GAO
Accountability * Integrity * Reliability

Comptroller General of the United States

United States General Accounting Office
Washington, DC 20548

February 27, 2004

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

Our report on the U.S. government's consolidated financial statements for the fiscal years 2003 and 2002 is enclosed. As in the 6 previous fiscal years, certain material weaknesses in internal control and in selected accounting and reporting practices resulted in conditions that continued to prevent us from being able to provide the Congress and American citizens an opinion as to whether the consolidated financial statements of the U.S. government are fairly stated in conformity with U.S. generally accepted accounting principles.

Proper accounting and reporting practices are essential in the public sector. After all, the U.S. government is the largest, most diverse, most complex, and arguably the most important entity on earth today. Its services—homeland security, national defense, Social Security, mail delivery, and food inspection, to name a few—directly affect the well-being of almost every American. But sound decisions on the future direction of vital government programs and policies are made more difficult without timely, accurate, and useful financial and performance information.

Until the problems discussed in our report are adequately addressed, they will continue to (1) hamper the federal government's ability to accurately report a significant portion of its assets, liabilities, and costs; (2) affect the federal government's ability to accurately measure the full cost as well as the financial and nonfinancial performance of certain programs while effectively managing related operations; and (3) significantly impair the federal government's ability to adequately safeguard certain significant assets and properly record various transactions.

Across government, financial management improvement initiatives are under way that, if effectively implemented, have the potential to appreciably improve the quality of the federal government's financial management and reporting. In this regard, federal agencies have made progress in their efforts to modernize their financial management systems and improve financial management performance as called for in the President's Management Agenda.[1]

In identifying improved financial performance as one of its five governmentwide initiatives, the President's Management Agenda recognized that a clean (unqualified) financial audit opinion is a basic prescription for any well-managed organization. At the same time, it recognized that "most federal agencies that obtain clean audits only do so after making extraordinary, labor-intensive assaults on financial records" at or after year-end and that without sound internal control and accurate and timely financial information, it is not possible to accomplish the President's Management Agenda and secure the best performance and highest measure of accountability for the American people. The Principals of the Joint Financial Management Improvement Program (JFMIP)[2] have defined certain measures, in addition to receiving an unqualified financial statement opinion, for achieving financial management success. These additional measures include being able to routinely provide timely, accurate, and useful financial and performance information and having no material internal control weaknesses or material noncompliance with laws and regulations and the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

For fiscal year 2003, as in fiscal year 2002, 20 of 23 Chief Financial Officers (CFO) Act agencies[3] were able to attain unqualified audit opinions on their financial statements,[4] up from 6 agencies for fiscal year 1996. This is the same number of unqualified opinions received by these CFO Act agencies in fiscal year 2002. However, 2 agencies' fiscal year 2003 opinions were different from those they received in fiscal year 2002. The Agency for International Development (AID) received an unqualified opinion on all of its fiscal year 2003 financial statements for the first time, while the National Aeronautics and Space Administration, which in fiscal year 2002 received an unqualified opinion on its financial statements, received a disclaimer of opinion for fiscal year 2003. A 24th major

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[1]The President's Management Agenda is the Bush administration's strategy for improving the management and performance of the federal government. Its purpose is to identify and address the most significant problems facing the federal government. It contains five governmentwide and nine agency-specific goals to improve federal management and deliver results to the American people.

[2]JFMIP is a joint and cooperative undertaking of the Department of the Treasury, GAO, OMB, and the Office of Personnel Management working in cooperation with each other and other federal agencies to improve financial management practices in the federal government. Leadership and program guidance are provided by the four Principals of the JFMIP—the Comptroller General of the United States, the Secretary of the Treasury, and the Directors of OMB and the Office of Personnel Management.

[3]One of the 24 CFO Act agencies, the Federal Emergency Management Agency (FEMA), was transferred to the new Department of Homeland Security (DHS) effective March 1, 2003, which was 5 months into the fiscal year. With this transfer, FEMA will no longer be required to prepare and have audited stand-alone financial statements under the CFO Act, leaving 23 CFO Act agencies.

[4]At least 4 CFO Act agencies restated certain of their audited fiscal year 2002 financial statements to correct misstatements in such financial statements. All 4 of the agencies had received unqualified opinions on their fiscal year 2002 financial statements. These restatements were not material to the consolidated financial statements.

agency, the Department of Homeland Security (DHS),[5] though not subject to the CFO Act, prepared consolidated financial statements for fiscal year 2003 covering its first 7 months of operations and received a qualified opinion on two of the six required financial statements.[6]

The JFMIP Principals agreed with OMB's initiative to accelerate the agency financial statements reporting date to November 15 for fiscal year 2004. For fiscal year 2003, OMB required the CFO Act agencies to deliver their Performance and Accountability Reports, including their audited financial statements, to OMB by January 30, 2004. However, to prepare for meeting the required November 15 accelerated reporting date for fiscal year 2004, OMB encouraged the CFO Act agencies to accelerate the issuance of their fiscal year 2003 audited financial statements to November 15, 2003, or as close to that date as possible. OMB reported that 8 CFO Act agencies—the Department of Education, the Environmental Protection Agency, the Department of Health and Human Services, the National Science Foundation, the Social Security Administration, the Department of the Treasury (Treasury), AID, and the Department of Veterans Affairs—were able to issue their fiscal year 2003 financial statements with unqualified opinions by mid-November 2003. Another 10 CFO Act agencies issued their financial statements by December 31, 2003, and the remaining 5 CFO Act agencies issued by the end of January 2004. DHS, which faced a herculean challenge, issued its financial statements on February 13, 2004. While these results represent a significant improvement over previous years in the timeliness of CFO Act agencies' issuance of financial statements, they also demonstrate the significant challenges that the federal government will face in meeting the accelerated reporting date for fiscal year 2004.

Auditors at several of the CFO Act agencies reported that the agencies may not be able to produce auditable financial statements within the accelerated time frame for fiscal year 2004 without making fundamental changes to improve a number of their financial management practices. For example, certain federal agency auditors reported that major improvements are needed in (1) management controls to monitor established policies and

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[5] DHS is not a CFO Act agency and is therefore not subject to CFO Act requirements. However, along with most other executive branch agencies not covered by the CFO Act, DHS is required to prepare and have audited financial statements under the Accountability of Tax Dollars Act of 2002, Pub. L. No. 107-289, 116 Stat. 2049. For fiscal year 2003, the act provided that OMB could grant executive branch agencies' requests for waivers from having audited financial statements for fiscal year 2003. However, DHS and certain other agencies chose to prepare and have their fiscal year 2003 financial statements audited.

[6] DHS began operations as an agency 5 months after the start of the fiscal year, on March 1, 2003. Transfers of funds, assets, liabilities, and obligations from 22 existing federal agencies to DHS began on March 1, 2003. DHS's auditors issued a qualified opinion on the consolidated balance sheet and statement of custodial activity as of September 30, 2003, and disclaimed on the consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the 7 months ended September 30, 2003. In accordance with Federal Accounting Standards Advisory Board Technical Bulletin 2003-1, *Certain Questions and Answers Related to the Homeland Security Act of 2002,* the fiscal year 2003 activities that occurred prior to the transfer of operations to DHS were to be reflected in the transferring agencies' financial statements.

procedures for conducting financial analyses and reconciliations throughout the year, (2) fully integrating financial management systems, and (3) providing adequate and skilled staff to support efficient, effective preparation of federal agency consolidated financial statements.

More importantly, federal agency management must continue to work toward fully resolving the pervasive and generally long-standing material weaknesses that have been reported at the agency level for the past 7 fiscal years. The underlying causes of these issues are significant financial management systems problems, with the auditors of 17 of the 23 CFO Act agencies reporting that the agencies' financial management systems did not comply substantially with one or more of FFMIA's three requirements,[7] problems with fundamental recordkeeping and financial reporting, incomplete documentation, and weak internal control. While the severity and magnitude of the problems identified vary greatly, reports of inspectors general and their contract auditors indicated that only the Social Security Administration, Department of Energy, and National Science Foundation had neither a material weakness in internal control, an issue involving compliance with applicable laws and regulations, nor an instance of lack of substantial compliance with FFMIA requirements. Many federal agencies have continued to expend significant resources to use extensive ad hoc procedures and some have had to make billions of dollars in adjustments to derive financial statements months after the end of the fiscal year.

There are three primary reasons why the consolidated financial statements remained unauditable for fiscal year 2003: (1) serious financial management problems at the Department of Defense (DOD), (2) the federal government's inability to account for billions of dollars of transactions between federal government entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements.

First, we have designated the serious financial management problems at DOD as high risk[8] since 1995. Overhauling DOD's financial management operations represents a challenge that goes far beyond financial accounting to the very fiber of DOD's range of business operations, management information systems, and culture. DOD's financial management problems are pervasive, complex, long-standing, and deeply rooted in virtually all business operations throughout the department. To date, none of the military services or major DOD components has passed the test of an independent financial audit[9] because of pervasive weaknesses in financial management systems, operations, and

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[7]FFMIA requires auditors, as part of CFO Act agencies' financial statement audits, to report whether agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards (U.S. generally accepted accounting principles), and (3) the federal government's Standard General Ledger at the transaction level.

[8]GAO identifies areas at high risk due to either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness.

[9]Although not major DOD components, the Military Retirement Fund received an unqualified opinion on its fiscal year 2003 financial statements, and the DOD Medicare-Eligible Retiree Health Care Fund received a qualified opinion on its fiscal year 2003 financial statements.

controls. To address these problems, DOD has taken several positive steps in many key areas. For example, the Secretary of Defense has included improving DOD's financial management as one of his top 10 priorities, and the department has taken a number of actions under its Business Management Modernization Program, including development in April 2003 of an initial business enterprise architecture to guide operational and technological changes. DOD is currently working to refine and implement that architecture and expects to issue new versions of it during 2004. DOD reports that it is also developing detailed financial improvement plans intended to provide disciplined leadership, identify corrective actions, implement solutions, and result in a favorable audit opinion on the fiscal year 2007 DOD-wide financial statements. But DOD still has a long way to go, and top leadership must continue to stress the importance of achieving lasting improvement that truly transforms the department's business systems and operations. Only through major transformation will DOD be able to meet the mandate of the CFO Act and achieve the President's Management Agenda goal of improved financial performance.

Second, we reported in previous years that the heart of the intragovernmental transactions issue was that the federal government lacked clearly articulated business rules for these transactions so that they would be handled consistently by agencies. In this regard, at the start of fiscal year 2003, OMB issued business rules to transform and standardize intragovernmental ordering and billing. However, CFO Act agencies continue to be unable to perform reconciliations of intragovernmental activity and balances with their trading partners,[10] citing reasons such as (1) trading partners not providing needed data; (2) limitations and incompatibility of agency and trading partner information systems; and (3) lack of human resources. Amounts reported for federal agency trading partners for certain intragovernmental accounts were significantly out of balance in the aggregate for both fiscal years 2003 and 2002. To address long-standing problems with intragovernmental exchange transactions between federal agencies, Treasury provided federal agencies with quarterly detailed trading partner information during fiscal year 2003 to help them better perform their trading partner reconciliations. In addition, the federal government began a three-phase Intragovernmental Transactions e-gov project to define a governmentwide data architecture and provide a single source of detailed trading partner data.

Third, with respect to preparing the consolidated financial statements, Treasury is developing a new system and procedures to prepare the consolidated financial statements beginning with the statements for fiscal year 2004. Treasury officials have stated that these actions are intended to, among other things, directly link information from federal agencies' audited financial statements to amounts reported in the consolidated financial statements and resolve many of the issues we identified in the process for preparing the consolidated financial statements.

[10]Trading partners are U.S. government agencies, departments, or other components included in the consolidated financial statements that do business with each other.

The continued strong leadership of both OMB and Treasury will be important to resolve the intragovernmental transactions issue and issues surrounding preparing the consolidated financial statements.

The need for timely, accurate, and useful financial and performance information is greater than ever. Our nation's large and growing long-term fiscal imbalance, which is driven largely by known demographic trends and rising health care costs, coupled with new homeland security and defense commitments, serves to sharpen the need to fundamentally review and re-examine the base of federal entitlement, discretionary, and other spending and tax policies. For example, as we look ahead, our nation faces an unprecedented demographic challenge, with significant budgetary, economic, and other implications. Between now and 2035, the number of people who are 65 years old or over will double, driving federal spending on the elderly to a larger and ultimately unsustainable share of the federal budget. As a result, tough choices will be required to address the resulting structural imbalance.

The federal government's gross debt as of September 2003 was about $7 trillion, or about $24,000 for every man, woman, and child in the country. But that number excludes such items as the gap between promised and funded Social Security and Medicare commitments and veterans health care benefit commitments provided through the Department of Veterans Affairs. If these items are factored in, the current dollar burden for every American rises to well over $100,000. In addition, the new Medicare prescription drug benefit will add thousands more to that tab.

The Trustees of the Social Security and Medicare trust funds report annually on the current and projected status of these programs over the next 75 years. As highlighted in our report last year, the 2003 trustees' reports stated that the fundamentals of the financial status of both Social Security and Medicare remain highly problematic.[11] However, the trustees reported that Medicare faces financial difficulties that are more severe than those confronting Social Security because Medicare program costs are projected to rise faster than Social Security program costs. In their 2003 report, the trustees once again stated that action to address the financial difficulties facing Social Security and Medicare must be taken in a timely manner and that the sooner these financial challenges are addressed, the more varied and less disruptive the solutions can be. In addition, the new prescription drug benefit, which is one of the largest unfunded commitments ever undertaken by the federal government, will serve to increase this financial and fiscal challenge. The trustees will include an official estimate of the discounted present value cost of this new benefit

[11]Last year, our auditor's report was issued subsequent to the release of the 2003 Annual Reports of the Boards of Trustees of the Social Security and Medicare Trust Funds and, as a result, included certain information from those reports. Due to the accelerated issuance of the fiscal year 2003 *Financial Report of the United States Government* this year, similar information from the 2004 Annual Reports of the Trustees is not available. Data from these reports will be used to prepare the social insurance disclosures in the fiscal year 2004 *Financial Report of the United States Government*.

over the next 75 years in their annual report, which is scheduled for issuance in March 2004. Preliminary estimates of the long-term cost are in the trillions of dollars in discounted present value terms over a 75-year period.

The Congress and the President face the challenge of sorting out the many claims on the federal budget without the budget enforcement mechanisms or fiscal benchmarks that guided the federal government through the years of deficit reduction into a brief period of federal surpluses. While a number of steps will be necessary to address this challenge, truth and transparency in federal government reporting are essential elements of any attempt to address the nation's long-term fiscal challenges. The fiscal risks just mentioned can be managed only if they are properly accounted for and publicly disclosed, including the many existing commitments facing the government. In addition, new budget control mechanisms will be required, along with effective approaches to successfully engage in a fundamental review, reassessment, and reprioritization of the base of federal government programs and policies that I have mentioned previously.

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Once again, we appreciate the cooperation and assistance of Treasury and OMB officials, as well as the chief financial officers and inspectors general, in carrying out our responsibility to report on the U.S. government's consolidated financial statements. We look forward to continuing to work with these officials and the Congress to achieve the goals and objectives of financial management reform.

Our report was prepared under the direction of Jeffrey C. Steinhoff, Managing Director, and Gary T. Engel, Director, Financial Management and Assurance. If you have any questions, please contact me on (202) 512-5500 or them on (202) 512-2600.

David M. Walker
Comptroller General
of the United States

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Comptroller General of the United States

United States General Accounting Office
Washington, DC 20548

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

The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), is required annually to submit financial statements for the U.S. government to the President and the Congress. GAO is required to audit these statements.[1] This is our report on the accompanying U.S. government's consolidated financial statements for the fiscal years ended September 30, 2003 and 2002,[2] and our associated reports on internal control and compliance with laws and regulations.

The federal government is responsible for (1) preparing annual consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the control objectives of the Federal Managers' Financial Integrity Act are met;[3] and (3) complying with applicable laws and regulations. Also, the 23 Chief Financial Officers (CFO) Act agencies[4] are responsible for implementing and maintaining financial management systems that substantially comply with Federal Financial Management

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[1]The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. 31 U.S.C. 331 (e) (2000). The federal government has elected to include certain financial information on the legislative and judicial branches in the consolidated financial statements as well.
[2]The consolidated financial statements for the fiscal years ended September 30, 2003 and 2002, consist of the Statements of Operations and Changes in Net Position, Statements of Net Cost, Reconciliations of Net Operating Cost and Unified Budget Deficit, Statements of Changes in Cash Balance from Unified Budget and Other Activities, and Balance Sheets, including the related notes to these financial statements.
[3]31 U.S.C. 3512 (c), (d) (2000). This act requires agency heads to evaluate and report annually to the President on the adequacy of their internal control and accounting systems and on actions to correct significant problems.
[4]31 U.S.C. 901(b) (2000). The Federal Emergency Management Agency (FEMA) was transferred to the new Department of Homeland Security (DHS) effective March 1, 2003. With this transfer, FEMA is no longer required to prepare and have audited stand-alone financial statements under the CFO Act, leaving 23 CFO Act agencies. DHS, along with most other executive branch agencies, is required to prepare and have audited financial statements under the Accountability of Tax Dollars Act of 2002, Pub. L. No. 107-289, 116 Stat. 2049.

Improvement Act of 1996 (FFMIA)[5] requirements. Our objective was to audit the consolidated financial statements for the fiscal years ended September 30, 2003 and 2002. Appendix I discusses the scope and methodology of our work.

A significant number of material weaknesses[6] related to financial systems, fundamental recordkeeping and financial reporting, and incomplete documentation continued to (1) hamper the federal government's ability to accurately report a significant portion of its assets, liabilities, and costs; (2) affect the federal government's ability to accurately measure the full cost and financial performance of certain programs and effectively manage related operations; and (3) significantly impair the federal government's ability to adequately safeguard significant assets and properly record various transactions. Several of these material weaknesses (referred to hereafter as material deficiencies) resulted in conditions that continued to prevent us from forming and expressing an opinion on the accompanying consolidated financial statements for the fiscal years ended September 30, 2003 and 2002.[7] There may also be additional issues that could affect the consolidated financial statements that have not been identified.

In accordance with section 1008 of the National Defense Authorization Act for Fiscal Year 2002,[8] the Department of Defense (DOD) reported that for fiscal year 2003, it was not able to provide adequate evidence supporting material amounts in its financial statements. DOD stated that it is unable to comply with applicable financial reporting requirements for (1) property, plant, and equipment (PP&E); (2) inventory and operating materials and supplies; (3) environmental liabilities; (4) intragovernmental eliminations and related accounting adjustments; (5) disbursement activity; and (6) cost accounting by responsibility segment. Although DOD represented that the military retirement health care liability data had improved for fiscal year 2003, the cost of direct health care provided by DOD-managed military treatment facilities was a significant amount of DOD's total recorded health care liability and was based on estimates for which adequate support was not available.

As had been the case for the previous 7 fiscal years, the DOD Inspector General disclaimed an opinion on DOD's financial statements for fiscal year 2003. DOD's financial management systems and reporting weaknesses substantially impair our ability to determine the reliability of the financial information reported in the federal government's overall financial reports. Given the significance of DOD's activities and balances to the consolidated financial statements, until DOD corrects its material weaknesses, it will continue to impede our ability to express an opinion on the

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[5]31 U.S.C. 3512 note (2000) (Federal Financial Management Improvement).
[6]A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.
[7]We previously reported that material deficiencies prevented us from expressing an opinion on the fiscal years 1997, 1998, 1999, 2000, 2001, and 2002 consolidated financial statements of the U.S. government.
[8]Pub. L. No. 107-107, 115 Stat. 1012, 1204 (2001).

consolidated financial statements. In addition, as noted later in this report, there are other material weaknesses that will need to be corrected.

DISCLAIMER OF OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

Because of the federal government's inability to demonstrate the reliability of significant portions of the accompanying fiscal years 2003 and 2002 U.S. government's consolidated financial statements and limitations on the scope of our work related to the preparation of the consolidated financial statements and management and legal representations, all of which are discussed below, we are unable to, and we do not, express an opinion on such financial statements.

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

We have not audited and do not express an opinion on the Management's Discussion and Analysis, Stewardship Information, Supplemental Information, or other information included in the accompanying fiscal year 2003 *Financial Report of the United States Government*.

Implementation of Statement of Federal Financial Accounting Standards (SFFAS) No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, effective October 1, 2002, required the capitalization and, except for land and land improvements, subsequent depreciation of military equipment in the financial statements. This equipment had previously been charged to expense and reported in memorandum fashion among the required supplemental stewardship information. This change in accounting principle, as discussed in notes 6, 7, and 17 of the consolidated financial statements, resulted in an increase in PP&E of $317 billion and in inventories and related property of $66 billion. This adjustment was based on estimated values for which reasonableness could not be assured by DOD management. In addition, because of the material deficiencies over PP&E and inventories and related property as discussed below, these amounts may not be reliable.

The Department of Energy's (DOE) accelerated cleanup approach enabled the department to reduce its environmental liabilities during the fiscal years ended September 30, 2003 and 2002. However, as discussed in note 18 to the U.S. government's consolidated financial statements, a federal district court ruled that certain aspects of DOE's proposed high-level waste cleanup approach are not in compliance with provisions of the Nuclear Waste Policy Act of 1982. If DOE is not successful in either its appeal of this court ruling or in its proposal to modify provisions of the act, DOE estimates that its environmental liabilities could increase by more than $100 billion.

Additional Limitations on the Scope of Our Work

There were additional limitations on the scope of our work. As agreed with the Department of the Treasury (Treasury) and OMB, we accelerated the time frame to issue our reports on the audit of the fiscal year 2003 consolidated financial statements to meet the federal government's February 27, 2004, accelerated reporting date. It was understood that OMB anticipated that all of the CFO Act agencies' and the Department of Homeland Security's (DHS) financial statements would be issued by December 30, 2003. However, several CFO Act agencies' fiscal year 2003 financial statements were not issued until late January 2004, and DHS's financial statements were not issued until February 13, 2004. These delays, along with the lack of timely submission by several federal agencies of certain key agency information used by Treasury to prepare the consolidated financial statements, significantly impaired Treasury's ability to provide us with complete and accurate drafts of the consolidated financial statements, including the February 5, 2004, draft which was to have been the final draft of the consolidated financial statements. As a result, we did not receive the U.S. government's consolidated financial statements in time to complete our planned auditing procedures related to the compilation of these financial statements within the reporting deadline.

For each federal agency financial statement audit, U.S. generally accepted auditing standards require that agency auditors obtain written representations as part of the audit. However, we continued to identify problems with the adequacy of certain federal agencies' management and legal representations on which Treasury and OMB depend to provide their representations to us regarding the consolidated financial statements. Further, due primarily to the lack of timely submission of certain federal agencies' legal representations to the Department of Justice, the department was not able to provide us with the legal representation letter relating to the consolidated financial statements until February 19, 2004, which did not allow us time to complete our planned auditing procedures in this area within the accelerated reporting deadline.

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

Material Deficiencies

The federal government did not maintain adequate systems or have sufficient, reliable evidence to support information reported in the accompanying consolidated financial statements, as described below. These material deficiencies contributed to our disclaimer of opinion and also constitute material weaknesses in internal control. Appendix II highlights the primary effects of these material weaknesses on the accompanying consolidated financial statements and on the management of federal government operations.

Property, Plant, and Equipment and Inventories and Related Property

The federal government could not satisfactorily determine that all PP&E and inventories and related property were included in the consolidated financial statements, verify that certain reported assets actually exist, or substantiate the amounts at which they were valued. Most of the PP&E and inventories and related property are the responsibility of DOD. As in past years, DOD did not maintain adequate systems or have sufficient records to provide reliable information on these assets. Other agencies, most notably the National Aeronautics and Space Administration, reported continued weaknesses in internal control procedures and processes related to PP&E.

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 those related to treaties and other international agreements entered into to further the U.S. government's interests, were complete and properly reported.

Cost of Government Operations and Disbursement Activity

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

With respect to disbursements, DOD and certain other federal agencies did not adequately reconcile disbursement activity. For fiscal years 2003 and 2002 there were unsupported adjustments to federal agencies' records and unreconciled disbursement activity, including unreconciled differences between federal agencies' and Treasury's records of disbursements, totaling billions of dollars, which could also affect the balance sheet.

Accounting for and Reconciliation of Intragovernmental Activity and Balances

OMB and Treasury require the CFOs of 35 executive departments and agencies, including the 23 CFO Act agencies, to reconcile selected intragovernmental activity and balances with their "trading partners"[9] and to report to Treasury, the agency's inspector general, and GAO on the extent and results of intragovernmental activity and balances reconciliation efforts. A substantial number of the agencies did not fully perform the required reconciliations for fiscal years 2003 and 2002, citing reasons such as (1) trading partners not providing needed data, (2) limitations and incompatibility of agency and trading partner information systems, and (3) lack of human resources. For both of these years, amounts reported for federal agency trading partners for certain intragovernmental accounts were significantly out of balance. Treasury's ability to eliminate certain intragovernmental activity and balances is impaired by these federal agencies' problems in handling their intragovernmental transactions.

To address long-standing problems with intragovernmental exchange transactions between federal agencies, Treasury and OMB have undertaken various efforts. However, resolving the intragovernmental transactions problem remains a difficult challenge and will require a commitment by federal agencies and continued strong leadership by OMB.

Net Outlays

OMB Bulletin 01-09, *Form and Content of Agency Financial Statements,*[10] states that outlays in federal agencies' Statements of Budgetary Resources (SBR) should agree with the respective agency's net outlays reported in the budget of the U.S. government. In addition, SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* requires explanation of any material differences between the information required to be disclosed (including net outlays) and the amounts described as "actual" in the budget of the U.S. government.

We found material differences between the total net outlays reported in selected federal agencies' audited SBRs and the records used to prepare the Statement of Changes in Cash Balance from Unified Budget and Other Activities (Statement of Changes in Cash Balance),[11] totaling about $140 billion and $186 billion for fiscal years 2003 and 2002,

[9]Trading partners are U.S. government agencies, departments, or other components included in the consolidated financial statements that do business with each other.
[10]Office of Management and Budget Bulletin No. 01-09, *Form and Content of Agency Financial Statements* (Washington, D.C.: Sept. 25, 2001). This bulletin is OMB's official guidance for the form and content of federal agencies' financial statements.
[11]OMB and U.S. generally accepted accounting principles (GAAP) require agencies to report net outlays in the SBR. The Statement of Changes in Cash Balance also reports unified budget outlays-actual. Both are intended to represent the same amount and be consistent with the information presented in the budget of the U.S. government.

respectively.[12] Two agencies (Treasury and the Department of Health and Human Services (HHS)) accounted for about 83 percent and 75 percent of the differences identified in fiscal years 2003 and 2002, respectively. We found that the major cause of the differences for the two agencies was the treatment of offsetting receipts.[13] Some offsetting receipts for these two agencies had not been included in the agencies' SBRs, which would have reduced the agencies' net outlays and made the amounts more consistent with the records used to prepare the Statement of Changes in Cash Balance.[14] For example, we found that HHS reported net outlays for fiscal year 2003 as $596 billion on its audited SBR, while the records that Treasury uses to prepare the Statement of Changes in Cash Balance showed $505 billion for fiscal year 2003 for this agency. Until these differences between the total net outlays reported in the federal agencies' SBRs and the records used to prepare the Statement of Changes in Cash Balance are reconciled, the effect that these differences may have on the U.S. government's consolidated financial statements will be unknown. OMB has stated that it plans to work with the agencies to address this issue.

Preparation of Consolidated Financial Statements

The federal government did not have adequate systems, controls, and procedures to ensure that the consolidated financial statements are consistent with the underlying audited agency financial statements, balanced, and in conformity with GAAP. During our fiscal year 2003 audit, we found the following:[15]

- The process for compiling the consolidated financial statements does not directly link information from federal agencies' audited financial statements to amounts reported in the consolidated financial statements, and therefore does not ensure that the information in the consolidated financial statements is consistent with the underlying information in federal agencies' audited financial statements and other financial data.

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[12]In some agencies' fiscal year 2003 financial statements, the comparable fiscal year 2002 amounts were restated.

[13]Offsetting receipts are collections that are credited to general fund, special fund, or trust fund receipt accounts and that offset gross outlays at the agency or governmentwide level.

[14]These two agencies did not adequately explain their fiscal year 2002 differences between the net outlays reported on the SBR and the budget of the U.S. government in their notes to the fiscal year 2003 financial statements.

[15]The same issues we identified in fiscal year 2003 existed in fiscal year 2002, and some have existed for a number of years. In October 2003, we reported in greater detail on the issues we identified, in U.S. General Accounting Office, *Financial Audit: Process for Preparing the Consolidated Financial Statements of the U.S. Government Needs Improvement*, GAO-04-45 (Washington, D.C.: Oct. 30, 2003). This report included 44 recommendations to address weaknesses we identified. It also included recommendations related to 16 disclosure areas that are required by GAAP. We recommended that the 16 disclosures that are not included in the consolidated financial statements either be included or that the rationale for their exclusion be documented.

- Internal control weaknesses exist in Treasury's process for preparing the consolidated financial statements, such as a lack of (1) segregation of duties and (2) appropriate documentation of certain policies and procedures for preparing the consolidated financial statements.

- The net position reported in the consolidated financial statements is derived by subtracting liabilities from assets, rather than through balanced accounting entries. To make the fiscal years 2003 and 2002 consolidated financial statements balance, Treasury recorded a net $24.5 billion and a net $17.1 billion decrease, respectively, to net operating cost on the Statements of Operations and Changes in Net Position, which it labeled "Unreconciled Transactions Affecting the Change in Net Position."[16] An additional net $11.3 billion and $12.5 billion of unreconciled transactions were recorded in the Statements of Net Cost for fiscal years 2003 and 2002, respectively. Treasury does not identify and quantify all components of these unreconciled activities, nor does Treasury perform reconciliation procedures, which would aid in understanding and controlling the net position balance as well as eliminating the unreconciled transactions associated with compiling the consolidated financial statements.

- Significant differences in other intragovernmental accounts, primarily related to appropriations, still remain unresolved. Intragovernmental activity and balances are "dropped" or "offset" in the preparation of the consolidated financial statements rather than eliminated through balanced accounting entries. This contributes to the federal government's inability to determine the impact of these differences on amounts reported in the consolidated financial statements.

- The federal government did not have an adequate process to identify and report items needed to reconcile the operating results, which for fiscal year 2003 showed a net operating cost of $665 billion, to the budget results, which for the same period showed a unified budget deficit of $374.8 billion.

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

- Treasury lacks an adequate process to ensure that the financial statements, related notes, Stewardship Information, and Supplemental Information are presented in

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[16]Although Treasury was unable to determine how much of the unreconciled transactions, if any, relate to operations, it reported unreconciled transactions as a component of net operating cost in the accompanying consolidated financial statements.

conformity with GAAP. We found that certain financial information required by GAAP was not disclosed in the consolidated financial statements. Treasury did not provide us with documentation of its rationale for excluding this information. As a result of this and certain material deficiencies noted above, we were unable to determine if the missing information was material to the consolidated financial statements.

Beginning with fiscal year 2004, Treasury is planning on using a new system and procedures that will collect agency financial statement information directly from federal agencies' audited financial statements rather than using federal agencies' Standard General Ledger data. Treasury has stated that these actions are intended to, among other things, directly link information from federal agencies' audited financial statements to amounts reported in the consolidated financial statements and resolve many of the weaknesses we identified in the process for preparing the consolidated financial statements.

OPINION ON INTERNAL CONTROL

In addition to the material weaknesses noted above, we found four other material weaknesses in internal control as of September 30, 2003, which are described below. Because of the effects of the material weaknesses discussed in this report, in our opinion, the federal government did not maintain effective internal control to meet the following objectives: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and stewardship information in conformity with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and stewardship information. Individual federal agency financial statement audit reports identify additional reportable conditions[17] in internal control, some of which were reported by agency auditors as being material weaknesses at the individual agency level. These matters do not represent material weaknesses at the governmentwide level. Also, due to the issues noted throughout this report, additional material weaknesses may exist that have not been reported.

Loans Receivable and Loan Guarantee Liabilities

In general, federal agencies continue to make progress in reducing the number of material weaknesses and reportable conditions related to their lending activities. However, significant deficiencies in the processes and procedures used to estimate the costs of certain lending programs and value the related loans receivable still remain. The most

[17]Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the federal government's ability to meet the internal control objectives described in this report.

notable deficiencies existed at the Small Business Administration (SBA), which, while improved from last year, continues to have a material weakness related to this area. For example, SBA did not adequately document its estimation methodologies, lacked the management controls necessary to ensure that appropriate estimates were prepared and reported based on complete and accurate data, and could not fully support the reasonableness of the costs of its lending programs and valuations of its loan portfolio. SBA's material weakness plus deficiencies at other federal credit agencies relating to the processes and procedures for estimating credit program costs continue to adversely affect the government's ability to support annual budget requests for these programs, make future budgetary decisions, manage program costs, and measure the performance of lending activities.

Improper Payments

Across the federal government, improper payments occur in a variety of programs and activities, including those related to health care, contract management, federal financial assistance, and tax refunds.[18] While complete information on the magnitude of improper payments is not yet available, based on available data, OMB has estimated that improper payments exceed $35 billion annually. Many improper payments occur in federal programs that are administered by entities other than the federal government, such as states. Improper payments often result from a lack of or an inadequate system of internal controls. Although the President's Management Agenda includes an initiative to reduce improper payments, most federal agencies have not reported the magnitude of improper payments in their programs and activities.

The Improper Payments Information Act of 2002 provides for federal agencies to estimate and report on their improper payments.[19] It requires federal agencies to (1) annually review programs and activities that they administer to identify those that may be susceptible to significant improper payments, (2) estimate improper payments in susceptible programs and activities, and (3) provide reports to the Congress that discuss the causes of improper payments identified and the status of actions to reduce them. In accordance with the legislation, OMB issued guidance for federal agencies' use in implementing the act. Among other things, the guidance requires federal agencies to report on their improper payment-related activities in the Management Discussion and Analysis section of their annual Performance and Accountability Reports (PAR). While the act does not require such reporting by all federal agencies until fiscal year 2004, OMB required 44 programs and 14 CFO Act agencies to report improper payment information in their fiscal year 2003 PARs. Our preliminary review of the PARs found

[18] Improper payments include inadvertent errors, such as duplicate payments and miscalculations, payments for unsupported or inadequately supported claims, payments for services not rendered, payments to ineligible beneficiaries, and payments resulting from fraud and abuse by program participants and/or federal employees.

[19] Pub. L. No. 107-300, 116 Stat. 2350. The act's reporting requirement applies only to an agency program or activity with estimated improper payments exceeding $10 million.

that 12 of the 14 agencies reported improper payment amounts for 27 of the 44 programs identified in the guidance. We also found that, for the programs where improper payments were identified, the reports often contained information on the causes of the payments but little information that addressed the other reporting requirements cited in the legislation.

Information Security

Although progress has been made, serious and widespread information security weaknesses continue to place federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. GAO has reported information security as a high-risk area across government since February 1997. Such information security weaknesses could result in compromising the reliability and availability of data that are recorded in or transmitted by federal financial management systems. A primary reason for these weaknesses is that federal agencies have not yet fully institutionalized comprehensive security management programs, which are critical to identifying information security weaknesses, resolving information security problems, and managing information security risks on an ongoing basis. The Congress has shown continuing interest in addressing these risks, as evidenced by recent hearings on information security and enactment of the Federal Information Security Management Act of 2002[20] and the Cyber Security Research and Development Act.[21] In addition, the administration has taken important actions to improve information security, such as integrating information security into the Executive Branch Management Scorecard.[22]

Tax Collection Activities

Material internal control weaknesses and systems deficiencies continue to affect the federal government's ability to effectively manage its tax collection activities.[23] Due to errors and delays in recording activity in taxpayer accounts, taxpayers were not always credited for payments made on their taxes owed, which could result in undue taxpayer burden. In addition, the federal government did not always follow up on potential unreported or underreported taxes and did not always pursue collection efforts against taxpayers owing taxes to the federal government.

[20]Title III of the E-Government Act of 2002, Pub. L. No. 107-347, 116 Stat. 2899.
[21]Pub. L. No. 107-305, 116 Stat. 2367 (2002).
[22]The Executive Branch Management Scorecard highlights agencies' progress in achieving management and performance improvements embodied in the President's Management Agenda.
[23]U.S. General Accounting Office, *Financial Audit: IRS's Fiscal Years 2003 and 2002 Financial Statements,* GAO-04-126 (Washington, D.C.: Nov. 13, 2003).

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

Our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting was limited by the material weaknesses discussed above. U.S. generally accepted government auditing standards and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements,* require auditors to report on the agency's compliance with laws and regulations. Individual agency audit reports contain instances of noncompliance. None of these instances were material to the accompanying consolidated financial statements.

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

AGENCY FINANCIAL MANAGEMENT SYSTEMS

To achieve the financial management improvements envisioned by the CFO Act, FFMIA, and, more recently, the President's Management Agenda, federal agencies need to modernize their financial management systems to generate reliable, useful, and timely financial and performance information throughout the year and at year-end. As discussed throughout this report, serious financial management systems weaknesses have contributed significantly to our inability to determine the reliability of the consolidated financial statements. FFMIA requires auditors, as part of CFO Act agencies' financial statement audits, to report whether agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards (GAAP), and (3) the federal government's Standard General Ledger at the transaction level. For fiscal year 2003, auditors for 17 of the 23 CFO Act agencies[24] reported that the agencies' financial management systems did not comply substantially with one or more of these three FFMIA requirements. A 24th agency, DHS, is not subject to the requirements of the CFO Act and, consequently, is not required to comply with FFMIA. Accordingly, DHS's auditor did not report on DHS's compliance with FFMIA. However, the auditors identified and reported deficiencies that related to the three requirements of FFMIA noted above. Meeting the requirements of FFMIA has presented long-standing, significant challenges. These challenges will be resolved only through time, investment, and sustained emphasis on correcting deficiencies in federal financial management systems.

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[24]For the remaining 6 CFO Act agencies, auditors provided negative assurance, meaning that nothing came to their attention indicating that the agencies' financial management systems did not substantially meet FFMIA requirements. The auditors for these 6 agencies did not definitively state whether the agencies' systems substantially complied with FFMIA requirements, as is required under the statute.

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

David M. Walker
Comptroller General
of the United States

February 20, 2004

APPENDIX I

SCOPE AND METHODOLOGY

The Government Management Reform Act of 1994 expanded the requirements of the Chief Financial Officers (CFO) Act by making the inspectors general of 24 major federal agencies[25] responsible for annual audits of agencywide financial statements prepared by these agencies and GAO responsible for the audit of the U.S. government's consolidated financial statements.[26] Our work was performed in coordination and cooperation with the inspectors general to achieve our joint audit objectives. This work included separate GAO audits of certain significant federal agency components, as discussed below. Our audit approach focused primarily on determining the current status of the material deficiencies and the other material weaknesses affecting internal control that we had previously reported in our report on the consolidated financial statements for fiscal year 2002.[27] We performed sufficient audit work to provide this report on the consolidated financial statements, internal control, and the results of our assessment of compliance with applicable laws and regulations.

We separately audited the following significant federal agency components:

- We audited and expressed an unqualified opinion on the Internal Revenue Service's (IRS) fiscal years 2003 and 2002 financial statements, which included approximately $2 trillion of tax revenue for both fiscal years; $300 billion and $281 billion of tax refunds for fiscal years 2003 and 2002, respectively; and $20 billion of net federal taxes receivable each year.[28] In fiscal year 2003, we continued to report numerous material internal control weaknesses, which resulted in ineffective internal controls. Our tests of compliance with selected provisions of laws and regulations disclosed two areas of noncompliance. We also found that IRS's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996.

- We audited and expressed an unqualified opinion on the Schedules of Federal Debt managed by the Department of the Treasury's (Treasury) Bureau of the Public Debt (BPD) for the fiscal years ended September 30, 2003 and 2002.[29] The schedules reported for these 2 fiscal years (1) approximately $3.9 trillion (2003) and $3.6 trillion (2002) of federal debt held by the public, comprising individuals,

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[25] 31 U.S.C. 901(b), 3521(e), but see footnote 4.

[26] The 1994 act authorized the Office of Management and Budget to designate agency components that also would receive a financial statement audit. 31 U.S.C. 3515(c).

[27] For our report on the U.S. government's consolidated financial statements for fiscal year 2002, see U.S. Department of the Treasury, *Financial Report of the United States Government* (Washington, D.C.: March 2003), pp. 37-45, which can be found on GAO's Internet site at www.gao.gov.

[28] GAO-04-126.

[29] U.S. General Accounting Office, *Financial Audit: Bureau of the Public Debt's Fiscal Years 2003 and 2002 Schedules of Federal Debt,* GAO-04-177 (Washington, D.C.: Nov. 7, 2003).

corporations, state and local governments, the Federal Reserve Banks, and foreign governments and central banks; (2) about $2.9 trillion (2003) and $2.7 trillion (2002) of intragovernmental debt holdings, which represent federal debt issued by Treasury and held by certain federal government accounts such as the Social Security and Medicare trust funds; and (3) nearly $157 billion (2003) and $172 billion (2002) of interest on federal debt held by the public.[30] We reported that as of September 30, 2003, BPD had effective internal control over financial reporting and compliance with applicable laws and regulations relevant to the Schedule of Federal Debt. Further, we reported that there was no reportable noncompliance in fiscal year 2003 with laws we tested.

- We audited and expressed unqualified opinions on the December 31, 2003 and 2002, financial statements of the funds administered by the Federal Deposit Insurance Corporation (FDIC), including the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund.[31] We reported that as of December 31, 2003, FDIC had effective internal control over financial reporting and compliance with laws and regulations. In addition, we performed audit procedures and tests of internal control over certain material balances of the funds administered by FDIC as of September 30, 2003.

We considered the CFO Act agencies' and certain other federal agencies' fiscal years 2003 and 2002 financial statements and the related auditors' reports prepared by the inspectors general or their contractors. Financial statements and audit reports for these agencies provide information about the operations of each of these entities. We did not audit, and we do not express an opinion on, any of these individual federal agency financial statements. We also considered the Department of Defense (DOD) assertion provided to the DOD inspector general that DOD management prepared and submitted pursuant to the provisions of the National Defense Authorization Act for Fiscal Year 2002. We performed our work in accordance with U.S. generally accepted government auditing standards.

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[30] On May 27, 2003, legislation was enacted to raise the statutory debt limit by $984 billion to $7.384 trillion. Pub. L. No. 108-24, 117 Stat. 710 (2003). In early February 2004, Treasury's acting Under Secretary for Domestic Finance noted that the government will reach its legally authorized debt ceiling between June and October 2004.

[31] U.S. General Accounting Office, *Financial Audit: Federal Deposit Insurance Corporation Funds' 2003 and 2002 Financial Statements,* GAO-04-429 (Washington, D.C.: Feb. 13, 2004).

APPENDIX II

PRIMARY EFFECTS OF THE MATERIAL WEAKNESSES DESCRIBED IN THIS REPORT

Areas Involving Material Weaknesses	Primary Effects on the Fiscal Years 2003 and 2002 Consolidated Financial Statements and the Management of Government Operations
Property, plant, and equipment and inventories and related property	Without accurate asset information, the federal government does not fully know the assets it owns and their location and condition and cannot effectively (1) safeguard assets from physical deterioration, theft, or loss, (2) account for acquisitions and disposals of such assets, (3) ensure 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	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, improperly stated environmental and disposal liabilities and weak internal control supporting the process for their estimation affect the federal government’s ability to determine priorities for cleanup and disposal activities and to allow for appropriate consideration of future budgetary resources needed to carry out these activities. In addition, when disclosures of commitments and contingencies are incomplete or incorrect, reliable information is not available about the extent of the federal government’s obligations.
Cost of government operations and disbursement activity	Inaccurate 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. Improperly recorded disbursements could result in misstatements in the financial statements and in certain data provided by federal agencies for inclusion in the President's budget concerning obligations and outlays.
Accounting for and reconciliation of intragovernmental activity and balances	Problems in accounting for and reconciling intragovernmental activity and balances impair the government’s ability to account for billions of dollars of transactions between governmental entities.
Net outlays	Until the differences between the total net outlays reported in federal agencies’ Statements of Budgetary Resources and the records used by the Department of the Treasury to prepare the Statement of Changes in Cash Balance are reconciled, the effect that these differences may have on the U.S. government’s consolidated financial statements will be unknown.
Preparation of consolidated financial statements	Because the federal government did not have adequate systems, controls, and procedures to prepare its consolidated financial statements, the federal government's ability to ensure that the consolidated financial statements are consistent with the underlying audited agency financial statements, balanced, and in conformity with U.S. generally accepted accounting principles was impaired.
Improper payments	Without a systematic measurement of the extent of improper payments, federal agency management cannot determine (1) if improper payment problems exist that require corrective action, (2) mitigation strategies and the appropriate amount of investments to reduce them, and (3) the success of efforts implemented to reduce improper payments.
Loans receivable and loan guarantee liabilities	Weaknesses in the processes and procedures for estimating credit program costs affect the government’s ability to support annual budget requests for these programs, make future budgetary decisions, manage program costs, and measure the performance of lending activities.
Information security weaknesses	Information security weaknesses over computerized operations are placing enormous amounts of 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.
Tax collection activities	Weaknesses in controls over tax collection activities continue to affect the federal government’s ability to efficiently and effectively account for and collect revenue. Additionally, weaknesses in financial reporting affect the federal government’s ability to make informed decisions about collection efforts. As a result, the federal government is vulnerable to loss of tax revenue and exposed to potentially billions of dollars in losses due to inappropriate refund disbursements.

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