



# Highlights

Highlights of GAO-11-363T, a testimony before the Subcommittee on Government Organization, Efficiency and Financial Management, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

GAO annually audits the consolidated financial statements of the U.S. government. Congress and the President need reliable, useful, and timely financial and performance information to make sound decisions and conduct effective oversight of federal government programs and policies.

Over the years, certain material weaknesses in internal control over financial reporting have prevented GAO from expressing an opinion on the accrual-based consolidated financial statements. Unless these weaknesses are adequately addressed, they will, among other things, continue to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (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.

This testimony presents the results of GAO's audit for fiscal year 2010 and discusses certain of the federal government's significant long-term fiscal challenges.

## What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management. The federal government has generally taken or plans to take actions to address our recommendations.

View GAO-11-363T or key components. For more information, contact Jeanette M. Franzel or Gary T. Engel at (202) 512-2600.

# FISCAL YEAR 2010 U.S. GOVERNMENT FINANCIAL STATEMENTS

## Federal Government Continues to Face Financial Management and Long-Term Fiscal Challenges

### What GAO Found

Three major impediments continued to prevent GAO from rendering an opinion on the federal government's accrual-based consolidated financial statements: (1) serious financial management problems at the Department of Defense, (2) federal entities' inability to adequately account for and reconcile intragovernmental activity and balances, and (3) the federal government's ineffective process for preparing the consolidated financial statements. In addition to the material weaknesses underlying these major impediments, GAO noted material weaknesses involving billions of dollars in improper payments, information security, and tax collection activities. With regard to the Statement of Social Insurance (SOSI), GAO was unable to, and did not, express an opinion on the 2010 SOSI because of significant uncertainties discussed by management in the consolidated financial statements, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2010 SOSI. GAO was, however, able to render unqualified opinions on the 2009, 2008, and 2007 SOSIs.

Since the enactment of key financial management reforms in the 1990s, the federal government has made significant progress in improving financial management activities and practices. For fiscal year 2010, 20 of 24 Chief Financial Officers (CFO) Act agencies were able to attain unqualified audit opinions on their accrual-based financial statements within an accelerated reporting timeframe, up from 6 CFO Act agencies for fiscal year 1996. Also, accounting and financial reporting standards have continued to evolve to provide greater transparency and accountability over the federal government's operations, financial condition, and fiscal outlook. Further, the preparation and audit of financial statements has identified numerous deficiencies, leading to actions to strengthen controls and systems.

Much work remains, however, to improve federal financial management. For example, it is essential that the Department of Defense, the Department of the Treasury, and the Office of Management and Budget, along with other federal entities, address the major impediments discussed above. Also, it is important for the individual federal departments and agencies to remain committed to maintain the progress that has been achieved in obtaining positive audit results and to build upon that progress to make needed improvements.

The *2010 Financial Report of the United States Government (Financial Report)* introduces the first sustainability statement required under a new financial reporting standard, which presents comprehensive long-term fiscal projections for the U.S. government. Such reporting provides a much needed perspective on the federal government's long-term fiscal position and outlook. The *Financial Report*, like the latest Congressional Budget Office long-term budget outlook and GAO simulations, shows that the federal government is on an unsustainable long-term fiscal path.



Highlights of GAO-10-483T, a testimony before the subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

GAO annually audits the consolidated financial statements of the U.S. government (CFS). Congress and the President need reliable, useful, and timely financial and performance information to make sound decisions and conduct effective oversight of federal government programs and policies.

\* The federal government began preparing the CFS 13 years ago. Over the years, certain material weaknesses in internal control over financial reporting have prevented GAO from expressing an opinion on the accrual-based consolidated financial statements. Unless these weaknesses are adequately addressed, they will, among other things, continue to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (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.

This testimony presents the results of GAO's audit of the CFS for fiscal year 2009 and discusses certain of the federal government's significant near- and long-term fiscal challenges.

## What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management. The federal government has generally taken or plans to take actions to address our recommendations.

View GAO-10-483T or key components. For more information, contact Jeanette M. Franzel or Gary T. Engel at (202) 512-2600 or Susan J. Irving at (202) 512-6806.

# U.S. GOVERNMENT FINANCIAL STATEMENTS

## Fiscal Year 2009 Audit Highlights Financial Management Challenges and Unsustainable Long-Term Fiscal Path

### What GAO Found

For the third consecutive year, GAO rendered an unqualified opinion on the Statement of Social Insurance (SOSI). Given the importance of social insurance programs like Medicare and Social Security to the federal government's long-term fiscal outlook, the SOSI is critical to understanding the federal government's financial condition and fiscal sustainability. Three major impediments continued to prevent GAO from rendering an opinion on the federal government's consolidated financial statements other than the SOSI: (1) serious financial management problems at the Department of Defense, (2) federal entities' inability to adequately account for and reconcile intragovernmental activity and balances, and (3) an ineffective process for preparing the consolidated financial statements. In addition to the material weaknesses underlying these major impediments, GAO noted material weaknesses involving improper payments estimated to be at least \$98 billion for fiscal year 2009, information security, and tax collection activities.

The recession and the federal government's unprecedented actions intended to stabilize the financial markets and to promote economic recovery have significantly affected the federal government's financial condition. The resulting substantial investments and increases in liabilities, net operating cost, the unified budget deficit, and debt held by the public are reported in the U.S. government's consolidated financial statements for fiscal year 2009. The ultimate cost of these actions and their impact on the federal government's financial condition will not be known for some time in part because the valuation of these assets and liabilities is based on assumptions and estimates that are inherently uncertain. Looking ahead, the federal government will need to determine the most expeditious manner in which to bring closure to its financial stabilization initiatives while optimizing its investment returns. In addition, problems in the nation's financial sector have exposed serious weaknesses in the current U.S. financial regulatory system. If those weaknesses are not adequately addressed, we could see similar or even worse crises in the future. Consequently, meaningful financial regulatory reform is of utmost concern.

The federal government faces a long-term fiscal challenge resulting from large and growing structural deficits that are driven on the spending side primarily by rising health care costs and known demographic trends. GAO prepares long-term fiscal simulations that include projections of revenue and expenditures for all federal programs. As a result, these simulations present a comprehensive analysis of the sustainability of the federal government's long-term fiscal outlook. Many of the pressures highlighted in GAO's simulations, including health care cost growth and the aging population, have already begun to affect the federal budget—in some cases sooner than previously estimated—and the pressures only grow in the coming decade. For example, Social Security cash surpluses have previously served to reduce the unified budget deficit; however, the Congressional Budget Office recently estimated



Highlights of GAO-09-805T, a testimony before the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

GAO annually audits the consolidated financial statements of the U.S. government (CFS). The Congress and the President need reliable, useful, and timely financial and performance information to make sound decisions and conduct effective oversight of federal government programs and policies.

Except for the 2008 and 2007 Statements of Social Insurance, GAO has been unable to provide assurance on the reliability of the CFS due primarily to inadequate systems and lack of sufficient, reliable evidence to support certain material information in the CFS. Unless these weaknesses are adequately addressed, they will, among other things, (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (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.

This testimony presents the results of GAO's audit of the CFS for fiscal year 2008 and discusses federal financial management challenges and the long-term fiscal outlook.

## What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management. The federal government has generally taken or plans to take actions to address our recommendations.

View GAO-09-805T or key components. For more information, contact Jeanette M. Franzel or Gary T. Engel at (202) 512-2600 or Susan J. Irving at (202) 512-6806.

# FISCAL YEAR 2008 U.S. GOVERNMENT FINANCIAL STATEMENTS

## Federal Government Faces New and Continuing Financial Management and Fiscal Challenges

### What GAO Found

For the second consecutive year, GAO rendered an unqualified opinion on the Statement of Social Insurance; however, three major impediments continued to prevent GAO from rendering an opinion on the federal government's accrual basis consolidated financial statements: (1) serious financial management problems at the Department of Defense, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the federal government's ineffective process for preparing the consolidated financial statements. In addition, as of September 30, 2008, the federal government did not maintain effective internal controls over financial reporting and compliance with significant laws and regulations due to numerous material weaknesses. Moreover, financial management system problems continue to hinder federal agency accountability.

The federal government still has a long way to go, but over the years, progress has been made in improving federal financial management. For example, audit results for many federal agencies have improved; federal financial system requirements have been developed; and accounting and reporting standards have continued to evolve to provide greater transparency and accountability over the federal government's operations, financial condition, and fiscal outlook. In addition, the federal government issued a summary financial report which is intended to make the information in the *Financial Report of the U.S. Government* more understandable and accessible to a broader audience.

The federal government's response to the financial markets crisis and economic downturn has created new federal accountability, financial reporting, and debt management challenges. Such challenges will require utmost attention to ensure (1) that sufficient internal controls and transparency are established and maintained for all market stabilization and economic recovery initiatives; (2) that all related financial transactions are reported on time, accurately, and completely; and (3) these initiatives are effectively and efficiently financed. Moreover, while policymakers are currently understandably focused on efforts directed toward market stabilization and economic growth, once stability in financial markets and the economic downturn are addressed, attention will have to be turned with the same level of intensity to the serious longer-term challenges of addressing the federal government's large and growing structural deficits and debt.

Finally, the federal government should consider the need for further revisions to the current federal financial reporting model to recognize its unique needs. A broad reconsideration of issues, such as the kind of information that may be relevant and useful for a sovereign nation, could lead to reporting enhancements that might help provide the Congress and the President with more useful financial information to deliberate and monitor strategies to address the nation's long-term fiscal challenges.



Highlights of GAO-08-847T, a testimony before the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

The Congress and the President need to have reliable, useful and timely financial and performance information to make sound decisions on the current and future direction of vital federal government programs and policies.

Unfortunately, except for the 2007 Statement of Social Insurance, GAO was again unable to provide assurance on the reliability of the consolidated financial statements of the U.S. government (CFS) due primarily to certain material weaknesses in the federal government's internal control.

GAO has reported that unless these weaknesses are adequately addressed, they will, among other things, (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (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.

This testimony presents the results of GAO's audit of the CFS for fiscal year 2007 and discusses the federal government's long-term fiscal outlook.

## What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management, including ones regarding issues addressed in this testimony.

# FISCAL YEAR 2007 U.S. GOVERNMENT FINANCIAL STATEMENTS

## Sustained Improvement in Financial Management Is Crucial to Improving Accountability and Addressing the Long-Term Fiscal Challenge

### What GAO Found

For the 11<sup>th</sup> consecutive year, three major impediments prevented GAO from rendering an opinion on the federal government's accrual basis consolidated financial statements: (1) serious financial management problems at the Department of Defense, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the federal government's ineffective process for preparing the consolidated financial statements. In addition, financial management system problems continue to hinder federal agency accountability. Although the federal government still has a long way to go, significant progress has been made in improving federal financial management. For example, audit results for many federal agencies have improved and federal financial system requirements have been developed. In addition, GAO was able to render an unqualified opinion on the 2007 Statement of Social Insurance. Further, for the first time, the federal government issued a summary financial report which is intended to make the information in the *Financial Report of the U.S. Government (Financial Report)* more understandable and accessible to a broader audience.

It is important that this progress be sustained by the current administration as well as the new administration that will be taking office next year and that the Congress continues its oversight to bring about needed improvements to federal financial management. Given the federal government's current financial condition and the nation's long-term fiscal challenge, the need for the Congress and federal policymakers and management to have reliable, useful, and timely financial and performance information is greater than ever. Information included in the *Financial Report*, such as the Statement of Social Insurance along with long-term fiscal simulations and fiscal sustainability reporting, can help increase understanding of the nation's long-term fiscal outlook.

The nation's long-term fiscal challenge is a matter of utmost concern. The federal government faces large and growing structural deficits due primarily to rising health care costs and known demographic trends. Simply put, the federal government is on an imprudent and unsustainable long-term fiscal path. Addressing this challenge will require a multipronged approach. Moreover, the longer that action is delayed, the greater the risk that the eventual changes will be disruptive and destabilizing.

Finally, the federal government should consider the need for further revisions to the current federal financial reporting model to recognize the unique needs of the federal government. A broad reconsideration of issues, such as the kind of information that may be relevant and useful for a sovereign nation, could lead to reporting enhancements that might help provide the Congress and the President with more useful financial information to deliberate strategies to address the nation's long-term fiscal challenge.

# FISCAL YEAR 2006 U.S. GOVERNMENT FINANCIAL STATEMENTS

## Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Accountability and Fiscal Stewardship Challenges



Highlights of GAO-07-607T, a testimony before the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives

### Why GAO Did This Study

GAO is required by law to annually audit the consolidated financial statements of the U.S. government. The Congress and the President need to have timely, reliable, and useful financial and performance information. Sound decisions on the current results and future direction of vital federal government programs and policies are made more difficult without such information.

Until the problems discussed in GAO's audit report on the U.S. government's consolidated financial statements are adequately addressed, they will continue to hinder the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost as well as the financial and nonfinancial performance of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable financial information to operate in an economical, efficient, and effective manner.

### What GAO Found

For the 10th consecutive year, certain material weaknesses in financial reporting and other limitations on the scope of GAO's work resulted in conditions that continued to prevent GAO from being able to provide Congress and the American people 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. While over the past 10 years significant progress has been made in improving financial management since the U.S. government began preparing consolidated financial statements, three major impediments continue to prevent GAO from rendering an opinion on the consolidated financial statements: (1) serious financial management problems at the Department of Defense, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the federal government's ineffective process for preparing the consolidated financial statements. Further, in GAO's opinion, as of September 30, 2006, the federal government did not maintain effective internal controls over financial reporting and compliance with significant laws and regulations due to numerous material weaknesses.

From a broad federal financial management perspective, the federal government's financial condition and fiscal outlook are worse than many may understand. The U.S. government's total reported liabilities, net social insurance commitments, and other fiscal exposures continue to grow and now total over \$50 trillion, representing approximately four times the nation's total output (GDP) in fiscal year 2006, up from about \$20 trillion, or two times GDP in fiscal year 2000. The federal government faces large and growing structural deficits in the future due primarily to known demographic trends and rising health care costs. These structural deficits which are virtually certain given the design of our current programs and policies will mean escalating and ultimately unsustainable federal deficits and debt levels. Based on various measures and using reasonable assumptions the federal government's current fiscal policy is unsustainable. Continuing on this imprudent and unsustainable path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our domestic tranquility and national security. Tough choices by the President and the Congress are necessary in order to address the nation's large and growing long-term fiscal imbalance.

The federal government should consider the need for further revisions to the current federal financial reporting model to recognize the unique needs of the federal government. While the current reporting model recognizes some of these needs, a broad reconsideration of issues such as the kind of information that may be relevant and useful for a sovereign nation, could stimulate needed discussion and lead to reporting enhancements that might help the Congress deliberate strategies to address the nation's growing long-term fiscal imbalance. Furthermore, additional transparency in connection with federal budget reporting and legislative proposals is needed



Highlights of GAO-06-406T, testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

## FISCAL YEAR 2005 U.S. GOVERNMENT FINANCIAL STATEMENTS

# Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Financial Condition and Long-term Fiscal Imbalance

### Why GAO Did This Study

GAO is required by law to annually audit the consolidated financial statements of the U.S. government. The Congress and the President need to have timely, reliable, and useful financial and performance information. Sound decisions on the current results and future direction of vital federal government programs and policies are made more difficult without such information.

Until the problems discussed in GAO's audit report on the U.S. government's consolidated financial statements are adequately addressed, they will continue to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other information; (2) affect the federal government's ability to reliably measure the full cost as well as the financial and nonfinancial performance of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable financial information to operate in an economical, efficient, and effective manner.

### What GAO Found

For the ninth consecutive year, certain material weaknesses in internal control and in selected accounting and financial reporting practices resulted in conditions that continued to prevent GAO from being able to provide the Congress and American people 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. Three major impediments to an opinion on the consolidated financial statements continued to be (1) serious financial management problems at the Department of Defense, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the federal government's ineffective process for preparing the consolidated financial statements. Further, in our opinion, as of September 30, 2005, the federal government did not maintain effective internal control over financial reporting and compliance with significant laws and regulations due to numerous material weaknesses.

More troubling still is the federal government's overall financial condition and long-term fiscal imbalance. While the fiscal year 2005 budget deficit was lower than 2004, it was still very high, especially given the impending retirement of the "baby boom" generation and rising health care costs. Importantly, as reported in the fiscal year 2005 *Financial Report of the United States Government*, the federal government's accrual-based net operating cost—the cost to operate the federal government—increased to \$760 billion in fiscal year 2005 from \$616 billion in fiscal year 2004. This represents an increase of about \$144 billion or 23 percent. The federal government's gross debt was about \$8 trillion as of September 30, 2005. This number excludes such items as the gap between the present value of future promised and funded Social Security and Medicare benefits, veterans' health care, and a range of other liabilities, commitments, and contingencies that the federal government has pledged to support. Including these items, the federal government's fiscal exposures now total more than \$46 trillion, representing close to four times gross domestic product (GDP) in fiscal year 2005 and up from about \$20 trillion or two times GDP in 2000. Given these and other factors, a fundamental reexamination of major spending programs, tax policies, and government priorities will be important and necessary to put us on a prudent and sustainable fiscal path. This will likely require a national discussion about what Americans want from their government and how much they are willing to pay for those things.

We continue to have concerns about the identification of misstatements in federal agencies' prior year financial statements. Frequent restatements to correct errors can undermine public trust and confidence in both the entity and all responsible parties. The material internal control weaknesses discussed in this testimony serve to increase the risk that additional errors may occur and not be identified on a timely basis by agency management or their auditors, resulting in further restatements.