



## Testimony

Before the Committee on Oversight  
and Government Reform, House of  
Representatives

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# FEDERAL DATA TRANSPARENCY

## Effective Implementation of the DATA Act Would Help Address Government-wide Management Challenges and Improve Oversight

Statement of Gene L. Dodaro  
Comptroller General of the United States

# GAO Highlights

Highlights of [GAO-15-241T](#), a testimony before the Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

The federal government spends \$3.5 trillion annually, but data on this spending are often incomplete or have quality limitations. Effective implementation of the DATA Act would help address the federal government's persistent management and oversight challenges by providing for standardized, high-quality data. The DATA Act also will increase the accessibility of data to benefit the public and the business community by requiring, among other things, that data be made available in machine-readable and open formats.

This statement focuses on (1) the condition of information detailing federal spending as reported in our June 2014 report; (2) efforts to date to implement and plan for meeting key provisions of the DATA Act, including potential implementation challenges as well as GAO's plan; (3) the importance of the DATA Act for addressing government management and oversight challenges; and (4) results of GAO's audit of the fiscal year 2013 U.S. government's financial statements, including efforts to improve financial management at DOD.

This statement is primarily based upon our published and on-going work covering GAO's work on federal data transparency, fragmentation, overlap and duplication, improper payments, and government efficiency, effectiveness, and financial reporting.

GAO has made numerous recommendations to OMB, Treasury, and other executive branch agencies in these areas, and this statement reports on the status of selected recommendations.

View [GAO-15-241T](#). For more information, contact J. Christopher Mihm, (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov) and Gary T. Engel, (202) 512-3406, [engelg@gao.gov](mailto:engelg@gao.gov).

December 3, 2014

## FEDERAL DATA TRANSPARENCY

### Effective Implementation of the DATA Act Would Help Address Government-wide Management Challenges and Improve Oversight

## What GAO Found

GAO's prior work on federal data transparency has found persistent challenges related to the quality and completeness of the spending data agencies report to [USAspending.gov](#). For example, GAO reported in June 2014 that roughly \$619 billion in assistance awards were not properly reported. In addition, few reported awards—between 2 and 7 percent—contained information that was fully consistent with agency records for all 21 data elements GAO examined. GAO's work also found that a lack of government-wide data standards limits the ability to measure the cost and magnitude of federal investments and hampers efforts to share data across agencies to improve decision-making and oversight.

The Digital Accountability and Transparency Act of 2014 (DATA Act) was enacted to help address these challenges. Among other things, the DATA Act requires (1) the establishment of governmentwide data standards by May 2015, (2) disclosure of direct federal spending with certain exceptions, (3) agencies to comply with the new data standards, and (4) Inspectors General audits of the quality of the data made available to the public.

Initial implementation efforts are focused on obtaining public input, developing data standards and establishing plans to monitor agency compliance with DATA Act provisions. These efforts include, for example, a data transparency town hall meeting co-hosted by the U.S. Department of the Treasury (Treasury) and the Office of Management and Budget (OMB) to obtain public stakeholder input on the development of data standards, and Treasury Inspector General's efforts, in consultation with GAO, to develop a comprehensive audit framework to assess agency compliance and ensure new standardized data elements are effective once implemented. Effective implementation will need to address key technical issues including developing and defining common data elements across multiple reporting areas and enhancing data transparency while protecting individual privacy and national security.

Effective implementation would help promote transparency to the public and address ongoing government management challenges by expanding the quality and availability of federal spending data. Having better data also will make it possible to gauge the magnitude of the federal investment, help agencies make fully informed decisions about how federal resources should be allocated, and provide agencies and the audit community with additional data analytic tools to detect and prevent improper payments and fraudulent spending.

GAO also reports on its annual audit of the consolidated financial statements of the U.S. government. Almost all of the 24 Chief Financial Officers Act agencies received unmodified ("clean") opinions on their respective entities' fiscal year 2013 financial statements. However, three long-standing major impediments, including serious financial management problems at the U.S. Department of Defense (DOD), prevented GAO from expressing an opinion on the U.S. government's 2013 accrual-based consolidated financial statements. In addition, while progress has been made to reduce the deficit in the near term, comprehensive long-term fiscal projections, consistent with GAO's recent simulations, show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path.

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Chairman Issa, Ranking Member Cummings, and Members of the Committee:

Thank you for the opportunity to discuss the implementation of the Digital Accountability and Transparency Act of 2014 (DATA Act) and its potential for addressing persistent government management challenges.<sup>1</sup> I would like to begin by commending the Committee for its central role in the passage of the DATA Act earlier this year and for holding this hearing to help promote its effective implementation. Without the Committee's sustained attention and leadership over time, the DATA Act would not be a reality. While the full promise of the act will not be realized for several years, early planning and careful oversight can help build a foundation so that key provisions of the act are effectively implemented in a timely manner.

As you know, the federal government faces long standing management and oversight challenges: overlapping programs and improper payments are just two examples. Addressing these challenges is difficult in part because of the limited quality and availability of federal spending data. Our earlier work also demonstrated the importance of data standards for improving the quality of federal spending information made available to the public.<sup>2</sup> To help resolve these issues, the DATA Act aims to improve the quality and completeness of the data that agencies must provide to the government website, USASpending.gov, in order to make information on federal spending more accountable, transparent, and accessible. The act also requires the Department of the Treasury (Treasury) to establish common standards for financial data provided by all government agencies. These actions would help make spending data comparable across programs, allowing executive branch agencies and Congress to accurately measure the costs and magnitude of federal investments as well as to help identify fraudulent spending.

To operate as effectively and efficiently as possible and to make difficult decisions to address the federal government's fiscal challenges,

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<sup>1</sup>Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014) (*codified at* 31 U.S.C. § 6101 note) The DATA Act amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA).

<sup>2</sup>GAO, *Federal Data Transparency: Opportunities Remain to Incorporate Lessons Learned as Availability of Spending Data Increases*, [GAO-13-758](#) (Washington, D.C.; Sept. 12, 2013).

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Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and for the federal government as a whole. Overall, significant progress has been made since the enactment of key federal financial management reforms in the 1990s; however, our report on the U.S. government’s consolidated financial statements underscores that much work remains to improve federal financial management and that these improvements are urgently needed.

My testimony today will address four topics: 1) the condition of information detailing federal spending; 2) efforts to date to implement and plan for meeting key provisions of the DATA Act, including potential implementation challenges, as well as GAO’s plan; 3) the importance of the DATA Act for addressing government management and oversight challenges; and 4) results of our audit of the fiscal year 2013 U.S. government’s financial statements, including efforts to improve financial management at the Department of Defense (DOD). As you know, to avoid interference with the auditability of DOD’s financial statements, the DATA Act provides DOD with the opportunity to request from OMB up to three 6-month extensions to report financial and payment information in accordance with data standards established under the act.<sup>3</sup>

My statement is based on our prior work on USASpending.gov,<sup>4</sup> federal data transparency<sup>5</sup>, our most recent audit of the U.S. government’s consolidated financial statements,<sup>6</sup> and our work on the nation’s long-term fiscal condition.<sup>7</sup> We also reviewed reports by the Government

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<sup>3</sup>FFATA, § 4(c)(2)(B).

<sup>4</sup>GAO, *Data Transparency: Oversight Needed to Address Underreporting and Inconsistencies on Federal Award Website*, [GAO-14-476](#) (Washington, D.C.: June 30, 2014) and *Electronic Government: Implementation of the Federal Funding Accountability and Transparency Act of 2006*, [GAO-10-365](#) (Washington, D.C.: Mar. 12, 2010).

<sup>5</sup>GAO, *Federal Data Transparency: Opportunities Remain to Incorporate Lessons Learned as Availability of Spending Data Increases*, [GAO-13-758](#) (Washington, D.C.: Sept. 12, 2013).

<sup>6</sup>GAO, *Financial Audit: U.S. Government’s Fiscal Years 2013 and 2012 Consolidated Financial Statements*, [GAO-14-319R](#) (Washington, D.C.: Feb. 27, 2014).

<sup>7</sup>GAO, *Fiscal Outlook: Federal Fiscal Outlook* (Spring 2014), (Washington, D.C.: 2014), accessed on Nov. 26, 2014, [http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview).

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Accountability and Transparency Office, the Recovery Accountability and Transparency Board (Recovery Board) and Treasury, and presentations on data standards from federal agencies and entities representing a range of federal fund recipients. We also met with Treasury and Office of Management and Budget (OMB) officials to discuss the plans and status of DATA Act implementation.

We conducted the work that informs this testimony in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Much Work Remains to Improve the Quality of Federal Spending Data

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### Congress and the Administration Have Acted to Make More Data Available and Accessible

The federal government spends more than \$3.5 trillion annually, but data on this spending lack transparency. Moreover, the data are often incomplete or have quality limitations. To address these data issues, several statutes were enacted over the last decade, including:

- The first, the Federal Funding Accountability and Transparency Act of 2006 (FFATA), required OMB to establish a website to provide information on grant and contract awards, and subawards.<sup>8</sup> This information is available at [www.USASpending.gov](http://www.USASpending.gov).
- The second, the American Recovery and Reinvestment Act of 2009 (Recovery Act), which provided approximately \$840 billion in funding, required that funding recipients' reports on award and spending data

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<sup>8</sup>Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006) (*codified at* 31 U.S.C. § 6101 note). FFATA was amended on June 30, 2008, by section 6202(a) of Public Law 110-252. 122 Stat. 2323, 2387.

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be made available on a website.<sup>9</sup> Today, data related to Recovery Act funding is available at [www.Recovery.gov](http://www.Recovery.gov).<sup>10</sup> Information on the spending and distribution of Hurricane Sandy funds are available on that site as well.<sup>11</sup>

- The third, the Digital Accountability and Transparency Act of 2014 (DATA Act), expands FFATA so that taxpayers and policy makers can track federal spending more effectively. When fully implemented in 2018, the DATA Act will require federal agencies to disclose their direct expenditures and link federal contract, loan, and grant spending information to agency programs. That data are to be available on the web in machine-readable and open formats. The act also requires the establishment of government-wide financial data standards and simplified reporting requirements for entities receiving federal funds. Lastly, to improve the quality of data submitted to USA Spending.gov, the act requires Inspectors General (IG) to assess the completeness, timeliness, quality, and accuracy of the spending data submitted by their respective agencies and the use of the data standards. To assist with that effort, the DATA Act also calls for the establishment of a pilot program, with participants to include, among others, a diverse group of recipients of federal awards. The purpose of the pilot program is to develop recommendations for 1) the standardization of reporting elements across the federal government, 2) the elimination of unnecessary duplication in financial reporting, and 3) the reductions of compliance costs for recipients of federal funds.

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<sup>9</sup>Pub. L. No. 111-5, §§ 1512, 1526, 123 Stat. 115, 287–288, 293–294 (Feb. 17, 2009).

<sup>10</sup>Current authorization for the Recovery Accountability and Transparency Board will sunset on September 30, 2015 and the board has decided not to renew the licensing agreement that allows for the display of certain recipient-related data. As of October 1, 2014, maps, charts, and graphs on the site no longer reflect this information. This change also included the removal of the recipient profiles as well as the cumulative national download file.

<sup>11</sup>See, Pub. L. No. 113-2, div. A, § 904(d), 127 Stat. 4, 18 (May 9, 2013).

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Persistent  
USASpending.gov  
Challenges Highlight the  
Need for Strong  
Leadership of DATA Act  
Implementation

Strong and consistent leadership will be needed to ensure the DATA Act is fully implemented. Our work underscores this point, as we have found that unclear guidance and weaknesses in oversight have contributed to persistent challenges with data on USASpending.gov. These challenges relate to the quality and completeness of data submitted by federal agencies. In 2010, we reported that USASpending.gov did not include information on awards from 15 programs at nine agencies for fiscal year 2008.<sup>12</sup> Also in that report, we looked at a sample of 100 awards on the website and found that each award had at least one data error. To address this problem, we recommended that OMB include all required data on the site, ensure complete reporting, and clarify guidance for verifying agency-reported data. OMB generally agreed with our findings and recommendations, and subsequently issued additional guidance on agency responsibilities. Our most recent report on this subject reinforces these earlier findings.

In June 2014, we reported that while agencies generally reported contract information as required, many assistance programs (e.g., grants or loans) were not reported.<sup>13</sup> Specifically, we found agencies did not appropriately submit the required information on 342 assistance award programs totaling approximately \$619 billion in fiscal year 2012, although many reported the information after we informed them of the omission. In addition, we found few awards on the website contained information that was fully consistent with agency records. We found that only between 2 percent and 7 percent of the awards contained information that was fully consistent with agencies' records for all 21 data elements we examined. The element that identifies the name of the award recipient was the most consistent, while the elements that describe the award's place of performance were generally the most inconsistent. To address these problems, we recommended the Director of OMB (1) clarify guidance on reporting award information and maintaining supporting records and (2) develop and implement oversight processes to ensure that award data are consistent with agency records. OMB generally agreed with our recommendations and we will continue to monitor OMB's implementation.

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<sup>12</sup>GAO, *Electronic Government: Implementation of the Federal Funding Accountability and Transparency Act of 2006*, [GAO-10-365](#) (Washington, D.C.: Mar. 12, 2010).

<sup>13</sup>GAO, *Data Transparency: Oversight Needed to Address Underreporting and Inconsistencies on Federal Award Website*, [GAO-14-476](#) (Washington, D.C.: June 30, 2014).

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## DATA Act Implementation Efforts Under Way Need to Address Known Challenges

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### Initial Actions Are Focused on Data Standards, Stakeholder Outreach, and Establishing Plans to Monitor Compliance

Across the federal government, initiatives are under way to implement key provisions of the DATA Act. Among these provisions is a requirement for OMB and Treasury to consult with public and private stakeholders in establishing data standards. In response, Treasury and OMB convened a data transparency town hall meeting in late September 2014 so the public could provide input to Treasury officials responsible for developing data standards. The event drew more than 200 participants from the public and private sector, including congressional staff and representatives from federal agencies, state and local governments, private industry, and transparency advocacy organizations. Agency officials provided information on efforts to standardize federal financial management data and members of the public shared their views on the importance of data standards and recommendations for successful implementation.

In addition, on September 26, 2014, Treasury published notice in the *Federal Register* seeking public comment on the establishment of financial data standards by November 25, 2014.<sup>14</sup> These actions are consistent with our recommendations based on lessons learned from the implementation of both USAspending.gov and Recovery.gov. These lessons stressed the importance of obtaining input from federal agencies, recipients, and subrecipients early in the development of new transparency systems to minimize reporting burden.

The DATA Act also calls on Treasury to establish a data analysis center or to expand an existing service, to provide data, analytic tools, and data management techniques for preventing or reducing improper payments and improving the efficiency and transparency in federal spending. The act also directs Treasury to work with federal agencies, including IGs and federal law enforcement agencies, to provide data from the data analysis

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<sup>14</sup>79 Fed. Reg. 58,045.

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center to identify and reduce fraud waste and abuse and for use in the conduct of criminal investigations, among other purposes.<sup>15</sup> In response to this requirement, Treasury established the Data Transparency Office which is working with the Recovery Board to transfer assets from the board's Recovery Operations Center to Treasury.<sup>16</sup> Treasury has also assumed program responsibility for USASpending.gov to display accurate government-wide spending data to the public, as called for in the act.

Building on lessons learned from the implementation of the Recovery Act, the DATA Act's provisions also ensure that implementation will be closely monitored. These provisions require IGs and us to assess the implementation of the act throughout the next 7 years (see figure 1 for a timeline of key DATA Act provisions). The DATA Act requires the Inspectors General to assess the completeness, timeliness, quality and accuracy of spending data submitted by their respective agencies and the use of the data standards. These reports are due 18 months after OMB and Treasury issue data standards guidance and then within 2 and 4 years after that. The Treasury IG is leading the IG community's efforts to develop a comprehensive framework of audit procedures, in consultation with us, to ensure IGs meet their auditing and reporting responsibilities under the act. The Treasury IG is also reviewing Treasury's standup of a Transparency Office and Treasury's efforts to improve USASpending.gov, as well as Treasury's plans to implement its responsibilities under the DATA Act.

We are fully prepared to meet the DATA Act's oversight and consultative roles for us as well. The act requires us to review IG reports on agency spending data quality and use of data standards in compliance with the act, and IGs are to consult with us to assess the completeness and accuracy of agency data. We are working with the Treasury IG and through the Council of Inspectors General for Integrity and Efficiency to develop common audit procedures and practices across the federal accountability community to avoid duplication. We are also working to ensure that the Treasury's implementation efforts follow good consultative practices, and that views from both federal and nonfederal stakeholders

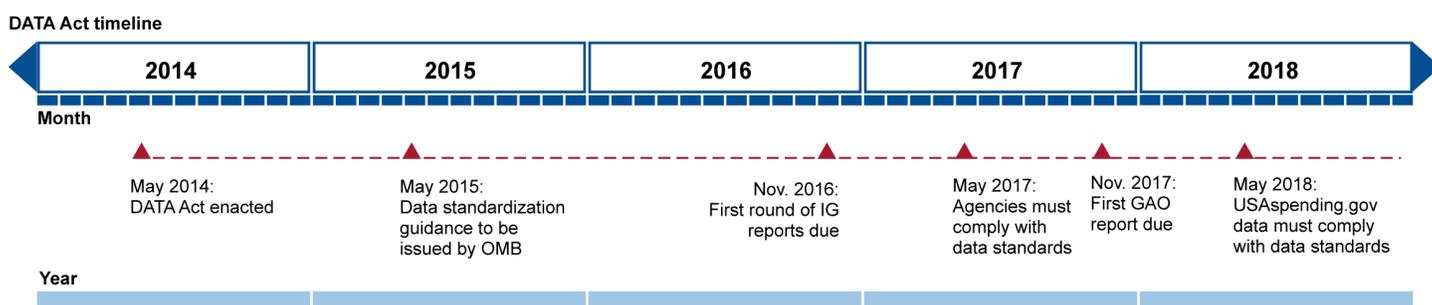
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<sup>15</sup>FFATA, § 6(c)(2).

<sup>16</sup>The Recovery Act established the Recovery Accountability and Transparency Board, a team of federal Inspectors General (IGs) tasked with conducting and coordinating oversight of Recovery funds. Recovery Act, div. A, §§ 1521–1530, 123 Stat. at 289–294.

are appropriately considered as data standards are developed. We also will evaluate the data standards to ensure that they are complete, clear, and at the right level of specificity. Toward that end, we plan to provide an interim report to the Congress in 2015 on the establishment of the standards.

**Figure 1: Digital Accountability and Transparency Act of 2014: Timeline of Key Provisions**



Source: GAO analysis of Pub. L. 113-101, 128 Stat. 1146. | GAO-15-241T

Note: Inspectors General (IG) and GAO are required to report two additional times at two and four years after their respective initial reports. If the guidance is issued earlier than one year after passage, dates that follow would move up commensurately.

## DATA Act Implementation Needs to Address Key Technical Issues

To effectively implement the DATA Act, the federal government will need to address multiple technical issues. The first of these issues involves developing and defining common data elements across multiple reporting areas. Among the lessons learned from the implementation of the Recovery Act's transparency provisions was the value of standardized data for improving data quality and transparency, including uniform information for contracts and financial assistance awards. To address this issue for DATA Act implementation, the DOD and the Department of Health and Human Services (HHS) are examining data elements used by the procurement and grants communities to identify financial data elements common to both communities that can be standardized.<sup>17</sup> Their assessment focuses on 72 data elements that are linked to five data

<sup>17</sup>DOD and HHS staff provided a briefing on their collaborative financial assistance (grants) and acquisition (procurement) data standards efforts to members of the Government Accountability and Transparency Board on July 30, 2014, as part of their ongoing efforts to provide strategic direction for enhancing federal spending data standardization.

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areas: (1) identification of award; (2) awardee/recipient information; (3) place of performance; (4) period of performance; and (5) identification of agencies. HHS and DOD were able to reach agreement on a basic set of data elements that could be standardized across the procurement and award communities. Some of the elements will require changes in policy, while in other cases agencies will have to change how they collect and report data. Plans to identify and coordinate recommended policy changes with OMB are under way.

Another related issue is how to enhance data transparency while protecting individual privacy and national security. The DATA Act does not require the disclosure of any information that is exempt from disclosure under the Freedom of Information Act, including information that is specifically authorized to be kept secret in the interest of national defense or foreign policy.<sup>18</sup> Additionally, the DATA Act does not require federal agencies to report direct payments to individuals.<sup>19</sup> However, some federal agencies have raised concerns about how privacy and national security can be maintained if more data are made available.

In January 2013, we co-hosted a forum on data analytics with the Recovery Board and The Council of Inspectors General for Integrity and Efficiency. The forum brought together representatives from federal, state, and local agencies and the private sector to explore the use of data analytics—which involve a variety of techniques to analyze and interpret data—to help identify fraud, waste, and abuse in government. Forum participants identified opportunities to enhance data-analytics efforts, such as consolidating data and analytics operations in one location to increase efficiencies by enabling the pooling of resources as well as accessing and sharing of the data to enhance oversight. The forum participants also identified a variety of challenges that hinder their abilities to share and use data. For example, forum participants cited statutory requirements that place procedural hurdles on agencies wishing to perform data matching to detect fraud, waste, and abuse, and technical obstacles—such as the lack of uniform data standards across agencies—which make it more difficult for oversight and law enforcement entities to

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<sup>18</sup>31 U.S.C. § 6101 note, FFATA, § 7.

<sup>19</sup>31 U.S.C. § 6101 note, FFATA, § 2(a)(2)(C)(i).

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share available data.<sup>20</sup> To continue the dialogue on issues related to coordination and data sharing, we formed the Government Data Sharing Community of Practice (CoP). In 2013 and 2014, the CoP partnered with a variety of organizations, including MITRE and the National Intergovernmental Audit Forum, to host a series of events for the audit community to discuss legal issues and technological challenges to data sharing.

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## Effective Implementation of the DATA Act Would Help Address Ongoing Government Management Challenges and Enhance Oversight

When fully and effectively implemented, the DATA Act holds great promise for improving the efficiency and effectiveness of the federal government, and for addressing persistent government management challenges. Expanding the quality and availability of federal spending data will better enable federal program managers to make data-driven decisions about how they use government resources to meet agency goals. Providing open and consumable federal data will enable innovation and help new and existing businesses to use data to inform activities. By expanding the quality and availability of federal spending data, the DATA Act also holds great promise for enhancing government oversight and preventing and detecting fraud, waste and abuse.

Our work on examining fragmentation, overlap and duplication in federal government programs has demonstrated the need for more reliable and consistent federal data, which implementation of the DATA Act should produce. As we have reported and I have testified before this Committee, better data and a greater focus on expenditures and outcomes are essential to improving the efficiency and effectiveness of federal efforts.<sup>21</sup> Currently, there is not a comprehensive list of all federal programs and agencies often lack reliable budgetary and performance information about their programs.

Without knowing the scope, cost, or performance of programs, it is difficult for executive branch agencies or Congress to gauge the magnitude of the federal commitment to a particular area of activity, or the

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<sup>20</sup>For a summary of the key themes from the forum see GAO, *Highlights of a Forum: Data Analytics for Oversight and Law Enforcement*, [GAO-13-680SP](#) (Washington, D.C.: July 15, 2013).

<sup>21</sup>GAO, *Government Efficiency and Effectiveness: Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-14-478T](#) (Washington, D.C.: Apr. 8, 2014).

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extent to which associated federal programs are effectively and efficiently achieving shared goals. Moreover, the lack of reliable, detailed budget information makes it difficult to estimate the cost savings that could be achieved should Congress or agencies take certain actions to address identified fragmentation, overlap, and duplication. Absent this information, Congress and agencies cannot make fully informed decisions on how federal resources should be allocated and the potential budget trade-offs.

Implementing data standards across the federal government, as required under the DATA Act, could help address another ongoing challenge: the need for reliable and consistent agency program information. We recently examined the implementation of the agency program inventory requirements under the GPRA Modernization Act of 2010 (GPRAMA)<sup>22</sup> and found that inconsistent program definitions and program-level budget information limit comparability among like programs.<sup>23</sup> In developing the inventory, OMB allowed for significant discretion in several areas leading to a variety of approaches for defining programs and inconsistencies in the type of information reported. The inconsistent definitions, along with agencies not following an expected consultation process, led to challenges in identifying similar programs in different agencies. The lack of program comparability hampers decision makers' ability to identify duplicative programs and accurately measure the cost and magnitude of federal investments.

In addition, we found that although GPRAMA requires agencies to identify program-level funding, OMB did not direct agencies to include this information in their 2013 inventories and it was not included in the May 2014 update. OMB officials told us that they put the 2014 update on hold to determine how to merge these requirements with DATA Act transparency requirements since both laws require web-based reporting.

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<sup>22</sup>Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011). GPRAMA updated the Government Performance and Results Act of 1993 (GPRA), Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993). GPRAMA requires OMB to make publically available an inventory of all federal programs identified by agencies to enable decision makers to identify duplicative programs and to make it easier to determine the scope of the federal government's investments in a particular area. Under the act, agencies are to provide program-level funding and performance information and OMB is required to publish the inventory on a central government-wide website.

<sup>23</sup>GAO, *Government Efficiency and Effectiveness: Inconsistent Definitions and Information Limit the Usefulness of Federal Program Inventories*, [GAO-15-83](#) (Washington, D.C.: Oct. 31, 2014).

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Implementing data standards across the federal government, as required under the DATA act, could help address this ongoing challenge.

Effective implementation of the DATA Act could also provide additional data analytic tools for agencies to detect, reduce, and prevent improper payments. Throughout the past decade, we have reported and testified on improper payment issues across the federal government, as well as at specific agencies. In July, we testified that federal agencies reported an estimated \$105.8 billion in improper payments in fiscal year 2013 that were attributable to 84 programs spread among 18 agencies.<sup>24</sup> The Improper Payments Elimination and Recovery Improvement Act of 2012 is the latest in a series of laws aimed at addressing this issue.<sup>25</sup> The act requires that agencies verify benefit eligibility by checking multiple existing databases before making a payment to a person or entity. The act also modified requirements to promote computer matching activities that assist in the detection and prevention of improper payments.

As we have previously found, a number of strategies across government, some of which are under way, could help to reduce improper payments, including (1) designing and implementing strong preventive controls activities such as up-front validation of eligibility through data sharing and predictive analytic tests and (2) implementing effective detection techniques to quickly identify and recover improper payments after they have been made. By establishing a data analysis center to provide data, analytical tools, and data management techniques, the DATA Act could also help address this problem.

The open data provisions of the DATA Act will also enhance the federal government's emerging use of data analytics capabilities to conduct incisive analysis to support oversight, improve decision-making by federal program managers, and foster innovation by making more federal data available to the public. This oversight will include, but not be limited to, the detection and prevention of fraud, waste and abuse as well as analysis of improper payments and overlap, duplication, and fragmentation across federal programs. For example, we plan to leverage open data as part of our piloting of data analytic technologies, which

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<sup>24</sup>GAO, *Improper Payments: Government-Wide Estimates and Reduction Strategies*, [GAO-14-737T](#) (Washington, D.C.: July 9, 2014).

<sup>25</sup>Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013) (*codified at* 31 U.S.C. § 3321 note).

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include (1) data mining for improper payments analysis; (2) link analysis for fraud identification and mitigation; (3) document clustering and text mining for overlap and duplication analysis; and (4) network analysis for program coordination assessment, among other potential endeavors.

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## Results of Our Audit of the U.S. Government's Consolidated Financial Statements for Fiscal Years 2013 and 2012

As in prior years, the federal government was unable to demonstrate the reliability of significant portions of its accrual-based consolidated financial statements for fiscal years 2013 and 2012,<sup>26</sup> principally resulting from limitations related to certain material weaknesses<sup>27</sup> in internal control over financial reporting.<sup>28</sup> For example, about 33 percent of the federal government's reported total assets as of September 30, 2013, and approximately 16 percent of the federal government's reported net cost for fiscal year 2013 relate to DOD, which received a disclaimer of opinion on its consolidated financial statements. As a result, we were unable to provide an opinion on the accrual-based consolidated financial statements of the U.S. government. Further, significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2013, 2012, 2011, and 2010 Statements of Social Insurance,<sup>29</sup> prevented us from expressing opinions on those

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<sup>26</sup>The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2013, and 2012 consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Unified Budget Deficit, (4) Statements of Changes in Cash Balance from Unified Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis. The 2013, 2012, 2011, 2010, and 2009 Statements of Social Insurance and the 2013 and 2012 Statements of Changes in Social Insurance Amounts, including the related notes, are also included in the consolidated financial statements.

<sup>27</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

<sup>28</sup>A detailed description of the material weaknesses that contributed to our disclaimer of opinion, including the primary effects of these material weaknesses on the accrual-based consolidated financial statements and on the management of federal government operations, can be found on pages 236 through 241 of the Financial Report. We also reported certain other material weaknesses in internal control. A detailed discussion of these can be found on pages 242 through 245 of the Financial Report.

<sup>29</sup>These uncertainties can be found on pages 223 through 224 of the Financial Report.

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statements,<sup>30</sup> as well as on the 2013 and 2012 Statements of Changes in Social Insurance Amounts.

It is important to note, however, that since the enactment of key financial management reforms in the 1990s, significant progress has been made in improving financial management activities and practices. For fiscal year 2013, almost all of the 24 Chief Financial Officers (CFO) Act agencies received unmodified (“clean”) audit opinions on their respective entities’ financial statements, up from 6 CFO Act agencies for fiscal year 1996. Also, for the first time, the Department of Homeland Security was able to obtain an unmodified audit opinion on all of its financial statements—a significant achievement.

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### Addressing Impediments to an Opinion on the Accrual-Based Consolidated Financial Statements

Three major impediments continued to prevent us from expressing an opinion on the U.S. government’s accrual-based consolidated financial statements: (1) serious financial management problems at DOD that have prevented its financial statements from being auditable, (2) the federal government’s inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and (3) the federal government’s ineffective process for preparing the consolidated financial statements.

### Improving Financial Management at DOD

Having sound financial management practices and reliable, timely financial information is important to ensure accountability over DOD’s extensive resources to efficiently and economically manage the department’s assets, budgets, mission, and operations. Accomplishing this goal is a significant challenge given the worldwide scope of DOD’s mission and operations; the diversity, size, and culture of the organization; and its reported trillions of dollars of assets and liabilities and its hundreds of billions of dollars in annual appropriations. Given the federal government’s continuing fiscal challenges, reliable and timely financial and performance information is important to help federal

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<sup>30</sup>We issued an unmodified opinion on the Statement of Social Insurance for 2009. Statements of Social Insurance are presented for the current year and each of the 4 preceding years in accordance with U.S. generally accepted accounting principles. Also, both the Statements of Social Insurance and the Statements of Changes in Social Insurance Amounts do not interrelate with the accrual-based consolidated financial statements.

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managers ensure fiscal responsibility and demonstrate accountability; this is particularly true for DOD, the federal government's largest department.

DOD continues to work toward the long-term goal of improving financial management and full financial statement auditability. The National Defense Authorization Act (NDAA) for Fiscal Year 2010 requires that DOD's Financial Improvement and Audit Readiness (FIAR) Plan<sup>31</sup> set as its goal that the department's financial statements be validated as ready for audit by September 30, 2017.<sup>32</sup> In addition, the NDAA for Fiscal Year 2013 required that the FIAR Plan also describe specific actions to be taken, and their associated costs, to ensure that DOD's Statement of Budgetary Resources (SBR) would be validated as ready for audit by September 30, 2014.<sup>33</sup>

DOD's current FIAR strategy and methodology focus on two priorities—budgetary information and asset accountability—with an overall goal of preparing auditable department-wide financial statements by September 30, 2017. Based on difficulties encountered in auditing the SBR of the U.S. Marine Corps, DOD made a significant change to its FIAR Guidance that will limit the scope of the first-year SBR audits for all DOD components.<sup>34</sup> As outlined in the November 2014 FIAR Plan Status Report and the November 2013 revised FIAR Guidance, the scope of the

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<sup>31</sup>DOD's FIAR Plan is a strategic plan and management tool for guiding, monitoring, and reporting on the department's ongoing financial management improvement efforts and for communicating the department's approach to addressing its financial management weaknesses and achieving financial statement audit readiness. The FIAR Plan was last updated in November 2014.

<sup>32</sup>Section 1003 of the National Defense Authorization Act for Fiscal Year 2010, made the development and maintenance of the FIAR Plan a statutory requirement. Pub. L. No. 111-84, 123 Stat. 2190, 2439-41 (Oct. 28, 2009) (*codified at* 10 U.S.C. § 2222 note). Under the act, the FIAR Plan must describe specific actions to be taken and the costs associated with ensuring that DOD's financial statements are validated as ready for audit by September 30, 2017. More recently, the National Defense Authorization Act for Fiscal Year 2014, also mandates a full audit of DOD's fiscal year 2018 financial statements, and that those results be submitted to Congress by March 31, 2019. Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (Dec. 26, 2013) (*codified at* 10 U.S.C. § 2222 note).

<sup>33</sup>NDAA for Fiscal Year 2013, Pub. L. No. 112-239, § 1005(a), 126 Stat. 1632, 1904 (Jan. 2, 2013) (*codified at* 10 U.S.C. § 2222 note).

<sup>34</sup>The FIAR Guidance was first issued by the DOD Comptroller in May 2010 and provides a standardized methodology for DOD components to follow for achieving financial management improvements and auditability. The DOD Comptroller periodically updates this guidance.

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SBR audits, beginning in fiscal year 2015, will be on budget activity only related to the current year appropriations as reflected in a Schedule of Budgetary Activity (SBA), an interim step toward achieving the audit of multiple-year budgetary activity and expenditures required for a full audit of the SBR. The most current FIAR Plan acknowledges that DOD did not achieve the above noted requirement for the SBR to be validated as ready for audit by September 30, 2014.

The military departments and other defense agencies asserted audit readiness for their SBAs on September 30, 2014, and plan to start their first-year SBA audits during fiscal year 2015.<sup>35</sup> Even though DOD components are moving forward with SBA audits, our work has shown that DOD components are asserting audit readiness without fully implementing the FIAR Guidance. For example, prior to asserting audit readiness, the Defense Finance and Accounting Service did not fully implement the FIAR Guidance in the areas of planning, testing, and corrective actions for processing payments to contractors. Also, the Army did not ensure that all budgetary processes, systems, and risks were adequately considered and identified as required by the FIAR Guidance for audit readiness.<sup>36</sup> For example, the Army did not adequately identify significant activity attributable to its service provider business processes and systems. Also, the Army's documentation and assessment of controls were not always complete or accurate.

To meet its audit readiness goal of June 30, 2016, for asset accountability, DOD is also continuing to implement plans that focus on the existence and completeness of mission-critical assets to (1) ensure accurate quantity and location information, and (2) support valuation activities. However, with regards to meeting its goal of full auditability by

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<sup>35</sup>According to DOD, validation of audit readiness occurs when the DOD Comptroller examines a DOD component's documentation supporting its assertion of audit readiness and concurs with the assertion. This takes place after the DOD Comptroller or independent auditor first reviews the documentation and agrees that it supports audit readiness. A component asserts audit readiness when it believes that its documentation and internal controls are sufficient to support a financial statement audit that will result in an audit opinion.

<sup>36</sup>GAO, *DOD Financial Management: The Defense Finance and Accounting Service Needs to Fully Implement Financial Improvements for Contract Pay*, [GAO-14-10](#) (Washington, D.C.: June 23, 2014); and *DOD Financial Management: Improvements Needed in Army's Efforts to Ensure the Reliability of its Statement of Budgetary Resources*, [GAO-14-60](#), (Washington, D.C.: May 30, 2014).

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September 30, 2017, the department has not fully developed a strategy for consolidating individual component financial statements into department-wide financial statements.

The effects of DOD's financial management problems extend beyond financial reporting. Long-standing control deficiencies adversely affect the economy, efficiency, and effectiveness of its operations. As we have previously reported, DOD's financial management problems have contributed to (1) inconsistent and sometimes unreliable reports to Congress on estimated weapon system operating and support costs, limiting the visibility needed for effective oversight of the weapon system programs;<sup>37</sup> and (2) continuing reports of Antideficiency Act<sup>38</sup> violations—75 such violations reported from fiscal year 2007 through fiscal year 2012, totaling nearly \$1.1 billion—which emphasize DOD's inability to ensure that obligations and expenditures are properly recorded and do not exceed statutory levels of control.<sup>39</sup>

With improvements to its financial management processes, DOD would be better able to provide its management and Congress with reliable, useful, and timely information on the results of its business operations. Effectively implementing needed improvements, however, continues to be a difficult task. While DOD has made efforts to improve its financial management, we have reported over the past few years significant internal control, financial management, and systems deficiencies including the following:

- Fundamental deficiencies in DOD funds control significantly impair its ability to properly use resources, produce reliable financial reports on the results of operations, and meet its audit readiness goals.<sup>40</sup>

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<sup>37</sup>GAO, *Defense Logistics: Improvements Needed to Enhance Oversight of Estimated Long-term Costs for Operating and Supporting Major Weapon Systems*, [GAO-12-340](#) (Washington, D.C.: Feb. 2, 2012).

<sup>38</sup>Antideficiency Act, *codified, as amended, at*, 31 U.S.C. §§ 1341-1342, 1349-1352, 1511-1519.

<sup>39</sup>GAO, *DOD Financial Management: Actions Under Way Need to Be Successfully Completed to Address Long-standing Funds Control Weaknesses*, [GAO-14-94](#) (Washington, D.C.: Apr. 29, 2014).

<sup>40</sup>[GAO-14-94](#).

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- Risk management policies and procedures associated with preparing auditable financial statements through the FIAR Plan were not in accordance with widely recognized guiding principles for effective risk management.<sup>41</sup>
  - The effective implementation of DOD's planned Enterprise Resource Planning (ERP) systems is considered by DOD to be critical to the success of all of its planned long-term financial improvement efforts;<sup>42</sup> however, as we have previously reported, DOD continues to encounter difficulties in implementing its planned ERP systems on schedule and within budget, and experiences significant operational problems such as deficiencies in data accuracy, inability to generate auditable financial reports, and the need for manual workarounds.<sup>43</sup>

We have made numerous recommendations to DOD to address these financial management issues. We are encouraged by DOD's sustained commitment to improving financial management and achieving audit readiness, but several DOD business operations, including financial management, remain on our list of high-risk programs.<sup>44</sup> DOD has financial management improvement efforts under way and is monitoring progress against milestones; however, we have found that DOD and its components have emphasized the assertion of audit readiness by milestone dates over the implementation of effective underlying processes, systems, and controls. While establishing milestones is important for measuring progress, DOD should not lose sight of the ultimate goal—implementing lasting financial management reform to help

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<sup>41</sup>GAO, *DOD Financial Management: Ineffective Risk Management Could Impair Progress toward Audit-Ready Financial Statements*, [GAO-13-123](#), (Washington, D.C.: Aug. 2, 2013).

<sup>42</sup>ERP systems are integrated, multifunction systems that perform business-related tasks, such as general ledger accounting and supply chain management. DOD considers their implementation essential to transforming its business operations and achieving its goals of audit readiness by fiscal year 2017.

<sup>43</sup>GAO, *DOD Business Systems Modernization: Additional Enhancements are Needed for Army Business System Schedule and Cost Estimates to Fully Meet Best Practices*, [GAO-14-470](#) (Washington, D.C.: Sep. 30, 2014); *DOD Business Systems Modernization: Air Force Business System Schedule and Cost Estimates*, [GAO-14-152](#) (Washington, D.C.: Feb. 7, 2014); and *DOD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DOD's Auditability Goals*, [GAO-12-134](#) (Washington, D.C.: Feb. 28, 2012).

<sup>44</sup>GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: Feb. 14, 2013).

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## Reconciling Intragovernmental Activity and Balances

ensure that it has the systems, processes, and personnel to routinely generate reliable financial management and other information critical to decision-making and effective operations for achieving its missions. Continued congressional oversight of DOD's financial management improvement efforts will be critical to helping ensure DOD achieves its financial management improvement and audit readiness goals. To assist Congress in its oversight efforts, we will continue to monitor DOD's progress and provide feedback on the status of its improvement efforts.

In fiscal year 2013, despite significant progress, the federal government continued to be unable to adequately account for and reconcile intragovernmental activity and balances between federal entities.<sup>45</sup> When preparing the consolidated financial statements, intragovernmental activity and balances between federal entities should be in agreement and must be subtracted out, or eliminated, from the financial statements. If the two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, resulting in errors in the consolidated financial statements.

In fiscal year 2013, Treasury continued to actively work with federal entities to resolve intragovernmental differences. For example, Treasury expanded its quarterly scorecard process<sup>46</sup> to include all 35 significant component entities,<sup>47</sup> highlighting differences requiring the entities'

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<sup>45</sup>Intragovernmental transactions result from business activities conducted between two federal entities. Examples include (1) federal entities' investments in Treasury securities with Treasury's Bureau of the Fiscal Service and borrowings from the Federal Financing Bank; (2) services provided (e.g., accounting, information technology, and procurement) by one federal entity to another federal entity; and (3) contributions by federal entities into employee benefit programs administered by the Office of Personnel Management and the Department of Labor.

<sup>46</sup>For each quarter, Treasury produces a scorecard for each significant entity that reports various aspects of the entity's intragovernmental differences with its trading partners, including the composition of the differences by trading partner and category. Entities are expected to resolve, with the respective trading partners, the differences identified in their scorecards.

<sup>47</sup>OMB and Treasury identified 35 federal entities for fiscal year 2013 that are significant to the U.S. government's consolidated financial statements, consisting of the 24 CFO Act agencies, several other federal executive branch agencies, and some government corporations.

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attention and encouraging the use of the dispute resolution process.<sup>48</sup> As a result of these and other actions, a significant number of intragovernmental differences were identified and resolved. While such progress was made, we continued to note that amounts reported by federal entity trading partners were not in agreement by significant amounts. Reasons for the differences cited by several CFOs included differing accounting methodologies, accounting errors, and timing differences. In addition, the auditor for DOD reported that DOD, which contributes significantly to the unreconciled amounts, could not accurately identify most of its intragovernmental transactions by customer, and was unable to reconcile most intragovernmental transactions with trading partners, which resulted in adjustments that cannot be fully supported.

Additionally, for fiscal year 2013, there continued to be unreconciled transactions between the General Fund of the U.S. Government (General Fund) and federal entity trading partners related to appropriations and other intragovernmental transactions, which amounted to hundreds of billions of dollars.<sup>49</sup> The ability to reconcile such transactions is hampered because only some of the General Fund is reported in Treasury's department-level financial statements. For example, these financial statements include various General Fund-related assets and liabilities that Treasury manages on behalf of the federal government (e.g., federal debt and cash held by Treasury), but do not include certain other activities such as receipts and disbursements related to other federal agencies. As a result of these circumstances, the federal government's ability to determine the impact of these differences on the amounts reported in the accrual-based consolidated financial statements is significantly impaired. In fiscal year 2013, Treasury continued to establish processes to account for and report General Fund activity and balances, such as providing entities information to assist them in complying with the proper use of the General Fund as a trading partner.

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<sup>48</sup>When an entity and respective trading partner cannot resolve an intragovernmental difference, the entities must request Treasury to resolve the dispute. Treasury will review the dispute and issue a decision on how to resolve the difference, which the entities must follow.

<sup>49</sup>The General Fund is a central reporting entity that tracks core activities fundamental to funding the federal government (e.g., issued budget authority, operating cash, and debt financing activities).

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## Preparing the Consolidated Financial Statements

Over the years, we have made several recommendations to Treasury to address these issues. Treasury has taken or plans to take actions to address these recommendations.

Treasury, in coordination with OMB, implemented corrective actions during fiscal year 2013 to address certain internal control deficiencies detailed in our previously issued reports regarding the process for preparing the consolidated financial statements. These include further developing and beginning to implement a methodology to reconcile certain outlays and receipts between Treasury's records and underlying federal entity financial information and records. Nevertheless, the federal government continued to have inadequate systems, controls, and procedures to ensure that the consolidated financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in accordance with U.S. generally accepted accounting principles (U.S. GAAP).<sup>50</sup> For example, Treasury was unable to properly balance the accrual-based consolidated financial statements. To make the fiscal years 2013 and 2012 consolidated financial statements balance, Treasury recorded a net decrease of \$9.0 billion and a net increase of \$20.2 billion, respectively, to net operating cost on the Statements of Operations and Changes in Net Position, which were identified as "Unmatched transactions and balances." Treasury recorded an additional net \$5.9 billion and \$1.8 billion of unmatched transactions in the Statement of Net Cost for fiscal years 2013 and 2012, respectively.

Over the years, we have made numerous recommendations to Treasury to address these issues. Most recently, in June 2014, we recommended that Treasury, working in coordination with OMB, include all key elements for preparing well-defined corrective action plans from the Chief Financial Officers Council's *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control – Appendix A, Internal Control over Financial Reporting*, in Treasury's and OMB's corrective

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<sup>50</sup>Most of the issues we identified in fiscal year 2013 existed in fiscal year 2012, and many have existed for a number of years. Most recently, in June 2014, we reported the issues we identified to Treasury and OMB and provided recommendations for corrective action. See GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-14-543](#) (Washington, D.C.: June 19, 2014). A detailed discussion of control deficiencies regarding the process for preparing the consolidated financial statements can be found on pages 238 through 240 of the *2013 Financial Report*.

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action plans. Treasury has taken or plans to take actions to address these recommendations.

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## Long-Term Federal Fiscal Challenges

The 2013 *Financial Report* includes comprehensive long-term fiscal projections for the U.S. government that, consistent with our recent simulations, show that while the near-term outlook has improved—absent policy changes—the federal government continues to face an unsustainable long-term fiscal path.<sup>51</sup> Such reporting provides a much needed perspective on the federal government’s long-term fiscal position and outlook. The projections included in the *Financial Report* and our simulations both underscore the need to take action soon to address the long-term path to avoid larger policy changes in the future that could be disruptive to individuals and the economy, while also taking into account concerns about near-term economic growth.

In the near term, deficits are expected to continue to decline from the recent historic highs as the economy further recovers and actions taken by Congress and the President continue to take effect. Treasury recently reported that the deficit for fiscal year 2014 was the lowest as a share of the economy since 2007. Both the projections in the *Financial Report* and our long-term simulations reflect enactment of the Budget Control Act of 2011 (BCA), which established discretionary spending limits through fiscal year 2021.<sup>52</sup> Under these limits, discretionary spending will continue to decline as a share of the economy and in fiscal year 2021 will be lower than any level seen in the past 50 years. At the same time, revenues are projected to rise in the near-term as the economy continues to recover.

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<sup>51</sup>GAO, *Fiscal Outlook: Federal Fiscal Outlook* (Spring 2014), (Washington, D.C.: 2014), accessed on Nov. 26, 2014, [http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview).

<sup>52</sup>The Budget Control Act of 2011, Pub. L. No. 112-25, § 302, 125 Stat. 240, 256-59 (Aug. 2, 2011). The BCA amended the Balanced Budget and Emergency Deficit Control Act (BBEDCA), *classified, as amended*, at 2 U.S.C. § 901a. Our Spring 2014 simulations also incorporate the effects of the Bipartisan Budget Act of 2013, which further amended BBEDCA to establish higher limits on discretionary appropriations for fiscal years 2014 and 2015 and to extend sequestration for direct spending programs, as well as making other changes to direct spending and revenue. In all, the BBEDCA, as amended through December 2013, reduced deficits over the next 10 years in our Baseline Extended simulation but did not significantly change the long-term federal budget outlook. Our updated simulations for 2015 will incorporate the effects of more recently enacted amendments to the BBEDCA.

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Debt held by the public as a share of gross domestic product (GDP), however, remains well above historical averages. Debt held by the public at these high levels could limit the federal government's flexibility to address emerging issues and unforeseen challenges such as another economic downturn or large-scale natural disaster. Further, even with BCA and other actions taken, the U.S. government continues to face a significant long term structural imbalance between revenues and spending. This imbalance, which is driven on the spending side largely by the aging of the population and rising health care costs, will cause debt held by the public to rise continuously in coming decades. Changing this path will not be easy, and it will likely require difficult decisions affecting both federal spending and revenue. However, as both the projections in the *Financial Report* and our long-term simulations show, delaying action only increases the size of actions eventually needed.

Our past work has also identified a variety of fiscal exposures—responsibilities, programs, and activities that explicitly or implicitly expose the federal government to future spending.<sup>53</sup> Fiscal exposures vary widely as to source, extent of the U.S. government's legal commitment, and magnitude. Over the past decade, some fiscal exposures have grown due to events and trends and the U.S. government's response to them. Increased attention to these fiscal exposures will be important for understanding risks to the federal fiscal outlook and enhancing oversight over federal resources.

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In conclusion, to operate as effectively and efficiently as possible, and to address persistent government-wide challenges that exacerbate the federal government's fiscal challenges, Congress, the administration, federal managers, the public and the accountability community must have ready access to consistent, reliable and complete financial data. When fully and effectively implemented, the DATA Act will improve the accountability and transparency of federal spending data (1) by establishing government-wide financial data standards so that data are comparable across agencies and (2) by holding federal agencies more accountable for the quality of the information disclosed. Such increased

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<sup>53</sup>GAO, *Fiscal Outlook: Federal Fiscal Outlook*, (Washington, D.C.: 2014), accessed on Nov. 26, 2014, [http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview#t=3](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview#t=3) and *Fiscal Exposures: Improving Cost Recognition in the Federal Budget*, GAO-14-28 (Washington, D.C.: Oct. 29, 2013).

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transparency provides opportunities for improving the efficiency and effectiveness of federal spending; increasing the accessibility of data to benefit the public and the business community; and improving oversight to prevent and detect fraud, waste, and abuse of federal funds.

While the process to implement the DATA Act has begun, more work remains. We are committed to being a continuing presence to monitor Treasury's, OMB's, and agencies' progress as data standards are developed and implemented, and to work with Inspectors General to ensure an effective audit process is in place to help ensure data quality.

Chairman Issa, Ranking Member Cummings, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer questions.

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## GAO Contacts

For further information regarding this testimony, please contact J. Christopher Mihm, Managing Director, Strategic Issues at (202) 512-6806 or Gary Engel, Director, Financial Management and Assurance at (202) 512-3406.

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## Staff Acknowledgement

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