



Highlights of [GAO-12-444T](#), a testimony before the Subcommittee on Government Organization, Efficiency and Financial Management, 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. The 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.

However, 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 for fiscal year 2011 and discusses certain of the federal government's significant 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 GAO's recommendations.

View [GAO-12-444T](#). For more information, contact Robert F. Dacey or Gary T. Engel at (202) 512-3406.

March 1, 2012

FISCAL YEAR 2011 U.S. GOVERNMENT FINANCIAL STATEMENTS

The Federal Government Faces Continuing Financial Management and Long-Term Fiscal Challenges

What GAO Found

Three long-standing major impediments continued to prevent GAO from expressing an opinion on the federal government's accrual-based consolidated financial statements: (1) serious financial management problems at the Department of Defense (DOD) that have prevented DOD's financial statements from being audited, (2) federal entities' inability to adequately account for and reconcile intragovernmental activity and balances, and (3) the federal government's ineffective process for preparing the consolidated financial statements. GAO also reported material weaknesses involving billions of dollars in improper payments, information security, and tax collection activities. Also, GAO was prevented from expressing opinions on the 2011 and 2010 Statements of Social Insurance and the 2011 Statement of Changes in Social Insurance Amounts because of significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth reflected in the statements.

GAO is encouraged by the commitment of DOD leaders to improving DOD's financial management and achieving auditiability and by the congressional attention being given to this important matter. The Congress set statutory deadlines for DOD auditiability, convened a congressional panel to focus on the issue, and held several hearings on DOD financial management. The Secretary of Defense accelerated the timeline for DOD auditiability, setting a 2014 deadline for audit readiness of the Statement of Budgetary Resources, and DOD has issued a plan for meeting that date, which GAO is in the process of reviewing. The plan emphasizes the importance of leadership, including senior leaders and field commanders, to achieving DOD's goals, and it links accountability to performance appraisals. To meet their financial management and auditiability goals, DOD and its components will need to overcome significant challenges, including implementation of its financial improvement plan, deployment of supporting automated systems, and assessment and resolution of gaps in workforce skills.

The Department of the Treasury (Treasury) furthered its commitment to resolve unreconciled differences between federal entities regarding intragovernmental activity and balances, which included several short- and long-term initiatives. In addition, Treasury, in coordination with the Office of Management and Budget (OMB), implemented corrective actions during 2011 to address certain deficiencies regarding the preparation of the consolidated financial statements. Fully addressing the numerous issues in these areas will require a strong and sustained commitment by federal entities and leadership by Treasury and OMB.

The 2011 Financial Report of the United States Government included comprehensive long-term fiscal projections for the U.S. government, which provides a much needed perspective on the federal government's long-term fiscal position and outlook. These, like GAO's simulations, include the savings provided by the Budget Control Act of 2011. While assuming that the savings as a share of gross domestic product continue beyond the decade leads to an improvement in the long-term fiscal path, it does not make the path sustainable. Addressing the long-term fiscal imbalance is made more difficult by the need to balance achieving the goals of sustaining economic growth in the near term, while producing a plan to change the federal government's long-term fiscal path.