



Highlights of [GAO-06-406T](#), testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

GAO is required by law to annually audit the consolidated financial statements of the U.S. government. The Congress and the President need to have timely, reliable, and useful financial and performance information. Sound decisions on the current results and future direction of vital federal government programs and policies are made more difficult without such 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 reliably report a significant portion of its assets, liabilities, costs, and other 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 economical, efficient, and effective manner.

www.gao.gov/cgi-bin/getrpt?GAO-06-406T.

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 2005 U.S. GOVERNMENT FINANCIAL STATEMENTS

Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Financial Condition and Long-term Fiscal Imbalance

What GAO Found

For the ninth consecutive year, certain material weaknesses in internal control and in selected accounting and financial reporting practices resulted in conditions that continued to prevent GAO from being able to provide the Congress and American people 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 continued to be (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. Further, in our opinion, as of September 30, 2005, the federal government did not maintain effective internal control over financial reporting and compliance with significant laws and regulations due to numerous material weaknesses.

More troubling still is the federal government's overall financial condition and long-term fiscal imbalance. While the fiscal year 2005 budget deficit was lower than 2004, it was still very high, especially given the impending retirement of the "baby boom" generation and rising health care costs. Importantly, as reported in the fiscal year 2005 *Financial Report of the United States Government*, the federal government's accrual-based net operating cost—the cost to operate the federal government—increased to \$760 billion in fiscal year 2005 from \$616 billion in fiscal year 2004. This represents an increase of about \$144 billion or 23 percent. The federal government's gross debt was about \$8 trillion as of September 30, 2005. This number excludes such items as the gap between the present value of future promised and funded Social Security and Medicare benefits, veterans' health care, and a range of other liabilities, commitments, and contingencies that the federal government has pledged to support. Including these items, the federal government's fiscal exposures now total more than \$46 trillion, representing close to four times gross domestic product (GDP) in fiscal year 2005 and up from about \$20 trillion or two times GDP in 2000. Given these and other factors, a fundamental reexamination of major spending programs, tax policies, and government priorities will be important and necessary to put us on a prudent and sustainable fiscal path. This will likely require a national discussion about what Americans want from their government and how much they are willing to pay for those things.

We continue to have concerns about the identification of misstatements in federal agencies' prior year financial statements. Frequent restatements to correct errors can undermine public trust and confidence in both the entity and all responsible parties. The material internal control weaknesses discussed in this testimony serve to increase the risk that additional errors may occur and not be identified on a timely basis by agency management or their auditors, resulting in further restatements.