



GAO
Accountability Integrity Reliability

Highlights

Highlights of [GAO-07-607T](#), a testimony before the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and 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 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 economical, efficient, and effective manner.

www.gao.gov/cgi-bin/getrpt?GAO-07-607T.

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 or engelg@gao.gov.

FISCAL YEAR 2006 U.S. GOVERNMENT FINANCIAL STATEMENTS

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

What GAO Found

For the 10th consecutive year, certain material weaknesses in financial reporting and other limitations on the scope of GAO's work resulted in conditions that continued to prevent GAO from being able to provide Congress and the 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. While over the past 10 years significant progress has been made in improving financial management since the U.S. government began preparing consolidated financial statements, three major impediments continue to prevent GAO from rendering an opinion on the consolidated financial statements: (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 GAO's opinion, as of September 30, 2006, the federal government did not maintain effective internal controls over financial reporting and compliance with significant laws and regulations due to numerous material weaknesses.

From a broad federal financial management perspective, the federal government's financial condition and fiscal outlook are worse than many may understand. The U.S. government's total reported liabilities, net social insurance commitments, and other fiscal exposures continue to grow and now total over \$50 trillion, representing approximately four times the nation's total output (GDP) in fiscal year 2006, up from about \$20 trillion, or two times GDP in fiscal year 2000. The federal government faces large and growing structural deficits in the future due primarily to known demographic trends and rising health care costs. These structural deficits which are virtually certain given the design of our current programs and policies will mean escalating and ultimately unsustainable federal deficits and debt levels. Based on various measures and using reasonable assumptions the federal government's current fiscal policy is unsustainable. Continuing on this imprudent and unsustainable path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our domestic tranquility and national security. Tough choices by the President and the Congress are necessary in order to address the nation's large and growing long-term fiscal imbalance.

The federal government should consider the need for further revisions to the current federal financial reporting model to recognize the unique needs of the federal government. While the current reporting model recognizes some of these needs, a broad reconsideration of issues such as the kind of information that may be relevant and useful for a sovereign nation, could stimulate needed discussion and lead to reporting enhancements that might help the Congress deliberate strategies to address the nation's growing long-term fiscal imbalance. Furthermore, additional transparency in connection with federal budget reporting and legislative proposals is needed.