



FEDERAL FINANCIAL MANAGEMENT

Critical Accountability and Fiscal Stewardship Challenges Facing Our Nation

Highlights of [GAO-07-542T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The foundation laid by the Chief Financial Officers Act of 1990 and other management reform legislation provided a much needed statutory basis to improve the accountability of government programs and operations. Such reforms were intended to produce reliable, timely, and useful financial information to help manage day-to-day operations and exercise oversight and promote fiscal stewardship.

This testimony, based on GAO's prior work, addresses (1) the progress made and challenges remaining to improve federal financial management practices, and (2) the serious challenges posed by the government's deteriorating long-range fiscal condition and my views on a possible way forward.

What GAO Recommends

GAO has made numerous recommendations over the years to federal agencies aimed at addressing financial management weaknesses. Regarding the government's fiscal imbalance, this testimony reiterates a possible way forward based on a multipronged approach of increased financial reporting transparency; reinstated budget controls; strengthened oversight; and reprioritized programs, policies, and activities.

www.gao.gov/cgi-bin/getrpt?GAO-07-542T.

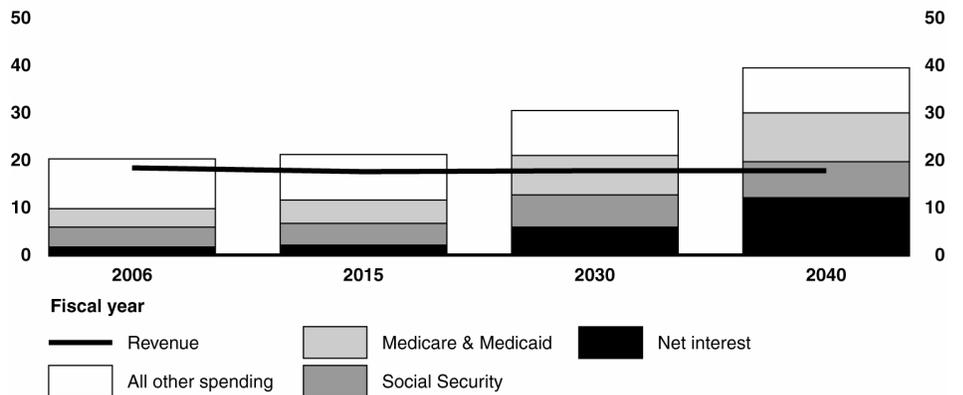
To view the full product, including the scope and methodology, click on the link above. For more information, contact Jeffrey C. Steinhoff or McCoy Williams at (202) 512-2600.

What GAO Found

Since the enactment of key financial management reforms, the federal government has made substantial progress in improving financial management activities and practices. Federal financial systems requirements have been developed, and internal control has been strengthened. Nonetheless, the federal government still has a long way to go to address the six principal challenges to fully realizing strong federal financial management: (1) transforming financial management and business practices at DOD, (2) improving agency financial and performance reporting, (3) modernizing financial management systems, (4) addressing key remaining internal control weaknesses, (5) building a financial management workforce for the future, and (6) strengthening consolidated financial reporting.

From a broad financial management perspective, the federal government's financial condition and fiscal outlook are worse than many understand. We are currently experiencing strong economic growth and yet running large on-budget (operating) deficits that are largely unrelated to the Global War on Terrorism. The federal government faces large and growing structural deficits in future years due primarily to known demographic trends and rising health care costs. As shown in the chart below, if it is assumed that recent tax reductions are made permanent and discretionary spending keeps pace with the growth of our economy, GAO's long-term simulations suggest that by 2040, federal revenues may be adequate to pay little more than interest on debt held by the public and some Social Security benefits. Neither slowing the discretionary spending growth nor allowing certain tax provisions to expire—nor both together—would eliminate the imbalance.

Potential Fiscal Outcomes under Alternative Simulation: Discretionary Spending Grows with GDP after 2007 and All Expiring Tax Provisions Are Extended
Percent of GDP



Source: GAO's January 2007 analysis.

Note: The Alternative Minimum Tax (AMT) exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP is held constant—implicitly assuming that action is taken to offset increased revenue from real bracket creep, the AMT, and tax-deferred retirement accounts.