

FISCAL YEAR 2015 U.S. GOVERNMENT FINANCIAL STATEMENTS:

Need to Address the Government's Remaining Financial Management Challenges and Long-Term Fiscal Path

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What GAO Found

The *Financial Report of the U.S. Government* (*Financial Report*) provides important information to the Congress, federal agencies, and the public, including the government's financial condition and the reliability of data used to help support budget and financial decisions. While significant progress has been made in improving federal financial management over the past 20 years, material weaknesses in internal control over financial reporting and other limitations continued to prevent GAO from expressing an opinion on the government's accrual-based financial statements. Three major impediments are: (1) serious financial management problems at DOD, which represented 30 percent and 15 percent of the government's reported total assets and net costs, respectively; (2) the government's inability to adequately account for and reconcile a significant amount of intragovernmental activity and balances between federal entities, which resulted in hundreds of billions of dollars in differences; and (3) the government's ineffective process for preparing the U.S. government's consolidated financial statements (governmentwide financial statements).

Unless these weaknesses are adequately addressed, they will, among other things, continue to (1) hamper the government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (2) hinder the government from having reliable financial information to operate in an efficient and effective manner. Efforts are under way to resolve these issues, but strong and sustained commitment by DOD and other federal entities, as well as continued leadership by Treasury and OMB, are needed.

The *Financial Report* also helps to convey the long-term fiscal position of the federal government. However, significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, and a material weakness in internal control over financial reporting prevented GAO from expressing an opinion on the sustainability financial statements, including the new Statement of Long-Term Fiscal Projections. The sustainability financial statements are critical to understanding the government's financial condition and sustainability of current fiscal policies. Although the timing and size of the increase in debt as a share of gross domestic product varies depending on the assumptions used, both the long-term fiscal projections included in the governmentwide financial statements and GAO's own recent long-term fiscal simulations show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path.

Other challenges that need urgent attention are highlighted in the *Financial Report* , including (1) the significant and pervasive government-wide issue of improper payments, which totaled over \$1 trillion since fiscal year 2003, and (2) reducing the annual net tax gap, last estimated by IRS to be \$385 billion.

Finally, GAO has identified ways that Congress could consider for better linking decisions about the debt limit with decisions about spending and revenue at the time those decisions are made. These potential approaches would both achieve this link and minimize disruptions to the market.

Why GAO Did This Study

Congress and the President need reliable, useful, and timely financial and performance information to make difficult budget choices and deal with the nation's long-term fiscal challenges. To determine if this need is met, among other things GAO annually audits the governmentwide financial statements contained in the *Financial Report*.

Taken together, the *Financial Report* and the *Budget of the United States Government* (*Budget*) are complementary documents that provide a comprehensive perspective on the federal government's financial position and condition. The *Budget* accounts for government receipts, or cash received by the federal government, and spending (outlays), or payments made by the federal government to the public. The *Financial Report* includes the governmentwide financial statements, presenting the government's revenues and costs, assets and liabilities, and sustainability reporting, and discusses other important financial information.

This testimony discusses the federal government's remaining financial management challenges and long-term fiscal path, specifically in the context of GAO's report on the fiscal year 2015 governmentwide financial statements.

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.

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