February 9, 2005

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Highlights

Highlights of GAO-05-284T, testimony before the Committee on Government Reform, House of Representatives

FISCAL YEAR 2004 U.S. GOVERNMENT FINANCIAL STATEMENTS

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

Why GAO Did This Study

GAO is required by law 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 complex, and most diverse entity on earth today. Its services—homeland security, national defense, Social Security, health care, mail delivery, and food inspection, to name a few—directly affect the well-being of almost every American. Sound decisions on the current results and future direction of vital federal government programs and policies are made more difficult without timely, reliable, 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 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; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) prevent the federal government from having reliable financial information to operate in an economical, efficient, and effective manner.

www.gao.gov/cgi-bin/getrpt?GAO-05-284T.

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.

What GAO Found

The federal government completed its consolidated financial statements on December 15, 2004. This is just 76 days after the end of the fiscal year—a record for timeliness. However, as in the previous 7 fiscal years, 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 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 the Department of Defense, (2) the federal government's ineffective process for preparing the consolidated financial statements, and (3) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies. Further, in our opinion, the federal government did not maintain effective internal control over financial reporting and compliance due to numerous material weaknesses.

While GAO was unable to express an opinion on the consolidated financial statements of the U.S. government, several key items deserve emphasis in order to put the information contained in the financial statements and Management's Discussion and Analysis in perspective. First, the federal government reported a $412.3 billion unified budget deficit and a $568 billion on-budget deficit in fiscal year 2004, representing approximately 3.6 percent and 4.9 percent of gross domestic product (GDP), respectively. Second, the U.S. government's reported liabilities, commitments, and other obligations grew by over $13 trillion in fiscal year 2004, primarily due to enactment of the new Medicare prescription drug benefit, and now surpass $43 trillion, representing close to four times current GDP. In addition, while the size of the nation's long-term fiscal imbalance grew significantly during the fiscal year, the retirement of the "baby boom" generation is closer to becoming a reality. Given these and other factors, it seems clear that the nation's current fiscal path is unsustainable and that tough choices by the President and the Congress will be necessary in order to address the nation's large and growing fiscal imbalance.

An emerging issue during fiscal year 2004 that merits concern and close scrutiny was the growing number of Chief Financial Officers (CFO) Act agencies that restated certain of their financial statements for fiscal year 2003 to correct errors. 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 management or the auditors, resulting in further restatements.