FISCAL YEAR 2015 U.S. GOVERNMENT FINANCIAL STATEMENTS:

Need to Address the Government’s Remaining Financial Management Challenges and Long-Term Fiscal Path

What GAO Found

The Financial Report of the U.S. Government (Financial Report) provides important information to the Congress, federal agencies, and the public, including the government’s financial condition and the reliability of data used to help support budget and financial decisions. While significant progress has been made in improving federal financial management over the past 20 years, material weaknesses in internal control over financial reporting and other limitations continued to prevent GAO from expressing an opinion on the government’s accrual-based financial statements. Three major impediments are: (1) serious financial management problems at DOD, which represented 30 percent and 15 percent of the government’s reported total assets and net costs, respectively; (2) the government’s inability to adequately account for and reconcile a significant amount of intragovernmental activity and balances between federal entities, which resulted in hundreds of billions of dollars in differences; and (3) the government’s ineffective process for preparing the U.S. government’s consolidated financial statements (governmentwide financial statements).

Unless these weaknesses are adequately addressed, they will, among other things, continue to (1) hamper the government’s ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (2) hinder the government from having reliable financial information to operate in an efficient and effective manner. Efforts are under way to resolve these issues, but strong and sustained commitment by DOD and other federal entities, as well as continued leadership by Treasury and OMB, are needed.

The Financial Report also helps to convey the long-term fiscal position of the federal government. However, significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, and a material weakness in internal control over financial reporting prevented GAO from expressing an opinion on the sustainability financial statements, including the new Statement of Long-Term Fiscal Projections. The sustainability financial statements are critical to understanding the government’s financial condition and sustainability of current fiscal policies. Although the timing and size of the increase in debt as a share of gross domestic product varies depending on the assumptions used, both the long-term fiscal projections included in the governmentwide financial statements and GAO’s own recent long-term fiscal simulations show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path.

Other challenges that need urgent attention are highlighted in the Financial Report, including (1) the significant and pervasive government-wide issue of improper payments, which totaled over $1 trillion since fiscal year 2003, and (2) reducing the annual net tax gap, last estimated by IRS to be $385 billion.

Finally, GAO has identified ways that Congress could consider for better linking decisions about the debt limit with decisions about spending and revenue at the time those decisions are made. These potential approaches would both achieve this link and minimize disruptions to the market.