



Highlights of [GAO-08-926T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

The Congress and the President need to have reliable, useful and timely financial and performance information to make sound decisions on the current and future direction of vital federal government programs and policies.

Unfortunately, except for the 2007 Statement of Social Insurance, GAO was again unable to provide assurance on the reliability of the consolidated financial statements of the U.S. government (CFS) due primarily to certain material weaknesses in the federal government's internal control. GAO has reported that unless these weaknesses are adequately addressed, they will, among other things, (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (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.

This testimony presents the results of GAO's audit of the CFS for fiscal year 2007 and discusses the federal government's long-term fiscal outlook.

## What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management, including ones regarding issues addressed in this testimony.

To view the full product, click on [GAO-08-926T](#).

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# FISCAL YEAR 2007 U.S. GOVERNMENT FINANCIAL STATEMENTS

## Sustained Improvement in Financial Management Is Crucial to Improving Accountability and Addressing the Long-Term Fiscal Challenge

### What GAO Found

For the 11<sup>th</sup> consecutive year, three major impediments prevented GAO from rendering an opinion on the federal government's accrual basis 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. In addition, financial management system problems continue to hinder federal agency accountability. Although the federal government still has a long way to go, significant progress has been made in improving federal financial management. For example, audit results for many federal agencies have improved and federal financial system requirements have been developed. In addition, GAO was able to render an unqualified opinion on the 2007 Statement of Social Insurance. Further, for the first time, the federal government issued a summary financial report which is intended to make the information in the *Financial Report of the U.S. Government (Financial Report)* more accessible and understandable to a broader audience.

It is important that this progress be sustained by the current administration as well as the new administration that will be taking office next year and that the Congress continues its oversight to bring about needed improvements to federal financial management. Given the federal government's current financial condition and the nation's long-term fiscal challenge, the need for the Congress and federal policymakers and management to have reliable, useful, and timely financial and performance information is greater than ever. Information included in the *Financial Report*, such as the Statement of Social Insurance along with long-term fiscal simulations and fiscal sustainability reporting, can help increase understanding of the nation's long-term fiscal outlook.

The nation's long-term fiscal challenge is a matter of utmost concern. The federal government faces large and growing structural deficits due primarily to rising health care costs and known demographic trends. Simply put, the federal government is on an imprudent and unsustainable long-term fiscal path. Addressing this challenge will require a multipronged approach. Moreover, the longer that action is delayed, the greater the risk that the eventual changes will be disruptive and destabilizing.

Finally, 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. A broad reconsideration of issues, such as the kind of information that may be relevant and useful for a sovereign nation, could lead to reporting enhancements that might help provide the Congress and the President with more useful financial information to deliberate strategies to address the nation's long-term fiscal challenge.