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Subcommittee on Government Management, Organization and Procurement
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Thank you for inviting me to the Committee's hearing to discuss the Financial Report of the United States Government (Financial Report) for Fiscal Year 2008 and the related audit by the Government Accountability Office (GAO). The Financial Report, incorporating the consolidated government-wide financial statements, is designed to report on the financial position and condition of the Federal Government following U.S. Federal generally accepted accounting principles (GAAP). Your interest in improving Federal financial management is greatly appreciated. The Financial Report reflects the Treasury and the Office of Management and Budget's long-standing responsibility to provide the Congress and the public with timely and reliable information on the cost of the Government's operations, the sources used to fund them, and the implications of the Government's financial responsibilities.

Financial Highlights
The Government's net operating cost for fiscal year (FY) 2008 was just over $1 trillion—more than triple the net operating cost for the prior fiscal year. This increase resulted from Government revenues that stayed relatively flat, while costs increased due to the economic slowdown and significant revaluations of the Government's liabilities for post-employment benefits. The Government's budget deficit, for the fiscal year ended September 30, 2008, was $455 billion, which was more than double the deficit for the prior year.

The Government's balance sheet shows that its liabilities exceed its assets by more than $10 trillion dollars. Much of this difference is attributed to: 1) the Government's debt to the public of nearly $6 trillion and 2) more than $5 trillion in anticipated Federal employee and veterans' post-employment benefits and commitments for which funding (i.e., employee and employer contributions) has not yet been obtained.

The Government's Financial Challenges
Appropriately, the Financial Report discusses the key fiscal challenges facing the Federal Government. At the end of FY 2008, the Government had just begun to initiate a number of unprecedented actions to deal with the economic downturn. As such, the Financial Report discusses the financial impact on the Government's operations stemming from those steps that the Government took to restore stability in the U.S. financial system. While these events had minimal impact on the FY 2008 statements, they will almost certainly play a more substantial role in the FY 2009 statements.

Although the economy and market stabilization issues arose in FY 2008 and, of course, remain ongoing concerns, the longer-term issue of fiscal sustainability cannot be overlooked. Accordingly, the Report also discusses the Government's long-term fiscal challenges of funding the Social Security, Medicare, and Medicaid programs—programs which will account for a large and growing portion of total Government spending in both the near term and long term. The Report examines the projected expenditures and related revenues for these programs, as well as their potential impact on the Federal debt in the future. As reported in the Statement of Social Insurance, which is derived largely from Social Security's and Medicare's annual trust fund reports, the Government projects a revenue shortfall of $43 trillion for these programs, in present value terms, over the next 75 years.

Audit Results

For Fiscal Year 2008, GAO was again unable to express an opinion on most of the governmentwide financial statements that appear in the Financial Report. The lone exception was a 2nd consecutive unqualified or "clean" audit opinion on the Statement of Social Insurance, which shows the estimated net present value cost of the Government's exposures of its social insurance programs, primarily Social Security and Medicare, over 75 years. The disclaimer on the remainder of the statements stems from three long-standing and significant material weaknesses:

1. serious financial management control issues at the Department of Defense (DoD),

2. the Government's inability to adequately account for and reconcile intragovernmental activity and balances between agencies, and

3. the Government's deficiencies in the process for preparing the consolidated financial statements.

DoD continues to work toward resolution of its many accounting issues, including those pertaining to property, inventory, accounts payable and several other areas. DoD faces no small challenge in trying to integrate and modernize hundreds of financial systems, but the Department did show progress in FY 2008, as the Army Corps of Engineers obtained a clean audit opinion for the first time.

The Treasury Department, working with OMB and other Government agencies, has made considerable progress towards resolving the intragovernmental transactions and consolidation weaknesses. Intragovernmental transaction imbalances occur when two agencies conducting business with each other, as trading partners, record and report the same transaction differently. We are addressing this issue on several fronts, including requiring more detailed agency reporting, developing and using more precise tracking and monitoring tools, and using multi-agency committees to develop business rules, identify best practices for resolving differences, and facilitate actual resolution of intragovernmental imbalances.

We continue to make progress on the third material weakness, the need to improve the process of preparing and consolidating the Financial Report. We have made significant strides in the Financial Report's preparation and consolidation by developing and following detailed corrective action plans, including short-term and long-term strategies; enhancing our data collection systems to meet disclosure requirements prescribed by generally accepted accounting principles, improving and

fully documenting our standard operating procedures by developing a more robust internal control program; and enhancing and clarifying reporting guidance to Federal agencies to assure consistency with their underlying data.

In all, Treasury and OMB's efforts to date have resulted in the reduction of GAO findings and recommendations by more than two-thirds—from over 150 just a few years ago to just over 40 for the FY 2008 audit. During FY 2008, we continued to make significant progress, leading to the closure of 16 of 56 recommendations that were outstanding from previous audit reports. We have implemented major strategies to address these remaining 40 findings through contractor support, targeted task groups and extensive engagement of the CFO and audit community. In FY 2009, we expect to resolve 14 of these remaining 40 findings. GAO identified only 4 new issues in the FY 2008 audit, all of which we anticipate will be resolved within FY 2009.

I recognize that until our financial statements can withstand audit scrutiny, we will not benefit from the Financial Report's full value in informing the Congress and the public about the Government's fiscal position and condition. However, I am encouraged by the progress that we have seen to date, at both the agency and government-wide reporting levels, and we will continue to seek improvements to the immensely complex process required to produce a report that entails trillions of dollars and encompasses the operations of hundreds of Government entities.

Decision makers need not only reliable, but also timely information. While Treasury and the other agencies continue to work towards systems and process solutions, they continue to meet ambitious deadlines. Agencies continue to meet the OMB accelerated reporting deadline of November 15—just 45 days after fiscal year end, while Treasury continues to successfully compile the government-wide report from the many agency reports just 30 days later. In addition, 21 of 24 CFO agencies earned a unqualified opinion.

The Citizens' Guide

A common critique of the Financial Report of the U.S. Government is that, despite the fact that it contains more than 180 pages of detailed information on the Government's financial position and condition, it is not a practical document for communicating with the American citizen or the Congress. In response, beginning in FY 2007, the Treasury Department and OMB, in cooperation with GAO, developed and issued a summary report entitled, *The Government's Financial Health—A Citizen's Guide to the Financial Report of the U.S. Government*. This Guide, which is included in the Financial Report, provides a summary of the key data and issues addressed in the full Report in a "user-friendly" manner to the general public.

Conclusions

The process of producing the Financial Report of the U.S. Government and annual agency financial reports can have a significant impact on ensuring effective management and control of the Government's finances. The financial systems and business processes improvements that many agencies have made as a result of audited financial statements and accelerated timelines has led to better underlying financial data. We are now looking toward improving efficiency through standard systems and processes and a common language and structure for exchanging information and financial data among agencies and between agencies and Treasury.

Despite our recent accomplishments and progress, much work remains, and we will continue to work towards resolution of the Government's reporting process weaknesses. However, these reports are of limited or even minimal value if they go unread. As such, in addition to addressing process issues, we will also continue to seek ways to make the Financial Report and the information that it contains more relevant and useful to the general public.

Thank you, Mr. Chairman. This concludes my testimony. I look forward to your questions.