

**Statement of Richard L. Gregg
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**House Committee on Oversight and Government Reform
Subcommittee on Government Organization, Efficiency, and Financial Management**

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Chairman Platts, thank you for inviting me to the Subcommittee's hearing to discuss the Fiscal Year (FY) 2010 Financial Report of the United States Government (Financial Report) and the related audit. Your interest in improving Federal financial management is greatly appreciated.

The Financial Report of the U.S. Government provides the President, Congress, and the American people with a comprehensive view of the Federal Government's finances, i.e., its financial position and condition, its revenues and costs, assets and liabilities, and other obligations and commitments. The Report also discusses important financial issues and significant conditions that may affect future operations. This year's Report gives emphasis to two key issues: the Government's ongoing efforts to strengthen the economy and create jobs, and the need to achieve fiscal sustainability over the medium and long term.

Fiscal Year 2010 Audit Results

The Financial Report is prepared from audited financial statements of the 35 largest Federal agencies, and other information provided by more than 100 smaller, independent agencies. In FY 2010, 31 of the largest agencies earned unqualified, or "clean", opinions on their financial statement audits.

For Fiscal Year 2010, the Government Accountability Office (GAO) was again unable to express an opinion on the government-wide financial statements, including the Statement of Social Insurance which was impacted by the delayed issuance of the Social Security and Medicare Trustees Reports.

The disclaimer on the remaining statements stems from three groups of long-term material weaknesses:

1. Serious financial reporting issues at the Department of Defense.
2. The Government's inability to adequately account for and reconcile intragovernmental activity and balances between agencies.
3. The Government's deficiencies in the process for preparing the consolidated financial statements.

As I will elaborate on later in this testimony, Treasury, working in cooperation with OMB and GAO, is actively pursuing a number of strategies and solutions to resolve these weaknesses and improve financial management across the Federal government.

Financial Highlights

As noted in the Financial Report, the Government's budget deficit, for the fiscal year ended September 30, 2010, decreased slightly from \$1.4 trillion to \$1.3 trillion. On an accrual basis the Government's net operating cost for fiscal year (FY) 2010 increased from \$1.3 trillion to \$2.1 trillion due primarily to substantial increases in estimated actuarial costs for the veteran benefit and Government employee programs that are not reflected in the budget deficit.

Revenues remained relatively stable in 2010 after a more than \$450 billion decrease in 2009. Notably, corporate tax revenues increased nearly 40 percent in FY 2010.

The Government recorded total assets of \$2.7 trillion and total liabilities of \$16 trillion, comprised largely of \$9 trillion in debt held by the public and \$5.7 trillion in Federal Employee and Veterans Benefit liabilities.

The Government's balance sheet also reflects that many investments made pursuant to the economic recovery efforts have been repaid or are generating positive returns. For example, Treasury has disbursed \$387.7 billion in direct loans and investments through the Troubled Asset Relief Program (TARP) through September 30, 2010. Over half (\$204.1 billion) of those TARP funds have been repaid, and the investments generated \$27.8 billion from cash received through interest dividends and the proceeds from the sale and repurchase of assets in excess of cost. As of September 30, 2010, TARP had \$179.2 billion in gross outstanding direct loans and equity investments, valued at \$142.5 billion.

Fiscal Sustainability

The Financial Report also discusses the long-term fiscal issues surrounding the funding of the Social Security, Medicare, and other social insurance programs.

The Statements of Social Insurance (SOSI) provide estimates of the status of the most significant social insurance programs: Social Security, Medicare, Railroad Retirement (RRB), and Black Lung. The estimates are actuarial present values of the projected expenditures and related revenues for the programs over a 75-year period (except for Black Lung) assuming current law remains in place indefinitely. Projections are based on the economic and demographic assumptions representing the trustees' best estimates as set forth in the Trustees Reports for Social Security and Medicare and in the annual financial statements for the Railroad Retirement Board and the Department of Labor (Black Lung).

The 2010 SOSI currently projects a social insurance shortfall of \$31 trillion over 75 years, compared to \$46 trillion in FY 2009. The important message conveyed in this year's report is consistent with previous years: that the sooner action is taken to resolve these shortfalls, the smaller the revenue increases and/or spending decreases necessary to return the Nation to a fiscally sustainable path.

The Citizen's Guide and the Financial Report on the Web

The Treasury Department, in cooperation with GAO and the Office of Management and Budget (OMB), issues an annual *Citizen's Guide*. This 10-page document summarizes the Financial Report's key information with the aid of "user-friendly" tables and charts. In addition, within the past month, the Treasury Department launched an enhanced Financial Report website. This improved site allows readers to: (1) more quickly and easily navigate through the Report, (2) view the source information for the Report's charts and graphs, and (3) access other related sites and information.

IMPROVING FINANCIAL MANAGEMENT

The Treasury Department, in cooperation with OMB and GAO, are actively pursuing a number of solutions and strategies aimed at resolving the long-standing Governmentwide audit weaknesses and improving financial management across the Government:

Addressing the Audit Weaknesses:

- DOD, Treasury, GAO, and OMB have agreed on and DOD is implementing a strategy to resolve some of DOD's more significant accounting and audit weaknesses, initially targeting important management information for expedient resolution and then focusing on other areas for future resolution.
- Treasury efforts have resulted in resolving tens of billions of dollars in intragovernmental imbalances. The absolute value of the intragovernmental differences fell from \$102 billion in FY 2009 to \$40 billion in FY 2010. Over the past few years, differences stemming from Treasury's borrowing and investment activities have been reduced from \$20 billion to \$167 million. Treasury intends to expand its detailed analytical approach during FY 2011. While good progress has been made, much work remains.
- It should be noted that while much work remains to resolve these weaknesses, we have reduced the number of GAO audit findings from over 150 to just 52 in FY 2009.
- The Department is currently developing a central account or 'General Fund' against which millions of transactions across hundreds of agencies can be reconciled and validated – a long unfulfilled need in the Federal Governments accounting process. With implementation expected in the next couple of years, this will be the cornerstone of the strategy to resolve this weakness.
- Treasury is developing a standard, government wide electronic invoice portal. Vendors can use the portal to submit invoices against any government purchase order. This will significantly reduce invoicing burdens and allow both agencies and their vendors to verify the current status of a payment on line. This effort will reduce costs and improve service.
- Treasury is developing a system and process to help resolve long-standing weaknesses in intragovernmental transaction processing and reconciliation. Agencies devote significant resources attempting to reconcile these transactions. Resolving this issue will reduce costs and improve the accuracy of financial transactions.

Other Financial Management Improvement Strategies and Actions:

- Treasury has expanded the use of electronic transactions, initiating plans to gradually eliminate paper check benefit payments, discontinue paper savings bond purchases, and discontinue paper tax deposits by businesses. These initiatives will reduce costs and increase efficiency. This effort is estimated to save \$600 million in the next five years.
- Treasury, working with OMB, has taken steps to significantly increase the collection of delinquent debt by more than \$5 billion over the next 10 years.
- Finally, Treasury is supporting OMB to reduce improper payments by establishing and supporting the Administration's VerifyPayment.gov portal to prevent ineligible recipients from receiving payments from the Federal government.

Conclusion

The information collected in 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 process of preparing the Financial Report is a complex one – dependent upon the coordinated efforts of thousands of dedicated personnel across hundreds of agencies. These individuals and organizations should be commended for their tremendous efforts each year to improve and ensure the integrity of the Federal Government's financial information. While vast improvements have been made in Federal financial management in recent years, opportunities for improvement remain, and budget realities compel us all to find ways to not only make the financial reporting process more effective and efficient. Treasury looks forward to working with OMB, GAO, and the many Federal agencies to improve Federal financial management.

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