



Highlights of [GAO-04-886T](#), testimony before the Subcommittee on Financial Management, the Budget, and International Security, Committee on Governmental Affairs, U.S. Senate

Why GAO Did This Study

GAO is required to annually audit the consolidated financial statements of the U.S. government.

Proper accounting and reporting practices are essential in the public sector. The U.S. government is the largest, most diverse, most complex, and arguably the most important entity on earth today. Its services—homeland security, national defense, Social Security, mail delivery, and food inspection, to name a few—directly affect the well-being of almost every American. But sound decisions on the future direction of vital federal government programs and policies are made more difficult without timely, accurate, and useful financial and performance information.

Until the problems discussed in GAO's audit report on the U.S. government's consolidated financial statements are adequately addressed, they will continue to (1) hamper the federal government's ability to accurately report a significant portion of its assets, liabilities, and costs; (2) affect the federal government's ability to accurately measure the full cost as well as the financial and nonfinancial performance of certain programs while effectively managing related operations; and (3) significantly impair the federal government's ability to adequately safeguard certain significant assets and properly record various transactions.

www.gao.gov/cgi-bin/getrpt?GAO-04-886T.

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

FISCAL YEAR 2003 U.S. GOVERNMENT FINANCIAL STATEMENTS

Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenges

What GAO Found

As in the 6 previous fiscal years, certain material weaknesses in internal control and in selected accounting and reporting practices resulted in conditions that continued to prevent GAO from being able to provide the Congress and American citizens an opinion as to whether the consolidated financial statements of the U.S. government are fairly stated in conformity with U.S. generally accepted accounting principles. Three major impediments to an opinion on the consolidated financial statements continue to be (1) serious financial management problems at DOD, (2) the federal government's inability to fully account for and reconcile transactions between federal government entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements.

For fiscal year 2003, 20 of 23 Chief Financial Officers (CFO) Act agencies received unqualified opinions, the same number received by these agencies in fiscal year 2002, up from 6 for fiscal year 1996. However, only 3 of the CFO Act agencies had neither a material weakness in internal control, an issue involving compliance with applicable laws and regulations, nor an instance of lack of substantial compliance with Federal Financial Management Improvement Act requirements.

The requirement for timely, accurate, and useful financial and performance management information is greater than ever as our nation faces major long-term fiscal challenges that will require tough choices in setting priorities and linking resources to results. Given the nation's large and growing long-term fiscal imbalance, which is driven largely by known demographic trends and health care costs, coupled with new homeland security and defense commitments, the status quo is unsustainable. Current financial reporting does not clearly and transparently show the wide range of responsibilities, programs, and activities that may either obligate the federal government to future spending or create an expectation for such spending and provides an unrealistic and even misleading picture of the federal government's overall performance and financial condition. In addition, too many significant federal government commitments and obligations, such as Social Security and Medicare, are not adequately addressed in the federal government's financial statements and budget process, and current federal financial reporting standards do not require such disclosure.

A top-to-bottom review of government activities to ensure their relevance and fit for the 21st century and their relative priority is long overdue. The federal government needs a three-pronged approach to (1) restructure existing entitlement programs, (2) reexamine the base of discretionary and other spending, and (3) review and revise the federal government's tax policy and enforcement programs. New accounting and reporting approaches, budget control mechanisms, and metrics are needed for considering and measuring the impact of spending and tax policies and decisions over the long term.