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Ms. Caitrin Shuy
Principal Deputy Assistant Secretary for Financial Resources
U.S. Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20201

U.S. Consolidated Financial Statements: Key Issues for the Department of Health and Human Services

Dear Ms. Shuy:

As the Department of Health and Human Services' (HHS) Principal Deputy Assistant Secretary for Financial Resources with the responsibility to perform the duties of HHS's Chief Financial Officer, you have an important role in helping to ensure that reliable and complete federal financial information is available. The purpose of this letter is to highlight important issues for your awareness related to financial management in the federal government.

GAO is responsible for conducting the annual audit of the U.S. government's consolidated financial statements, or CFS.¹ On January 16, 2025, we issued a disclaimer of opinion on these statements for fiscal years 2024 and 2023.² The consolidated financial statements are compiled from federal entity financial statements and other federal entity information. As such, federal entities, including HHS, have a key role in supporting financial reporting at the government-wide level.

While HHS's auditor issued an unmodified audit opinion on HHS's fiscal years 2024 and 2023 accrual-based financial statements,³ the auditor identified significant deficiencies in internal control over financial reporting and made recommendations to help address them. HHS's strong and sustained commitment is critical to addressing these recommendations and the following key issues that affect the U.S. government's consolidated financial statements.

Intragovernmental activity and balances: In our fiscal year 2024 audit of the consolidated financial statements, we continued to report that the federal government was unable to adequately account for intragovernmental activity and balances between federal entities. This is

¹The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required to annually submit audited financial statements for the executive branch of the U.S. government to the President and Congress. These statements, as submitted, also include the legislative and judicial branches.

²GAO, *Financial Audit: FY 2024 and FY 2023 Consolidated Financial Statements of the U.S. Government*, [GAO-25-107421](#) (Washington, D.C.: Jan. 16, 2025).

³HHS's auditor disclaimed an opinion on HHS's 2024, 2023, 2022, 2021, and 2020 Statements of Social Insurance (SOSI) and 2024 and 2023 Statements of Changes in Social Insurance Amounts (SCSIA). This disclaimer contributed to us being unable to express an opinion on the government-wide sustainability financial statements, which include the Statements of Long-Term Fiscal Projections, SOSI, and SCSIA.

one of three major impediments preventing us from rendering an opinion on the consolidated financial statements.

Under federal accounting standards, intragovernmental activity and balances between federal entities must be eliminated for the preparation of the consolidated financial statements. While the Department of the Treasury has issued guidance and worked with federal entities to reduce differences in intragovernmental activity and balances in recent years, differences remain. These include differences between HHS and its trading partners.

It is important that HHS provides reliable intragovernmental activity and balances data to Treasury, which properly eliminates in consolidation. To accomplish this, HHS will need to continue to focus on effective controls that accurately identify, record, and report intragovernmental transactions and balances, including reconciling and resolving differences with its trading partners. Resolving differences with trading partners involves (1) identifying differences related to transactions in HHS's and its trading partners' accounting records; (2) reconciling those differences; and (3) adjusting accounting records, either HHS's or its trading partners' as appropriate, to eliminate the differences.

Unresolved differences in federal entity intragovernmental activity and balances at the transaction level could result in material misstatements in the consolidated financial statements.

Reconciliation statements: In our fiscal year 2024 audit of the consolidated financial statements, we continued to report on Treasury's ineffective preparation of the two Reconciliation Statements: (1) Reconciliation of Net Operating Cost and Budget Deficit and (2) Statement of Changes in Cash Balance from Budget and Other Activities.

We found that (1) amounts in the statements were not fully consistent with underlying information in significant federal entities' audited financial statements and other financial data and (2) all reconciling items were not identified and reported in the statements.⁴ In addition, our separate audit of the General Fund of the U.S. Government found that the effect of journal entries on all applicable General Fund line items, including the budget deficit, which is a key line item on the Reconciliation Statements, was not able to be determined.⁵

Treasury is developing corrective actions to address the deficiencies related to the Reconciliation Statements. These include using the budget and accrual reconciliation disclosure included in federal entities' audited financial statements, including HHS's financial statements,

⁴For fiscal year 2024, federal entities significant to the U.S. government's consolidated financial statements were the 24 Chief Financial Officers Act agencies and Export-Import Bank of the United States, Farm Credit System Insurance Corporation, Federal Communications Commission, Federal Deposit Insurance Corporation, Millennium Challenge Corporation, National Credit Union Administration, National Railroad Retirement Investment Trust, Pension Benefit Guaranty Corporation, Railroad Retirement Board, Securities and Exchange Commission, Smithsonian Institution, Tennessee Valley Authority, U.S. International Development Finance Corporation, U.S. Postal Service, General Fund of the U.S. Government, and Security Assistance Accounts.

⁵The General Fund is a significant component of the U.S. government's consolidated financial statements. 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). See GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2024 Schedules of the General Fund*, [GAO-25-106679](#) (Washington, D.C.: Mar. 13, 2025).

to prepare the Reconciliation Statements.⁶ HHS accurately preparing its budget and accrual reconciliation information is important to Treasury's efforts in this area.

In addition, Treasury determined that it needs to enhance the ability for federal entities, such as HHS, to record reclassifications of Treasury Account Symbol and Business Event Type Code information for Fund Balance with Treasury activity previously recorded in the Central Accounting Reporting System (CARS) at a more detailed level. While Treasury is in the process of enhancing the reclassification process in CARS, it has implemented the Transfers and Non-Cash module within CARS for federal entities to report this activity, including Treasury Account Symbols and Business Event Type Codes, at a sufficiently detailed level. Currently, federal entities report this activity at a summarized level. HHS (1) fully implementing the Transfers and Non-Cash module for its transfer and noncash activity and (2) using the enhanced reclassification process once it is implemented in CARS are important to Treasury's efforts in this area.

Treaties and other international agreements: In our fiscal year 2024 audit of the consolidated financial statements, we continued to report that Treasury was unable to reasonably assure that contingencies related to treaties and other international agreements were reported in accordance with U.S. generally accepted accounting principles.

We found that (1) contingencies for treaties and other international agreements were not sufficiently identified at the time of entry into force and (2) treaties and other international agreements with contingencies were not monitored for events that may give rise to the recognition or disclosure of a contingency. In addition, we found that there was not a process for determining in which federal entity's financial statements to report any identified contingencies.

Treasury, in coordination with the Department of State, is developing new processes for federal entities, including HHS, to implement to address these deficiencies. HHS effectively implementing the new processes to identify, monitor, and report any contingencies related to treaties and other international agreements is important to accurately reporting contingencies at the government-wide level.

Copies of this letter are being sent to the appropriate congressional committees. The letter will also be available on the GAO website at <https://www.gao.gov>. In addition, we sent a separate letter to the Secretary of Health and Human Services related to agencywide priority recommendations and will be sending a letter to HHS's Chief Information Officer focused on key recommendations related to managing information technology.⁷

If you have any questions or would like to discuss matters outlined in this letter, please contact me at simpsondb@gao.gov. Contact points for our Offices of Congressional Relations and

⁶Statement of Federal Financial Accounting Standards (SFFAS) 53, *Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22*, requires a reconciliation that explains the relationship between an entity's net outlays on a budgetary basis and its net cost of operations during the period.

⁷Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue. Since 2015, GAO has sent letters to selected agencies to highlight the importance of implementing such recommendations. See GAO, *Priority Open Recommendations: Department of Health and Human Services*, [GAO-25-108032](https://www.gao.gov/products/GAO-25-108032) (Washington, D.C.: May 7, 2025).

Public Affairs may be found on the last page of this letter. I appreciate HHS's continued commitment and thank you for your personal attention to these important matters.

Sincerely,

//SIGNED//

Dawn B. Simpson
Director
Financial Management and Assurance

cc: Deidre A. Harrison, Deputy Controller Performing the Delegated Duties of the
Controller, Office of Management and Budget

Gary Grippo, Acting Fiscal Assistant Secretary, Department of the Treasury