U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Comptroller General
of the United States

Accessible Version

February 25, 2016

The President
The President of the Senate
The Speaker of the House of Representatives

Financial Audit: U.S. Government's Fiscal Years 2015 and 2014 Consolidated Financial Statements

This report transmits the results of GAO's audit of the U.S. government's fiscal years 2015 and 2014 consolidated financial statements. GAO's audit report is incorporated in the enclosed *Fiscal Year 2015 Financial Report of the United States Government* prepared by the U.S. Department of the Treasury (Treasury).

The federal government reported a unified budget deficit of approximately $439 billion for fiscal year 2015, a decrease of about $45 billion from fiscal year 2014. However, the federal government continues to face an unsustainable long-term fiscal path. To operate as effectively and efficiently as possible and to make difficult decisions to address the federal government's fiscal challenges, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and for the federal government as a whole. Our report on the U.S. government's consolidated financial statements underscores that much work remains to improve federal financial management, and these improvements are urgently needed.

Our audit report on the U.S. government's consolidated financial statements begins on page 239 of the enclosed financial report. In summary, we found the following:

- Certain material weaknesses[1] in internal control over financial reporting and other limitations on the scope of our work resulted in conditions that prevented us from expressing an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2015, and 2014.[2] About 34 percent of the federal government's reported total assets as of September 30, 2015, and approximately 19 percent of the federal government's reported net cost for fiscal year 2015 relate to three Chief Financial Officers (CFO) Act agencies—the Department of Defense (DOD), the Department of Housing and Urban Development, and the U.S. Department of Agriculture—that received disclaimers of opinion on their fiscal year 2015 financial statements.

[1]A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
[2]The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2015, and 2014, consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Unified Budget Deficit, (4) Statements of Changes in Cash Balance from Unified Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis.

- Significant uncertainties (discussed in Note 23 to the consolidated financial statements), primarily related to the achievement of projected reductions in Medicare cost growth, and a material weakness in internal control over financial reporting, prevented us from expressing an opinion on the sustainability financial statements,[3] which consist of the 2015 Statement of Long-Term Fiscal Projections (a new comprehensive basic financial statement that provides information on the federal government's long-term financial condition); the 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance; and the 2015 and 2014 Statements of Changes in Social Insurance Amounts.[4] About $27.9 trillion, or 67.0 percent, of the reported total present value of future expenditures in excess of future revenue presented in the 2015 Statement of Social Insurance relates to Medicare programs reported in the Department of Health and Human Services' (HHS) 2015 Statement of Social Insurance, which received a disclaimer of opinion.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2015.

- Material weaknesses and other scope limitations discussed in our audit report limited our tests of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2015.

Overall, significant progress has been made in improving federal financial management since the enactment of key federal financial management reforms in the 1990s. Importantly, almost all of the 24 CFO Act agencies received unmodified ("clean") opinions on their respective entities' fiscal year 2015 financial statements, up from 6 CFO Act agencies that received clean audit opinions in 1996. In addition, 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 individual federal entities' financial statements have identified numerous deficiencies, leading to corrective actions to strengthen federal entities' internal controls, processes, and systems.

However, since the federal government began preparing consolidated financial statements 19 years ago, three major impediments continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements over this period: (1) serious financial management problems at DOD that have prevented its financial statements from being auditable, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements.

---

[3]As required by the Statement of Federal Financial Accounting Standards No. 36, "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government," as amended, the federal government presents a new basic financial statement, the Statement of Long-Term Fiscal Projections, for fiscal year 2015, along with the related notes, as part of the consolidated financial statements. The Statement of Long-Term Fiscal Projections presents for all the activities of the federal government, the present value of projected receipts and noninterest spending under current policy without change, the relationship of these amounts to projected gross domestic product, and changes in the present value of projected receipts and noninterest spending from the prior year. The unaudited Statement of Long-Term Fiscal Projections for the fiscal year ended September 30, 2014, is presented for comparison purposes and was not subject to audit.

[4]Statements of Social Insurance are presented for the current year and each of the 4 preceding years in accordance with U.S. generally accepted accounting principles. Also, the sustainability financial statements do not interrelate with the accrual-based consolidated financial statements.

DOD has consistently been unable to receive an audit opinion on its financial statements. Following years of unsuccessful financial improvement efforts, the DOD Comptroller established the Financial Improvement and Audit Readiness (FIAR) Directorate to develop, manage, and implement a strategic approach for addressing internal control weaknesses and for achieving auditability, and to integrate those efforts with other improvement activities, such as the department's business systems modernization efforts. DOD's current FIAR strategy and methodology focus on two priorities—budgetary information and asset accountability—with an overall goal of having its department-wide financial statements audit ready by September 30, 2017.[5] Because budgetary information is widely and regularly used for management, one of DOD's highest interim priorities is to improve its budgetary information and processes underlying its Statement of Budgetary Resources (SBR).

Based on difficulties encountered in preparing for an audit of the SBR, DOD made a significant change to its FIAR Guidance that limited the scope of the first-year SBR audits for all DOD components.[6] As outlined in the November 2014 FIAR Plan Status Report and the November 2013 revised FIAR Guidance, the scope of initial SBR audits beginning in fiscal year 2015 is to focus on current-year budget activity, to be reported on a Schedule of Budgetary Activity (SBA).[7] This is intended to be an interim step toward achieving the audit of multiple-year budget activity required for an audit of the SBR. In making this strategic change, DOD officials concluded—based on the difficulties encountered in obtaining documentation for prior year transactions on the U.S. Marine Corps SBR audit—that the most effective path to an audit of the SBR would be to start with reporting and auditing only current-year activity for fiscal year 2015 appropriations and expanding subsequent audits to include current-year appropriations and prior appropriations going back to fiscal year 2015. Consequently, certain DOD components—including the Army, Navy, and Air Force—underwent their first SBA audits for fiscal year 2015. Independent public accountants (IPA) issued disclaimers of opinion[8] on the Army's and the Air Force's fiscal year 2015 SBAs and identified material weaknesses in internal control at both Army and Air Force. Army and Air Force management have generally concurred with the findings in the respective IPA reports and stated that they will develop and execute corrective actions to address the IPAs' recommendations. The Navy's SBA audit is ongoing and the report is expected to be issued February 29, 2016. In its November 2015 FIAR Plan Status Report, DOD reported that the Army, Navy, and Air Force will again undergo SBA audits for fiscal year

---

[5]Section 1003 of the National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, 123 Stat. 2190, 2439-41 (Oct. 28, 2009), made the development and maintenance of the FIAR Plan a statutory requirement. Under the act, the FIAR Plan must describe specific actions to be taken and the costs associated with ensuring that DOD's financial statements are validated as ready for audit by September 30, 2017. In addition, section 1005 of the National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, 126 Stat. 1632, 1904-05 (Jan. 2, 2013), enacted a requirement for DOD's FIAR Plan to describe specific actions to be taken and the costs associated with ensuring that one of DOD's financial statements, the Statement of Budgetary Resources, would be validated as ready for audit by September 30, 2014, but DOD has acknowledged that it did not meet this target date. More recently, section 1003 of the National Defense Authorization Act for Fiscal Year 2014, Pub. L. No. 113-66, 127 Stat. 672, 842 (Dec. 26, 2013) (*reprinted in* 10 U.S.C. § 2222 note), mandated an audit of DOD's fiscal year 2018 financial statements and that the audit results be submitted to Congress by March 31, 2019.

[6]The FIAR Guidance was first issued by the DOD Comptroller in May 2010 and provides a standardized methodology for DOD components to follow for achieving financial management improvements and auditability. The DOD Comptroller periodically updates this guidance.

[7]Unlike the SBR, which reflects multiple-year budget activity, the SBA reflects the balances and associated activity related only to funding from fiscal year 2015 forward. As a result, the SBAs exclude unobligated and unexpended amounts carried over from funding prior to fiscal year 2015 as well as information on the status and use of such funding (e.g., obligations incurred and outlays) in fiscal year 2015 and thereafter.

[8]The Army's IPA issued its opinion on January 15, 2016, and the Air Force's IPA issued its opinion on November 20, 2015.

2016. In addition, with regard to meeting its goal of having its financial statements audit ready department-wide by September 30, 2017, the department has not, among other things, fully developed the details of its strategy for consolidating individual component financial statements into department-wide financial statements, including eliminating intragovernmental transactions.

Various efforts are also under way to address the other two major impediments to an audit of the consolidated financial statements. For example, during fiscal year 2015, Treasury continued to actively work with significant federal entities[9] to resolve differences in intragovernmental activity and balances between federal entities through its quarterly scorecard process.[10] This process highlights differences requiring the entities' attention, identifies differences that need to be resolved through a formal dispute resolution process,[11] and reinforces the entities' responsibilities to resolve intragovernmental differences. Treasury also began developing policies and procedures over accounting for and reporting all significant activity and balances of the General Fund of the U.S. Government (General Fund),[12] and began reconciling the activity and balances between the General Fund and federal entity trading partners. Further, over the past few years, Treasury has implemented new systems to collect certain additional data from entities and to compile the consolidated financial statements and new or enhanced procedures to address certain internal control deficiencies detailed in our previously issued report.[13] To help address the magnitude of the issues in these areas, it will be important that Treasury continues to improve its systems and continues to ensure that it has appropriate personnel. It will also be important that Treasury and the Office of Management and Budget (OMB) further enhance their corrective action plans to include certain key elements, such as (1) sufficient information on how progress on interim actions would be monitored and (2) outcome measures for assessing the effectiveness of the corrective actions. In addition to continued leadership by Treasury and OMB, strong and sustained commitment by federal entities is critical to fully address these issues.

The material weaknesses underlying these three major impediments continued to (1) hamper 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 efficient and effective manner.

---

[9]OMB and Treasury have identified 39 federal entities that are significant to the U.S. government's fiscal year 2015 consolidated financial statements, including the 24 CFO Act agencies. See *Treasury Financial Manual*, vol. I, part 2, ch. 4700, for a listing of the 39 entities.

[10]For each quarter, Treasury produces a scorecard for each significant entity that reports various aspects of the entity's intragovernmental differences with its trading partners, including the composition of the differences by trading partner and category. Entities are expected to resolve, with their respective trading partners, the differences identified in their scorecards.

[11]When an entity and its respective trading partner cannot resolve an intragovernmental difference, the entity must request Treasury to resolve the dispute. Treasury will review the dispute and issue a decision on how to resolve the difference, which the entities must follow.

[12]The General Fund is a component of Treasury's central accounting function. 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).

[13]GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, GAO-15-630 (Washington, D.C.: July 30, 2015).

In addition to the material weaknesses referred to above, we identified three other material weaknesses. These are the federal government's inability to (1) determine the full extent to which improper payments[14] occur and reasonably assure that appropriate actions are taken to reduce them, (2) identify and resolve information security control deficiencies and manage information security risks on an ongoing basis, and (3) effectively manage its tax collection activities. Additional details concerning these material weaknesses and their effect on the accrual-based consolidated financial statements and on the management of federal government operations are presented in our audit report. Until the problems outlined in our audit report are adequately addressed, they will continue to have adverse implications for the federal government and American taxpayers.

The federal government reported a net operating cost of about $519.7 billion for fiscal year 2015 compared to the approximately $791 billion reported for fiscal year 2014. Increases in reported taxes and certain other revenues were primarily responsible for the decrease in net operating cost. The reported unified budget deficit of approximately $439 billion for fiscal year 2015 was down from the approximately $483 billion reported for fiscal year 2014. The federal government's reported assets totaled about $3.2 trillion as of September 30, 2015, which was about $165 billion greater than the amount reported as of September 30, 2014. Its reported liabilities totaled about $21.5 trillion as of September 30, 2015, which was about $686 billion greater than the amount reported as of September 30, 2014. Most of the net increase in the federal government's reported assets was due to student loans made by the Department of Education. The net increase in liabilities was due primarily to a net increase in federal debt held by the public and the liability for restoration of federal debt principal and interest to the Federal Thrift Savings Plan.[15] As of September 30, 2015, federal debt held by the public totaled about 74 percent of gross domestic product (GDP). Additional details regarding the above-noted fluctuations and the federal government's financial condition can be found in the Management's Discussion and Analysis section of the *Fiscal Year 2015 Financial Report of the United States Government* (*2015 Financial Report*).

Importantly, there are risks that certain factors could affect the federal government's financial condition in the future, including the following:

- The Pension Benefit Guaranty Corporation's (PBGC) financial future is uncertain because of long-term challenges related to PBGC's governance and funding structure. PBGC's liabilities exceeded its assets by over $76 billion as of September 30, 2015—an increase of over $14 billion from the end of fiscal year 2014. PBGC reported that it is subject to further losses if plan terminations that are considered reasonably possible occur.

[14]When excluding DOD's Defense Finance and Accounting Service Commercial Pay program, federal entity-reported estimates of improper payments totaled $136.7 billion in fiscal year 2015, an increase from the revised prior year estimate of $124.6 billion. This increase was mostly attributable to an increased error rate in HHS's Medicaid program.

[15]Due to delays in raising the debt limit, Treasury deviated from its normal debt management operations and took a number of extraordinary actions, consistent with relevant laws and regulations, from March 16, 2015 through September 30, 2015 to avoid exceeding the debt limit. Many extraordinary actions taken by Treasury during fiscal year 2015 resulted in federal debt securities not being issued to certain federal government accounts. As a result of securities not being issued to the Government Securities Investment Fund (G-Fund) of the Thrift Savings Plan, a liability was reported that represents uninvested principal and related interest for the G-Fund that would have been reported as federal debt held by the public had there not been a delay in raising the debt limit as of September 30, 2015, and had the securities been issued.

- In 2008, during the financial crisis, the federal government placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises (GSE) to help ensure their financial stability. The agreements with the GSEs could affect the federal government's financial position. As of September 30, 2015, the federal government continued to report about $106 billion of investments in the GSEs, which is net of about $88 billion in valuation losses. Cash dividends paid by the GSEs to Treasury under the agreements totaled $20.4 billion and $72.5 billion during fiscal years 2015 and 2014, respectively. Although Treasury does not believe that any further draws by the GSEs are probable, the reported maximum remaining contractual commitment to the GSEs, if needed, is $258.1 billion. Importantly, the ultimate role of the GSEs in the mortgage market could affect the financial condition of the Federal Housing Administration, which in the past expanded its lending role in distressed housing and mortgage markets.

- The U.S. Postal Service (USPS) continues to be in a serious financial crisis as it has reached its borrowing limit of $15 billion and finished fiscal year 2015 with a reported net loss of $5.1 billion.

Every 2 years, GAO provides Congress with an update on its High-Risk Series, which highlights federal entities and program areas that are at high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement or are most in need of broad reform. We issued our most recently updated High-Risk Series on February 11, 2015.[16] GAO's High-Risk Series includes most of the above-noted issues, such as DOD financial management, information security, USPS's business model, the PBGC insurance programs, and the financial regulatory system for housing finance. Another area included in the High-Risk Series that could affect the federal government's financial condition in the future is the Internal Revenue Service's (IRS) enforcement of tax laws, including reducing the net tax gap—the difference between taxes owed and taxes paid—which was last estimated to be $385 billion.[17]

While the near-term outlook has improved, the comprehensive long-term fiscal projections presented in the Statement of Long-Term Fiscal Projections, and related information in Note 24 and in the unaudited Required Supplementary Information section of the *2015 Financial Report*, show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path. In the near term, the projections in the *2015 Financial Report* show the primary deficit continuing to decline from the recent historic highs. However, these projections do not reflect legislation enacted subsequent to September 30, 2015, which, in order to achieve certain national priorities and goals, causes deficits to increase in the near term.[18] Over the long term, the imbalance between spending and revenue that is built into current law and policy is projected to lead to continued growth of debt held by the public as a share of GDP. This situation—in which debt grows faster than GDP—means that the current federal fiscal path is unsustainable.

---

[16]GAO, *High-Risk Series: An Update*, GAO-15-290 (Washington, D.C.: Feb. 11, 2015).

[17]IRS last estimated the gross tax gap of $450 billion in 2012 for tax year 2006.

[18]The 2015 Statement of Long-Term Fiscal Projections is based on current policy as of September 30, 2015. This is prior to the enactment of the Bipartisan Budget Act of 2015 and the Consolidated Appropriations Act, 2016; therefore, the projections do not reflect the effects of these two statutes. Management notes that neither statute is expected to have a material effect on the long-term fiscal projections in its report.

Under these projections, spending for the major health and retirement programs will increase in coming decades more rapidly than GDP as more members of the baby boom generation become eligible for benefits. These projections, with regard to Social Security and Medicare, are based on the same assumptions underlying the information presented in the Statement of Social Insurance and assume that the provisions enacted in the Patient Protection and Affordable Care Act, as amended (ACA), designed to slow the growth of Medicare costs are sustained and remain effective throughout the projection period.[19] They also reflect the effects of the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), which, among other things, revised the methodology for determining physician payment rates.[20] If, however, the Medicare cost containment measures and physician payment rate methodology are not sustained over the long term—concerns expressed by the Trustees of the Medicare trust funds, the Centers for Medicare & Medicaid Services' (CMS) Chief Actuary, the Congressional Budget Office, and others—spending on federal health care programs will grow more rapidly than assumed in the projections.

GAO also prepares long-term federal fiscal simulations, using different sets of assumptions which continue to show debt held by the public rising as a share of GDP.[21] Under GAO's Alternative simulation,[22] using the CMS Office of the Actuary's alternative health care cost projections, future spending in excess of receipts would be greater and debt held by the public as a share of GDP would grow more quickly than the projections in the *2015 Financial Report*. Under the Alternative simulation, debt held by the public as a share of GDP will surpass its historical high (106 percent in 1946) by 2031.

Both the projections in the *2015 Financial Report* and our long-term simulations follow the spending limits enacted in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended.[23] Under these limits, discretionary spending will continue to decline as a share of the economy and within the next 5 years will be lower as a share of GDP than any

---

[19]ACA, Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010).

[20]MACRA, Pub. L. No. 114-10, title I, § 101, 129 Stat. 87, 89 (Apr. 16, 2015), repealed the sustainable growth rate (SGR) formula for calculating annual updates to Medicare reimbursement payment rates to physicians and certain nonphysician medical providers and established an alternative set of annual updates.

[21]GAO, *Fiscal Outlook: Federal Fiscal Outlook* (2016) (Washington, D.C.: 2016), accessed February 17, 2016, http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview.

[22]Our 2016 Alternative simulation, the most recent one available as of the date of our audit report, incorporates the CMS Office of the Actuary's 2015 alternative projections for health care cost growth, which assume certain cost controls are not maintained over the long term. Our Alternative simulation also assumes that tax provisions that are scheduled to expire, such as the credit for construction of energy-efficient new homes, are extended. In the Alternative simulation, discretionary spending follows the caps established in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, but not the lower caps triggered by the automatic enforcement procedures.

[23]The Budget Control Act of 2011 (BCA) amended BBEDCA, imposing discretionary spending limits for fiscal years 2012 through 2021 to reduce projected spending by about $1 trillion. Pub. L. No. 112-25, 125 Stat. 240 (Aug. 2, 2011). BCA also established the Joint Select Committee on Deficit Reduction (Joint Committee), which was tasked with proposing legislation to reduce the deficit by at least an additional $1.2 trillion through fiscal year 2021. The Joint Committee did not report a proposal, and Congress and the President did not enact legislation. This triggered the sequestration process in section 251A of BBEDCA. Section 251A, as amended by the BCA, required (1) a sequestration for fiscal year 2013 and (2) annual downward adjustments to discretionary spending limits and sequestration of direct spending from fiscal years 2014 through 2021. BBEDCA has been amended several times since August 2011, including most recently by the Bipartisan Budget Act (BBA) of 2015, which increased discretionary spending limits for fiscal years 2016 and 2017. The BBA of 2015 also extended the sequestration of direct spending through fiscal year 2025 and made other changes to direct spending and revenue. Pub. L. No. 114-74, §§ 101, 102, 129 Stat. 584, 585-87 (Nov. 2, 2015). GAO's long-term simulations reflect the effects of the BBA of 2015.

level seen in the last 50 years. At the same time, the projections in the *2015 Financial Report* show revenues rising in the near term as the economy continues to recover. Our long-term simulations show revenues rising in some years and declining in others in the near term.

Debt held by the public as a share of GDP, however, remains well above the post-war historical average of 43 percent since 1946. At the end of fiscal year 2015, debt held by the public reached about 74 percent of GDP—the second highest (after fiscal year 2014, when it was slightly higher) it has been as a share of GDP since 1950. Debt held by the public at these high levels could limit the federal government's flexibility to address emerging issues and unforeseen challenges, such as another economic downturn or large-scale disaster. Further, our past work has also identified a variety of fiscal exposures—responsibilities, programs, and activities that explicitly or implicitly expose the federal government to future spending.[24] Fiscal exposures vary widely as to source, extent of the government's legal commitment, and magnitude. Over the past decade, some fiscal exposures have grown because of events and trends and the government's response to them. Increased attention to these fiscal exposures will be important for understanding risks to the federal fiscal outlook and enhancing oversight of federal resources.

As we have previously reported, the debt limit does not restrict Congress's ability to enact spending and revenue legislation that affects the level of federal debt or otherwise constrain fiscal policy; it restricts Treasury's authority to borrow to finance the decisions already enacted by Congress and the President.[25] The United States benefits from the confidence investors have that debt backed by the full faith and credit of the United States will be honored. Because Treasury securities are viewed as one of the safest assets in the world, they are broadly held by individuals—often in pension funds or mutual funds—and by institutions and central banks for use in everyday transactions. Treasury securities are also the cheapest and one of the most widely used forms of collateral for financial transactions. In many ways, U.S. Treasury securities are the underpinning of the world financial system. As we have also previously reported, delays in raising the debt limit can create uncertainty in the Treasury market. To avoid such uncertainty and the disruption to the Treasury market that it creates, as well as to help inform the fiscal policy debate in a timely way, we have suggested that Congress should consider ways to better link decisions about the debt limit with decisions about spending and revenue at the time those decisions are made.[26] In our July 2015 report on the debt limit, we discussed several potential approaches to delegating borrowing authority that would both achieve this link and minimize disruptions to the market.[27]

The Digital Accountability and Transparency Act of 2014 (DATA Act) holds great promise for improving the transparency and accountability of federal spending data by providing consistent, reliable, and complete data on federal spending and for helping decision-makers in addressing the federal government's fiscal challenges. However, in order to fully and effectively implement the DATA Act, the federal government will need to address complex policy and technical issues.

---

[24]GAO, *Fiscal Outlook: Federal Fiscal Outlook* (2016), accessed February 17, 2016, http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview#t=3, and *Fiscal Exposures: Improving Cost Recognition in the Federal Budget*, GAO-14-28 (Washington, D.C.: Oct. 29, 2013).

[25]GAO, *Debt Limit: Analysis of 2011-2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs*, GAO-12-701 (Washington, D.C.: July 23, 2012), and *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, GAO-11-203 (Washington, D.C.: Feb. 22, 2011).

[26]GAO-12-701 and GAO-11-203.

[27]GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (Washington, D.C.: July 9, 2015).

Central among these are defining and developing common data elements across multiple reporting areas and standing up the necessary supporting systems and processes to enable reporting of the federal spending data required by the DATA Act. Since the act was signed into law in May 2014, OMB and Treasury have made progress using a variety of outreach approaches to address questions and obtain feedback from federal and nonfederal stakeholders, but as was reported in January 2016, more complete and timely guidance is needed to ensure effective implementation.[28]

Our audit report on the U.S. government's consolidated financial statements would not be possible without the commitment and professionalism of inspectors general throughout the federal government who are responsible for annually auditing the financial statements of individual federal entities. We also appreciate the cooperation and assistance of Treasury and OMB officials, as well as the federal entities' chief financial officers. We look forward to continuing to work with these individuals, the administration, and Congress to achieve the goals and objectives of federal financial management reform.

Our guide to the *Financial Report of the United States Government (Financial Report)* is intended to help those who seek to obtain a better understanding of the *Financial Report* and is available on GAO's website at www.gao.gov.[29] In addition, the website includes a guide to understanding the differences between accrual and generally cash-based budget measures and provides a useful perspective on the different purposes that cash and accrual measures serve in providing a comprehensive picture of the federal government's fiscal condition today and over time.[30]

We are sending copies of this report to the Majority and Minority Leaders of the U.S. Senate and House of Representatives, interested congressional committees, the Secretary of the Treasury, the Director of the Office of Management and Budget, and other agency officials. This report is also available at no charge on the GAO website at http://www.gao.gov.

[28]GAO, *DATA Act: Data Standards Established, but More Complete and Timely Guidance Is Needed to Ensure Effective Implementation*, GAO-16-261 (Washington, D.C.: Jan. 29, 2016).

[29]GAO, *Understanding the Primary Components of the Annual Financial Report of the United States Government*, GAO-09-946SP (Washington, D.C.: September 2009).

[30]See http://www.gao.gov/special.pubs/longterm/deficit/, which is based on information in GAO, *Understanding Similarities and Differences between Accrual and Cash Deficits*, GAO-07-117SP (Washington, D.C.: December 2006). In January 2007 and 2008, we issued updates to this guide for fiscal years 2006 and 2007; see GAO-07-341SP (Washington, D.C.: January 2007) and GAO-08-410SP (Washington, D.C.: January 2008).

This report was prepared under the direction of Robert F. Dacey, Chief Accountant, and J. Lawrence Malenich, Director, Financial Management and Assurance. Questions about this report can be directed to Mr. Dacey at (202) 512-3406 or daceyr@gao.gov or Mr. Malenich at (202) 512-3406 or malenichj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Gene L. Dodaro
Comptroller General
of the United States

Enclosure

(197307)