



Highlights of [GAO-10-483T](#), 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 annually audits the consolidated financial statements of the U.S. government (CFS). Congress and the President need reliable, useful, and timely financial and performance information to make sound decisions and conduct effective oversight of federal government programs and policies.

The federal government began preparing the CFS 13 years ago. Over the years, certain material weaknesses in internal control over financial reporting have prevented GAO from expressing an opinion on the accrual-based consolidated financial statements. Unless these weaknesses are adequately addressed, they will, among other things, continue to (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 2009 and discusses certain of the federal government's significant near- and long-term fiscal challenges.

What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management. The federal government has generally taken or plans to take actions to address our recommendations.

View [GAO-10-483T](#) or [key components](#). For more information, contact Jeanette M. Franzel or Gary T. Engel at (202) 512-2600 or Susan J. Irving at (202) 512-6806.

U.S. GOVERNMENT FINANCIAL STATEMENTS

Fiscal Year 2009 Audit Highlights Financial Management Challenges and Unsustainable Long-Term Fiscal Path

What GAO Found

For the third consecutive year, GAO rendered an unqualified opinion on the Statement of Social Insurance (SOSI). Given the importance of social insurance programs like Medicare and Social Security to the federal government's long-term fiscal outlook, the SOSI is critical to understanding the federal government's financial condition and fiscal sustainability. Three major impediments continued to prevent GAO from rendering an opinion on the federal government's consolidated financial statements other than the SOSI: (1) serious financial management problems at the Department of Defense, (2) federal entities' inability to adequately account for and reconcile intragovernmental activity and balances, and (3) an ineffective process for preparing the consolidated financial statements. In addition to the material weaknesses underlying these major impediments, GAO noted material weaknesses involving improper payments estimated to be at least \$98 billion for fiscal year 2009, information security, and tax collection activities.

The recession and the federal government's unprecedented actions intended to stabilize the financial markets and to promote economic recovery have significantly affected the federal government's financial condition. The resulting substantial investments and increases in liabilities, net operating cost, the unified budget deficit, and debt held by the public are reported in the U.S. government's consolidated financial statements for fiscal year 2009. The ultimate cost of these actions and their impact on the federal government's financial condition will not be known for some time in part because the valuation of these assets and liabilities is based on assumptions and estimates that are inherently uncertain. Looking ahead, the federal government will need to determine the most expeditious manner in which to bring closure to its financial stabilization initiatives while optimizing its investment returns. In addition, problems in the nation's financial sector have exposed serious weaknesses in the current U.S. financial regulatory system. If those weaknesses are not adequately addressed, we could see similar or even worse crises in the future. Consequently, meaningful financial regulatory reform is of utmost concern.

The federal government faces a long-term fiscal challenge resulting from large and growing structural deficits that are driven on the spending side primarily by rising health care costs and known demographic trends. GAO prepares long-term fiscal simulations that include projections of revenue and expenditures for all federal programs. As a result, these simulations present a comprehensive analysis of the sustainability of the federal government's long-term fiscal outlook. Many of the pressures highlighted in GAO's simulations, including health care cost growth and the aging population, have already begun to affect the federal budget—in some cases sooner than previously estimated—and the pressures only grow in the coming decade. For example, Social Security cash surpluses have previously served to reduce the unified budget deficit; however, the Congressional Budget Office recently estimated

that due to current economic conditions the program will run small temporary cash deficits for the next 4 years and then, similar to the Trustees' estimates, run persistent cash deficits beginning in 2016. The fluctuation and eventual disappearance of the Social Security cash surplus will put additional pressure on the rest of the federal budget. As shown in the figure, absent a change in policy, federal debt held by the public as a share of gross domestic product (GDP) could exceed the historical high reached in the aftermath of World War II by 2020—10 years sooner than GAO's simulation showed just 2 years ago. Although the economy is still fragile, there is wide agreement on the need to begin to change the long-term fiscal path as soon as possible without slowing the recovery because the magnitude of the changes required grows with time. Consequently, the administration and Congress will need to apply the same level of intensity to the nation's long-term fiscal challenge as they have to the recent economic and financial market issues. Congress recently enacted a return to statutory PAYGO and, in February, the President established a commission to identify policies to change the fiscal path and stabilize the debt-to-GDP ratio. In addition, comprehensive long-term fiscal projections will be required in the federal government's financial statements beginning in fiscal year 2010, under a new accounting standard.

Debt Held by the Public Under Two Fiscal Policy Simulations

