FISCAL YEAR 2010 U.S. GOVERNMENT FINANCIAL STATEMENTS

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

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.

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.