed to, and would not necessarily, identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies.[25] Therefore, additional material weaknesses or significant deficiencies may exist that were not identified. Our work was performed in accordance with U.S. generally accepted government auditing standards.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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

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

Material Weaknesses Resulted in Ineffective Internal Control over Financial Reporting

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

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

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

- determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them,

- identify and resolve information security control deficiencies and manage information security risks on an ongoing basis, and

- effectively manage its tax collection activities.

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

We also found a significant deficiency in the federal government's internal control related to implementing effective internal controls over management of federal grants at certain federal entities. This significant deficiency is discussed in more detail in appendix IV.

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

Intended Purpose of Report on Internal Control over Financial Reporting

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

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

Management's Responsibility

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

Auditor's Responsibility

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

Our objective was not to provide an opinion on the federal government's compliance with laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

Our work was performed in accordance with U.S. generally accepted government auditing standards.

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

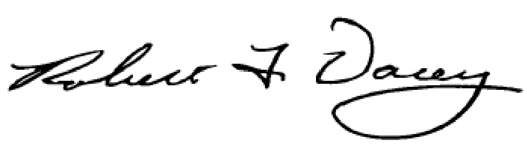
Our work to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements was limited by certain of the material weaknesses and other scope limitations discussed in this audit report. U.S. generally accepted government auditing standards and OMB guidance require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

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

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

Agency Comments

We provided a draft of this audit report to Treasury and OMB officials, who provided technical comments, which have been 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 17, 2016

Appendix I

Objectives, Scope, and Methodology

Our objectives were to audit the consolidated financial statements consisting of the (1) accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2015, and 2014, and (2) sustainability financial statements, which consist of the 2015 Statement of Long-Term Fiscal Projections; the 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance; and the 2015 and 2014 Statements of Changes in Social Insurance Amounts. Our objectives also included reporting on internal control over financial reporting and on compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements.

The Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act of 1994 (GMRA), requires the inspectors general of the 24 CFO Act agencies to be responsible for annual audits of agency-wide financial statements prepared by these agencies.[26] GMRA requires GAO to be responsible for the audit of the U.S. government's consolidated financial statements,[27] and the Accountability of Tax Dollars Act of 2002 (ATDA) requires most other executive branch entities to annually prepare financial statements and have them audited.[28] The Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) have identified 39 federal entities that are significant to the U.S. government's fiscal year 2015 consolidated financial statements, including the 24 CFO Act agencies.[29] We consider these 39 entities to be significant component entities for purposes of our audit of the consolidated financial statements. Our work was performed in coordination and cooperation with the inspectors general and independent public accountants for these significant component entities to achieve our respective audit objectives.[30] Our audit approach regarding the accrual-based consolidated financial statements primarily focused on determining the current status of the material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements and the other material weaknesses affecting internal control that we had reported in our report on the consolidated financial statements for fiscal year 2014.[31] We also separately audited the financial statements of certain component entities, and parts of a significant component entity, including the following.

- We audited and expressed an unmodified opinion on the Internal Revenue Service's (IRS) financial statements as of and for the fiscal years ended September 30, 2015, and 2014.[32] In fiscal years 2015 and 2014, IRS collected about $3.3 trillion and $3.1 trillion, respectively, in tax payments and paid about $403 billion and $374 billion, respectively, in refunds to taxpayers. For fiscal year 2015, we continued to report a material weakness in internal control over unpaid tax assessments that resulted in ineffective internal control over financial reporting. In addition, we continued to report a significant deficiency in IRS's internal control over financial reporting systems. We also reported that we found no reportable

[26]31 U.S.C. § 3521(e). GMRA authorized the Office of Management and Budget to designate agency components that also would receive financial statement audits. See 31 U.S.C. § 3515(c).
[27]GMRA, Pub. L. No. 103-356, § 405(c), 108 Stat. 3410, 3416-17 (Oct. 13, 1994), *codified at* 31 U.S.C. § 331(e)(2).
[28]ATDA, Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002), *codified at* 31 U.S.C. § 3515.
[29]See *Treasury Financial Manual*, vol. I, part 2, ch. 4700, for a listing of the 39 entities.
[30]For fiscal year 2015, the Defense Security Cooperation Agency and the General Fund of the U.S. Government were not audited.
[31]GAO, *Financial Audit: U.S. Government's Fiscal Years 2014 and 2013 Consolidated Financial Statements*, GAO-15-341R (Washington, D.C.: Feb. 26, 2015).
[32]GAO, *Financial Audit: IRS's Fiscal Years 2015 and 2014 Financial Statements*, GAO-16-146 (Washington, D.C.: Nov. 12, 2015).

noncompliance for fiscal year 2015 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, 2015, and 2014.[33] For these 2 fiscal years, the schedules reported (1) approximately $13.1 trillion (2015) and $12.8 trillion (2014) of federal debt held by the public;[34] (2) about $5.0 trillion (2015) and $5.0 trillion (2014) of intragovernmental debt holdings;[35] and (3) about $251 billion (2015) and $260 billion (2014) of interest on federal debt held by the public. 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, 2015. In addition, we reported that we found no reportable noncompliance for fiscal year 2015 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, 2015, and 2014.[36] We also reported that SEC maintained, in all material respects, effective internal control over financial reporting for both the entity as a whole and the IPF as of September 30, 2015. In addition, we reported that we found no reportable noncompliance for either SEC or IPF for fiscal year 2015 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, 2015, and 2014.[37] We also reported that FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015. In addition, we reported that we found no reportable noncompliance for fiscal year 2015 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

- We audited and expressed an unmodified opinion on the Office of Financial Stability's (OFS) financial statements for the Troubled Asset Relief Program (TARP) as of and for the fiscal years ended September 30, 2015, and 2014.[38] We also reported that OFS maintained, in all material respects, effective internal control over financial reporting for TARP as of September 30, 2015. In addition, we reported that we found no reportable noncompliance for fiscal year 2015 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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[33]GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2015 and 2014 Schedules of Federal Debt*, GAO-16-160 (Washington, D.C.: Nov. 13, 2015).

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

[35]Intragovernmental debt holdings represent federal debt owed by Treasury to federal government accounts, primarily federal trust funds, such as Social Security and Medicare.

[36]GAO, *Financial Audit: Securities and Exchange Commission's Fiscal Years 2015 and 2014 Financial Statements*, GAO-16-145R (Washington, D.C.: Nov. 16, 2015).

[37]GAO, *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2015 and 2014 Financial Statements*, GAO-16-95R (Washington, D.C.: Nov. 16, 2015).

[38]GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2015 and 2014 Financial Statements*, GAO-16-147R (Washington, D.C.: Nov. 10, 2015).

- We audited and expressed an unmodified opinion on the Bureau of Consumer Financial Protection's (CFPB) financial statements as of and for the fiscal years ended September 30, 2015, and 2014.[39] We also reported that although certain internal controls could be improved, CFPB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015. In addition, we reported that we found no reportable noncompliance for fiscal year 2015 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

In addition, we considered the CFO Act agencies' and certain other federal entities' fiscal years 2015 and 2014 financial statements and the related auditors' reports prepared by the inspectors general or contracted independent public accountants. Financial statements and audit reports for these entities provide information about the entities' operations. Each entity audit report also contains details regarding any identified material weaknesses or significant deficiencies and related recommendations for the respective entity. We did not audit, and we do not express an opinion on, any of these individual federal entity financial statements.

We considered the Department of Defense's (DOD) assertion in the *DOD Agency Financial Report for Fiscal Year 2015* regarding its noncompliant financial management systems and lack of reasonable assurance that internal controls over financial reporting were effective. In addition, in the DOD Inspector General's fiscal year 2015 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; (4) intragovernmental eliminations; and (5) material amounts of unsupported accounting entries needed to prepare DOD's annual consolidated financial statements.

Our audit approach for the 2015 Statement of Long-Term Fiscal Projections focused primarily on assuring that the information relating to the Statements of Social Insurance is properly reflected therein and testing the methodology used as well as evaluating key assumptions. We also evaluated whether the internal control deficiencies concerning the accrual-based consolidated financial statements affected certain key inputs used in generating the projections.

Because of the significance of the amounts presented in the Statements of Social Insurance and Statements of Changes in Social Insurance Amounts related to the Social Security Administration (SSA) and the Department of Health and Human Services (HHS), our audit approach regarding these statements focused primarily on these two agencies. For each federal entity preparing a Statement of Social Insurance and Statement of Changes in Social Insurance Amounts,[40] we considered the entity's 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance and the 2015 and 2014 Statements of Changes in Social Insurance Amounts, as well as the related auditor's reports prepared by the inspectors general or contracted independent public accountants.

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.

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[39]GAO, *Financial Audit: Bureau of Consumer Financial Protection's Fiscal Years 2015 and 2014 Financial Statements*, GAO-16-96R (Washington, D.C.: Nov. 16, 2015).

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

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. Our work was performed in accordance with U.S. generally accepted government auditing standards.

Appendix II

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

The continuing material weaknesses discussed below contributed to our disclaimer of opinion on the federal government's accrual-based consolidated financial statements.[41] The federal government did not maintain adequate systems or 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 also reported continued deficiencies in internal control procedures and processes related to PP&E.

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

Liabilities and Commitments and Contingencies

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

Problems in accounting for liabilities affect the determination of the full cost of the federal government's current operations and the extent of its liabilities. Also, deficiencies in internal control supporting the process for estimating environmental and disposal liabilities could result in improperly stated liabilities, as well as 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

[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 on the 2015 Statement of Long-Term Fiscal Projections.

about the extent of the federal government's obligations.

Cost of Government Operations and Disbursement Activity

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

With respect to disbursements, auditors of DOD and certain other federal entities reported continued control deficiencies in reconciling disbursement activity. For fiscal years 2015 and 2014, inadequate reconciliations of disbursement activity included (1) unreconciled differences between federal entities' and the Department of the Treasury's (Treasury) records of disbursements and (2) unsupported federal entity adjustments, which could also affect the balance sheet.

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

Accounting for and Reconciliation of Intragovernmental Activity and Balances

Significant progress has been made over the past few years; however, the federal government continues to be unable to adequately account for and reconcile 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, resulting in errors in the consolidated financial statements. The Office of Management and Budget (OMB) and Treasury require the chief financial officers (CFO) of the significant component entities to reconcile, on a quarterly basis, selected intragovernmental activity and balances with their trading partners. In addition, these entities are required to report to Treasury, their respective inspectors general, and GAO on the extent and results of intragovernmental activity and balance-reconciliation efforts as of the end of the fiscal year.

Treasury has continued to actively work with significant federal entities to resolve intragovernmental differences through its quarterly scorecard process.[42] This process highlights differences requiring the entities' attention, identifies differences that need to be resolved

[42]For each quarter, Treasury produces a scorecard for each significant entity 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. Entities are expected to resolve, with their respective trading partners, the differences identified in their scorecards.

through a formal dispute resolution process,[43] and reinforces the entities' responsibilities to resolve intragovernmental differences. Treasury also implemented the Governmentwide Treasury Account Symbol Adjusted Trial Balance System in fiscal year 2014, which among other things, provided more complete financial data from entities that are intended to improve the analysis of intragovernmental differences. In the third quarter of fiscal year 2015, Treasury began implementing a new initiative to identify and monitor systemic root causes of intragovernmental differences. As a result of these and other actions, a significant number of intragovernmental differences were identified and resolved. While progress was made, we continued to note that amounts reported by federal entity trading partners to Treasury were not in agreement by material amounts. Reasons for the differences cited by several CFOs included differing accounting methodologies, accounting errors, and timing differences. In addition, the auditor for DOD reported that DOD, which contributes significantly to the unreconciled amounts, could not accurately identify most of its intragovernmental transactions by customer and was unable to reconcile most intragovernmental transactions with trading partners, which resulted in adjustments that cannot be fully supported.

Further, a significant portion of intragovernmental differences are related to unreconciled transactions between the General Fund of the U.S. Government (General Fund)[44] and federal entity trading partners related to appropriations and other intragovernmental transactions, which amount to hundreds of billions of dollars. In fiscal year 2015, Treasury continued to make significant improvements to the processes used to identify and reconcile General Fund differences. For example, Treasury established more specific guidance regarding General Fund-related activity and balances and issued this guidance for federal entities to follow in reporting their financial data. Treasury also began developing policies and procedures over accounting for and reporting all significant General Fund activity and balances, and began reconciling the activity and balances between the General Fund and federal entity trading partners. In addition, Treasury implemented certain reconciliations for subcategories relevant to the General Fund, such as debt financing activities. However, the ability to effectively reconcile General Fund transactions will be hampered until General Fund-related activity and balances are properly accounted for, reported, and audited.

As a result of the above-noted circumstances, the federal government's ability to determine the impact of these differences on the amounts reported in the accrual-based consolidated financial statements is significantly impaired. Resolving the intragovernmental transactions problem remains a difficult challenge and will require a strong and sustained commitment by federal entities to timely resolve differences with their trading partners, as well as continued strong leadership by Treasury and OMB.

Preparation of Consolidated Financial Statements

Treasury, in coordination with OMB, has implemented several corrective actions during the past few years related to the preparation of the consolidated financial statements. Corrective actions included implementing new systems to collect certain additional data from entities and to compile the consolidated financial statements, and new or enhanced procedures to address

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

[44]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).

certain internal control deficiencies detailed in our previously issued report.[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 2015 audit, we found the following.

- For fiscal year 2015, auditors reported internal control deficiencies at several entities regarding entities' financial reporting processes that could affect information in those entities' closing packages.[46] Further, Treasury had to record significant adjustments to correct errors found in federal entities' audited closing package information. These errors primarily related to intragovernmental activity and balances and totaled tens of billions of dollars. To reasonably assure consistency of underlying entity information and financial data with the U.S. government's consolidated financial statements, entity auditors are required to separately audit and report on the financial information that the significant component entities send to Treasury through closing packages.[47]

- Treasury is unable to properly balance the accrual-based consolidated financial statements. To make the fiscal years 2015 and 2014 consolidated financial statements balance, Treasury recorded a net decrease of $5.1 billion and a net increase of $20.4 billion, respectively, to net operating cost on the Statements of Operations and Changes in Net Position, which were identified as "Unmatched transactions and balances."[48] Treasury recorded an additional net $1.9 billion and $1.7 billion of unmatched transactions in the Statement of Net Cost for fiscal years 2015 and 2014, respectively. The material weakness in the federal government's ability to account for and reconcile intragovernmental activity and balances, discussed above, significantly contributes to the unmatched transactions and balances and consequently impairs Treasury's ability to fully eliminate such intragovernmental activity and balances.

- Over the past several years, Treasury has taken significant actions to assist in ensuring that financial information is reported or disclosed in the consolidated financial statements in accordance with U.S. GAAP. For example, Treasury has developed and implemented U.S. GAAP compliance operating procedures and checklists. However, Treasury's reporting of certain financial information required by U.S. GAAP continues to be impaired. Due to certain control deficiencies noted in this audit report—for example, commitments and contingencies related to treaties and other international agreements—Treasury is precluded from determining if additional disclosure is required by U.S. GAAP in the consolidated financial statements, and we are precluded from determining whether the omitted information is material. Further, Treasury's ability to report information in accordance with U.S. GAAP will also remain impaired until federal entities, such as DOD, can provide Treasury with

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[45]Most of the issues we identified in fiscal year 2015 existed in fiscal year 2014, and many have existed for a number of years. Most recently, in July 2015, we reported the issues we identified to Treasury and OMB and provided recommendations for corrective action. See GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, GAO-15-630 (Washington, D.C.: July 30, 2015).

[46]The closing package methodology links federal entities' audited consolidated department-level financial statements to certain of the U.S. government's consolidated financial statements.

[47]There are 39 significant component entities, including the General Fund; however, the General Fund did not submit a closing package in fiscal year 2015.

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

complete and reliable information required to be reported in the consolidated financial statements.

- The consolidated financial statements include financial information for the executive, legislative, and judicial branches, to the extent that federal entities within those branches have provided Treasury such information. However, while progress was made over the past few years, undetermined amounts of assets, liabilities, costs, and revenues are not included, and the federal government did not provide evidence that the excluded financial information was immaterial.

- In fiscal year 2015, Treasury continued to make progress with corrective actions intended to resolve internal control deficiencies in the processes used to prepare the consolidated financial statements. For example, Treasury enhanced its process for involving key federal entity personnel in the preparation of the consolidated financial statements. However, other internal control deficiencies existed in the processes used to prepare the consolidated financial statements, such as inadequate processes for monitoring and assessing internal controls over the preparation of the consolidated financial statements. As a result, we identified errors, such as unclear or incomplete disclosures, in draft consolidated financial statements that were subsequently corrected.

- In fiscal year 2015, Treasury and OMB made significant progress with respect to their corrective action plans by developing a remediation plan that focuses on corrective actions to be taken over the next 3 years to address the material weaknesses in internal control. Although improvements have been noted, the plans continued to lack certain key elements recommended in the *CFO Council's Implementation Guide for OMB Circular A-123, Management's Responsibilities for Internal Control—Appendix A, Internal Control over Financial Reporting*, such as (1) sufficient information on how progress on interim actions would be monitored and (2) outcome measures for assessing the effectiveness of the corrective actions. Without such elements, Treasury's and OMB's efforts to address internal control deficiencies involving the processes used to prepare the consolidated financial statements will be hampered.

- In fiscal year 2015, Treasury continued to improve its systems and processes for preparing the consolidated financial statements. For example, Treasury continued to enhance the automated tool used in the compilation process. However, challenges remain regarding systems and processes for certain central accounting functions related to accurately reporting, as well as obtaining audit assurance over, General Fund transactions and components of the budget deficit. It is important that Treasury (1) continues to improve its systems and continues to ensure it has a sufficient number of personnel with appropriate skills in order to implement the corrective action plans and (2) remain committed to maintaining the progress that has been made in this area and building on that progress to make needed improvements to fully address the magnitude of the financial reporting challenges it faces.

Until these internal control deficiencies have been fully addressed, the federal government's ability to reasonably assure that the consolidated financial statements are consistent with the underlying audited federal entities' financial statements, properly balanced, and in accordance with U.S. GAAP will be impaired. Resolving these internal control deficiencies remains a difficult challenge and will require a strong and sustained commitment from Treasury and OMB as they continue to execute and implement corrective actions.

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

Over the past 2 years, Treasury has improved its process for preparing the (1) Reconciliations of Net Operating Cost and Unified Budget Deficit and (2) Statements of Changes in Cash Balance from Unified Budget and Other Activities (Reconciliation Statements). For example, during fiscal year 2015, Treasury began an initiative to ensure the consistency of reconciling items reported on the Reconciliation Statements to entity financial information that is processed through Treasury's records. However, the federal government has not established and implemented effective processes and procedures for (1) identifying and reporting all items needed to prepare the Reconciliation Statements and (2) 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, including the cash activity processed through the central accounting function. Until Treasury develops and fully implements an effective process for reasonably assuring completeness and consistency of the information in the statements and is able to fully reconcile this information, the effect on the U.S. government's consolidated financial statements will continue to be unknown.

The Reconciliation Statements report unified budget deficits for fiscal years 2015 and 2014 of about $439 billion and $483 billion, respectively.[49] The budget deficit is calculated by subtracting actual budget outlays (outlays) from actual budget receipts (receipts). Also, such outlays and receipts are key inputs to the Statements of Long-Term Fiscal Projections. With respect to the reported budget deficit, Treasury and OMB continue to lack an effective process for reasonably assuring the consistency of (1) information Treasury uses to compute the budget deficit reported in the consolidated financial statements, (2) Treasury's records of cash transactions processed through its central accounting function, and (3) information reported in federal entity financial statements and underlying entity financial information and records. Over the past few years, Treasury has made progress by developing and implementing procedures to reconcile certain outlays and receipts between Treasury's records used to compute the budget deficit reported in the consolidated financial statements and underlying federal entity financial information and records.

In fiscal year 2015, we again noted that several entities' auditors reported internal control deficiencies related to monitoring, accounting, and reporting of budgetary transactions. These control deficiencies could affect the reporting and calculation of the net outlay amounts in the entities' Statements of Budgetary Resources. In addition, such deficiencies may also affect the entities' ability to report reliable budgetary information to Treasury and OMB and may affect the unified budget deficit reported in the accrual-based consolidated financial statements. Treasury also reports the unified budget deficit in its *Combined Statement of Receipts, Outlays, and Balances*,[50] and in other federal government publications.

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[49]The budget deficit, receipts, and outlays amounts are reported in Treasury's *Monthly Treasury Statement* and the President's Budget.
[50]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 official publication of receipts and outlays of the federal government based on entity reporting.

Appendix III

Other Material Weaknesses

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

Improper Payments

The federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them. Reducing improper payments is critical to safeguarding federal funds.[51] The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA),[52] requires federal executive branch entities to (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 risk-susceptible, (4) implement actions to reduce improper payments and set reduction targets with respect to the risk-susceptible programs and activities, and (5) report on the results of addressing the foregoing requirements.

The Office of Management and Budget (OMB) reported that the government-wide improper payment error rate increased to 4.4 percent of program outlays for programs and activities reporting estimates in fiscal year 2015 from 4.0 percent in fiscal year 2014 when including the Department of Defense's (DOD) Defense Finance and Accounting Service (DFAS) Commercial Pay program.[53] When excluding the DFAS Commercial Pay program, the reported government-wide error rate was 4.8 percent of program outlays in fiscal year 2015 compared to 4.5 percent in fiscal year 2014. In May 2013, we reported on major deficiencies in DOD's process for estimating fiscal year 2012 improper payments in the DFAS Commercial Pay program, including deficiencies in identifying a complete and accurate population of payments.[54] The foundation of reliable statistical sampling estimates is a complete, accurate, and valid population from which to sample. Because of DOD's lack of an auditable Statement of Budgetary Resources, the DOD Office of Inspector General reported in DOD's fiscal year 2015 agency financial report that the agency was unable to reconcile outlays and ensure that all required payments subject to improper payment estimation requirements were captured for review. Therefore, DOD's fiscal

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[51]Under the Improper Payments Information Act of 2002, as amended, an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. Office of Management and Budget guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

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

[53]Reported error rates reflect the estimated improper payments as a percentage of total program outlays.

[54]GAO, *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*, GAO-13-227 (Washington, D.C.: May 13, 2013).

year 2015 improper payment estimates, including its estimate for the DFAS Commercial Pay program, may not be reliable.

Without the DFAS Commercial Pay program, federal entity improper payment estimates totaled $136.7 billion in fiscal year 2015, a significant increase from the revised prior year estimate of $124.6 billion.[55] The increase in estimated improper payments was mostly attributable to an increased error rate in the Department of Health and Human Services' (HHS) Medicaid program. It is important to note that pursuant to OMB implementing guidance, reported improper payment estimates include overpayments, underpayments, and payments for which adequate documentation was not found, and may also include amounts of payments for years prior to the current fiscal year.

While the specific programs included in the government-wide improper payment estimate may change from year to year, a net of four fewer programs were included when compared to fiscal year 2014. In addition, three federal entities did not report fiscal year 2015 estimated improper payment amounts for five risk-susceptible programs, including HHS's Temporary Assistance for Needy Families.[56] Further, various inspectors general reported deficiencies related to compliance with the criteria listed in IPERA for fiscal year 2014 at their respective federal entities,[57] including risk-susceptible programs that did not report improper payment estimates, estimation methodologies that may not produce reliable estimates, and risk assessments that may not accurately assess the risk of improper payment.

For fiscal year 2015, federal entities reported improper payment error rates that exceeded 10 percent for nine risk-susceptible programs, accounting for more than 50 percent of the government-wide improper payment estimate.[58] Under IPERA, an entity that is determined by its inspector general to not be in compliance with the criteria listed in IPERA, such as reporting an

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[55]In their fiscal year 2015 performance and accountability reports (PAR) and agency financial reports (AFR), seven federal entities updated their fiscal year 2014 improper payment estimates to reflect changes since issuance of their fiscal year 2014 PARs and AFRs. These updates decreased the government-wide improper payment estimate for fiscal year 2014 from $124.7 billion to $124.6 billion.

[56]The remaining four programs were the Corporation for National and Community Services' Foster Grandparents, Retired and Senior Volunteer, and Senior Companion programs and the General Services Administration's Hurricane Sandy Disaster Relief Fund.

[57]IPERA established a requirement for entity inspectors general to report annually on entities' compliance with criteria listed in section 3 of IPERA. The six criteria are that the entity has (1) published an annual financial statement and accompanying materials in the form and content required by OMB for the most recent fiscal year and posted that report on the entity website; (2) conducted a risk assessment for each specific program or activity that conforms with IPIA, as amended; (3) published estimates of improper payments for all programs and activities identified as susceptible to significant improper payments under the entity's risk assessment; (4) published corrective action plans for programs and activities assessed to be at risk for significant improper payments; (5) published and met annual reduction targets for all programs and activities assessed to be at risk for significant improper payments; and (6) reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published. The most recent inspectors general reports on compliance with the criteria listed in IPERA were issued in 2015 for fiscal year 2014. Pursuant to the OMB implementing guidance in M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments* (Oct. 20, 2014), each entity inspector general must complete its review of entity compliance under IPERA within 180 days of publication of the PAR or AFR. Therefore, inspector general reports on fiscal year 2015 compliance with the criteria listed in IPERA are generally expected to be issued by May 2016.

[58]The nine programs that reported improper payment estimates that exceeded 10 percent in fiscal year 2015 were (1) the Department of Veterans Affairs' (VA) VA Community Care, (2) VA's Purchased Long Term Services and Supports, (3) the Department of the Treasury's Earned Income Tax Credit, (4) the Department of Agriculture's (USDA) School Breakfast, (5) USDA's Farm Security and Rural Investment, (6) USDA's National School Lunch, (7) the Small Business Administration's Disbursement for Goods and Services, (8) HHS's Medicare Fee-for-Service, and (9) the Department of Labor's Unemployment Insurance programs.

improper payment rate of 10 percent or greater for any risk-susceptible program or activity, must submit a plan to Congress describing the actions that the entity will take to come into compliance.

Further, entity auditors continued to report internal control deficiencies over financial reporting in their fiscal year 2015 financial statement audit reports, such as financial system limitations and information system control weaknesses. Such deficiencies could significantly increase the risk that improper payments may occur and not be detected promptly.

The President's fiscal year 2016 and fiscal year 2017 budgets included program integrity proposals at multiple agencies aimed at reducing improper payments. Also, efforts continue to implement requirements established by IPERIA, which was enacted in January 2013 to intensify efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within federal spending. Among other things, IPERIA enacted into law elements of the President's "Do Not Pay" initiative by requiring entities 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. IPERIA also directs OMB to annually identify a list of high-priority federal programs for greater levels of oversight and review and requires each entity responsible for administering one of these high-priority programs to annually submit a program report to its inspector general and make a report copy available to the public.

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

Information Security

GAO has reported information security as a high-risk area across government since February 1997. During our fiscal year 2015 audit, we found that serious and widespread information security control deficiencies continued to place federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Specifically, control deficiencies were identified related to (1) security management; (2) access to computer resources (data, equipment, and facilities); (3) changes to and configuration of information system resources; (4) segregation of incompatible duties; and (5) contingency planning.

Such information security control deficiencies unnecessarily increase the risk that data recorded in or transmitted by federal financial management systems are not reliable and available. A primary reason for these deficiencies is that federal entities generally have not yet fully institutionalized comprehensive security management programs, which are critical to identifying information security control deficiencies, resolving information security problems, and managing information security risks on an ongoing basis.

Although significant challenges remain, the federal government has taken actions toward improving information security. For example, Congress passed and the President signed the

Federal Information Security Modernization Act of 2014,[59] and the Federal Chief Information Officer launched a 30-day Cybersecurity Sprint intended to improve the protection of federal information and systems.[60] At the end of the Cybersecurity Sprint, according to OMB, federal agencies increased their use of strong authentication from 42 percent to 72 percent.[61] Further, the administration has issued a cybersecurity strategy and implementation plan for federal civilian agencies to guide efforts to improve the security over their information and systems. It also plans to continue to oversee agency security efforts by monitoring the implementation of cybersecurity capabilities, such as strong authentication, continuous monitoring, anti-phishing and malware defense, and developing or monitoring performance-based metrics to measure their success. However, until entities identify and resolve information security control deficiencies and manage information security risks on an ongoing basis, federal data and systems, including financial information, will remain at risk.

Tax Collection Activities

During fiscal year 2015, a material weakness continued to affect the federal government's ability to effectively manage its tax collection activities. Due to financial system limitations, as well as errors in taxpayers' accounts, the federal government's records did not always reflect the correct amount of taxes owed by the public to the federal government. Such errors may cause undue burden and frustration to taxpayers who either have already paid taxes owed or who owe significantly lower amounts.

Collectively, these deficiencies indicate that internal controls were not effective in (1) ensuring that reported amounts of taxes receivable and other tax assessments were accurate on an ongoing basis and could be relied upon by management as a tool to aid in making and supporting resource allocation decisions and (2) supporting timely and reliable financial statements, accompanying notes, and required supplementary information and other information without extensive supplemental procedures and adjustments.

[59]The Federal Information Security Management Act of 2002 was enacted as Title III of the E-Government Act of 2002, Pub. L. No. 107-347, 116 Stat. 2899, 2946 (Dec. 17, 2002). The Federal Information Security Modernization Act of 2014, which largely superseded the 2002 act, was enacted as Pub. L. No. 113-283, 128 Stat. 3073 (Dec. 18, 2014), and amended chapter 35 of Title 44, U.S. Code.

[60]In June 2015, the Federal Chief Information Officer launched the 30-day Cybersecurity Sprint, during which agencies were to take immediate actions to combat cyber threats within 30 days. Actions included patching critical vulnerabilities, tightening policies and practices for privileged users, and accelerating the implementation of multifactor or strong authentication.

[61]Authentication is the process a computer system uses to establish the validity of a user's claimed identity by requesting some kind of information, such as a password, that is known only by the user. Strong authentication involves the use of multiple factors to authenticate a user. These factors include something you know (password or personal identification number), something you have (smartcard or personal identity verification card), or something you are (biometric).

Appendix IV

Significant Deficiency

In addition to the material weaknesses discussed in appendixes II and III, we found a significant deficiency in the federal government's internal control related to implementing effective internal controls over management of federal grants at certain federal entities, as described below.

Federal Grants Management

In fiscal year 2015, several federal entities' auditors continued to identify internal control deficiencies related to grants management. Reported deficiencies primarily related to monitoring of grant activities and accounting for formula grants.[62] 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.

[62]Formula grants are awarded to all eligible grantees based on a statutory allocation formula, which may be based on a number of variables, including population, poverty rate in a given area, or tax effort. The grants are typically awarded to states, which often pass funds through to eligible local government agencies and nonprofit organizations.