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Written Testimony
House Committee on Oversight and Government Reform
April 14, 2010**

Chairwoman Watson, 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 (FY) 2009 and the related audit by the Government Accountability Office (GAO). Your interest in improving Federal financial management is greatly appreciated.

Audit Results

The Financial Report is prepared from the audited financial statements of specifically designated Federal agencies, including Cabinet departments and many, smaller, independent agencies. In FY 2009, 20 of the 24 CFO Act agencies¹ earned unqualified opinions on their financial statement audits. It is particularly noteworthy that the Department of the Treasury itself received a clean audit this year. Given the number and complexity of the new programs that deal with the economic crisis, the clean opinion reflects exceptional work by Treasury and its auditor, GAO.

The U.S. Government also achieved a third consecutive unqualified or 'clean' audit opinion on the Statement of Social Insurance. However, for Fiscal Year 2009, GAO was again unable to express an opinion on the other governmentwide financial statements. The disclaimer on those statements stems from three long-standing material weaknesses: serious financial management control issues at the Department of Defense; the inability to adequately account for and reconcile intragovernmental activity and balances between agencies; and deficiencies in the process for preparing the consolidated financial statements.

We nevertheless have made progress in resolving many GAO findings over the years. Treasury and OMB's efforts to date have resulted in the reduction of GAO findings and recommendations by more than two-thirds - from more than 150 a few years ago to just over 40 for the FY 2008 audit.

A New Approach is Needed

But we have been less successful in fixing some basic structural problems. GAO, for example, has repeatedly identified our inability to balance the intragovernmental transactions between government agencies. While it will take all agencies working together to eliminate this material weakness, Treasury, working with OMB, will assume responsibility for fixing it.

¹ The Department of Defense, Homeland Security, NASA, and the Department of State did not receive unqualified opinions.

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The process for preparing the consolidated financial statements is also a material weakness. This material weakness includes numerous shortfalls, but most importantly there is a structural deficiency whereby key accounting components have not been included in our consolidation process. Treasury is developing an accounting structure to resolve this issue. This new structure will need to be tested and implemented, but within a couple of years we should be able to make significant improvements in the Financial Report preparation process.

Finally, Treasury, in concert with OMB and other agencies, will be identifying opportunities to use common systems to perform accounting and transaction processing. This will be coupled with a renewed energy to move away from paper processing and payments, to electronic processes. With more shared systems and more automated processes, costs will be reduced and the quality and timeliness of information will be improved.

Financial Highlights and Recovery Activities

The Government's mainly accrual-based net operating cost for FY 2009 increased nearly \$250 billion from a year earlier, to \$1.25 trillion. This increase resulted primarily from a substantial decline of more than \$460 billion in government revenues due in large part to the effects of the recession and the tax changes associated with the 2009 stimulus package. The Government's budget deficit for FY 2009 was \$1.4 trillion.

The Government's balance sheet shows that its liabilities exceed its assets by more than \$11 trillion dollars. The largest categories of liabilities are the Government's debt held by the public (\$7.6 trillion) and federal employee and veterans postemployment benefit liabilities of more than \$5 trillion.

For Fiscal Year 2009, the Government's balance sheet reflects the many investments that have been made pursuant to the economic recovery efforts. These include \$240 billion in outstanding Troubled Asset Relief Program (TARP) investments, as well as investments to Fannie Mae and Freddie Mac through preferred stock purchase agreements valued at \$65 billion and \$185 billion of mortgage-backed securities (MBS). It is important to note that the Financial Report also discloses significant activity that occurred after the end of FY 2009, including an additional \$90 billion repaid from TARP recipients and the modifying of the funding commitment cap for Fannie and Freddie.

Fiscal Sustainability

Although market stabilization and economic recovery were the priority during FY 2009, the continuing issue of fiscal sustainability is not being overlooked. The report 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. An important message conveyed in

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this year's Financial Report is that the longer that action to resolve these shortfalls is delayed, the greater the challenge will be to bring these important programs into fiscal balance.

Citizen's Guide

A common critique of the Financial Report of the U.S. Government is that, since it contains more than 200 pages of detailed information on the Government's financial position and condition, it is not a practical document for communicating with the American citizen. In response, 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* for the third year in a row. This Guide provides a summary of the key data and issues addressed in the full report in a more "user-friendly" manner to the general public.

Conclusion

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 improvements in financial systems and business processes that many agencies have made as a result of audited financial statements has led to better underlying financial data. However, the process of preparing the Financial Report is a complex one, with many needs and opportunities for improvement. Treasury looks forward to working with OMB, GAO, and the many Federal agencies involved to improve the process, and consequently, the Report itself.

Thank you, Chairwoman Watson. This concludes my testimony. I look forward to your questions.