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 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.

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.