GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Comptroller General
of the United States

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The President
The President of the Senate
The Speaker of the House of Representatives

To operate as effectively and efficiently as possible, 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. Our report on the U.S. government's consolidated financial statements for fiscal years 2024 and 2023 discusses progress that has been made, but also underscores that much work remains to improve federal financial management and that the federal government continues to face an unsustainable long-term fiscal path.[1]

Our audit report on the U.S. government's consolidated financial statements is enclosed. In summary, we found the following:

- Certain material weaknesses[2] in internal control over financial reporting and other limitations resulted in conditions that prevented us from expressing an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2024, and 2023.[3] About 47 percent of the federal government's reported total assets as of September 30, 2024, and approximately 21 percent of the federal government's reported net cost for fiscal year

[1]As discussed later in this report, an unsustainable long-term fiscal path is a situation where federal debt held by the public grows faster than gross domestic product (GDP) over the long term.

[2]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

[3]The accrual-based consolidated financial statements comprise the (1) Statements of Net Cost, Statements of Operations and Changes in Net Position, Reconciliations of Net Operating Cost and Budget Deficit, and Statements of Changes in Cash Balance from Budget and Other Activities, for the fiscal years ended September 30, 2024, and 2023; (2) Balance Sheets as of September 30, 2024, and 2023; and (3) related notes to these financial statements. Most revenues are recorded on a modified cash basis.

2024 relate to significant federal entities that received a disclaimer of opinion[4] or qualified opinion[5] on their fiscal year 2024 financial statements or whose fiscal year 2024 financial information was unaudited.[6]

- Significant uncertainties (discussed in Note 25, *Social Insurance*, to the consolidated financial statements), primarily related to the achievement of projected reductions in Medicare cost growth, prevented us from expressing an opinion on the sustainability financial statements, which consist of the 2024 and 2023 Statements of Long-Term Fiscal Projections;[7] the 2024, 2023, 2022, 2021, and 2020 Statements of Social Insurance;[8] and the 2024 and 2023 Statements of Changes in Social Insurance Amounts. About $52.8 trillion, or 67 percent, of the reported total present value of future expenditures in excess of future revenue presented in the 2024 Statement of Social Insurance relates to the Medicare program reported in the Department of Health and Human Services' (HHS) 2024 Statement of Social Insurance, which received a disclaimer of opinion. A material weakness in internal control also prevented us from expressing an opinion on the 2024 and 2023 Statements of Long-Term Fiscal Projections.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2024.

[4]A disclaimer of opinion arises when the auditor is unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive and accordingly does not express an opinion on the financial statements.

[5]A qualified opinion arises when the auditor is able to express an opinion on the financial statements except for specific areas where the auditor was unable to obtain sufficient appropriate evidence, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

[6]These entities include the following: (1) The Department of Defense received a disclaimer of opinion on its fiscal years 2024 and 2023 financial statements. (2) The Small Business Administration received a disclaimer of opinion on its fiscal years 2024 and 2023 balance sheets, and its remaining statements were unaudited. (3) The Department of Education received a disclaimer of opinion on its fiscal years 2024 and 2023 balance sheets, and its remaining statements were unaudited. (4) The Department of Labor received a qualified opinion on its fiscal years 2024 and 2023 financial statements. (5) The Department of Agriculture received a qualified opinion on its fiscal year 2024 and 2023 financial statements. (6) The Department of Energy received a qualified opinion on its fiscal year 2024 financial statements but received an unmodified opinion on its fiscal year 2023 financial statements. (7) The Security Assistance Accounts received a disclaimer of opinion on its fiscal years 2024 and 2023 financial statements. (8) As of the date of our audit report, the audited Schedules of the General Fund of the U.S. Government for fiscal year 2024 were not issued. The fiscal year 2023 Schedules of the General Fund were not audited to allow the Department of the Treasury time to continue to implement a remediation plan to address the issues we reported as part of our disclaimer of opinion on the fiscal year 2022 Schedules of the General Fund. (9) The Railroad Retirement Board received a disclaimer of opinion on its fiscal years 2024 and 2023 financial statements.

[7]The 2024 and 2023 Statements of Long-Term Fiscal Projections present, for all the activities of the federal government, the present value of projected receipts and noninterest spending under current policy without change, the relationship of these amounts to projected GDP, and changes in the present value of projected receipts and noninterest spending from the prior year. These statements also present the fiscal gap, which is the combination of receipt increases and noninterest spending reductions necessary to hold debt held by the public as a share of GDP at the end of the 75-year projection period to its value at the beginning of the period. The valuation date for the Statements of Long-Term Fiscal Projections is September 30.

[8]The Statements of Social Insurance present the present value of revenue and expenditures for social benefit programs, primarily Social Security and Medicare. These statements are presented for the current year and each of the 4 preceding years as required by U.S. generally accepted accounting principles. For the Statements of Social Insurance, the valuation date is January 1 for the Social Security and Medicare programs, October 1 for the Railroad Retirement program, and September 30 for the Black Lung program.

- Material weaknesses and other scope limitations, discussed above, limited tests of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2024.

Progress in Federal Financial Management

Overall, the federal government has made significant strides in improving financial management since key federal financial management reforms were enacted in the 1990s. Eighteen of the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies received unmodified ("clean") opinions on their fiscal year 2024 financial statements, up from six CFO Act agencies that received clean audit opinions for fiscal year 1996.[9]

Accounting and financial reporting standards have continued to evolve to provide greater transparency and accountability over the federal government's operations and financial condition, including long-term sustainability. We have reported areas where financial management can be improved, including standardizing and clarifying the responsibilities of chief financial officers, preparing government-wide and agency-level financial management plans, better linking performance and cost information for decision-making, and strengthening improper payment and fraud risk management reporting.[10]

While the U.S. government's consolidated financial statements provide a high-level summary of the financial position, operating results, and financial condition for the federal government as a whole, substantial benefits have been achieved as a result of agencies' preparation and audit of financial statements, including

- useful and necessary insight into government operations, including the agencies' financial conditions;
- increased federal agency accountability to Congress and citizens, including independent assurance about the reliability of reported financial information;
- greater confidence to stakeholders (e.g., governance officials, taxpayers, consumers, and regulated entities) that federal funds are being properly accounted for and assets are properly safeguarded;
- an assessment of the reliability and effectiveness of systems and related internal controls, including identifying control deficiencies that could lead to fraud, waste, or abuse;
- a focus on information security;
- early warnings of financial management issues; and
- identification of noncompliance with laws and regulations, which can present challenges to agency operations.

The preparation and audit of individual federal entities' financial statements have also identified numerous deficiencies, leading to corrective actions to strengthen federal entities' internal controls, processes, and systems. For instance, in fiscal year 2024 the Department of the Interior resolved two of its three prior year material weaknesses related to internal controls over the preparation and compilation of its financial statements and related disclosures and conformity of its accounting policies

[9]An unmodified ("clean") audit opinion is expressed when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. The 18 agencies include HHS, which received a clean opinion on all statements except the Statements of Social Insurance and the Statements of Changes in Social Insurance Amounts.

[10]GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, GAO-20-566 (Washington, D.C.: Aug. 6, 2020), and *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, GAO-22-105715 (Washington, D.C.: Mar. 17, 2022).

and guidance with generally accepted accounting principles. The third prior year material weakness, related to monitoring of property, plant, and equipment, was downgraded to a significant deficiency.[11]

Financial Management Challenges

Since the federal government began preparing consolidated financial statements, for fiscal year 1997, three major impediments have continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements: (1) serious financial management problems at the Department of Defense (DOD), (2) the federal government's inability to adequately account for intragovernmental activity and balances between federal entities, and (3) weaknesses in the federal government's process for preparing the consolidated financial statements.

DOD continues to take positive steps to improve its financial management but faces long-standing issues. After many years of working toward financial statement audit readiness, DOD underwent full financial statement audits for fiscal years 2018 through 2024. These audits resulted in disclaimers of opinion, material weaknesses in internal control over financial reporting (28 in both fiscal years 2024 and 2023), and thousands of audit findings. One positive step was that the Marine Corps received a clean opinion on its fiscal year 2023 financial statements, the first military service to ever do so.[12]

DOD leadership identified a number of financial management-related benefits from these department-wide audits, as well as operational improvements. Auditor findings and recommendations help DOD leaders identify issues with systems, prioritize improvements, drive efficiencies, and measure progress in modernizing and enhancing the department's financial management capabilities. Some examples of financial management-related benefits that DOD has identified in recent years include the following:[13]

- **Improvements to financial systems and data.** DOD reported the modernization of certain financial and business systems, resulting in streamlined processes and strengthened internal controls that improved data quality. For example, to help standardize data, DOD developed Advana, a platform for advanced analytics, which DOD reported has helped reconcile fund balances with Treasury. In 2024, we estimated that Advana has helped DOD avoid making at least $5.5 billion in potential improper payments. Also, the Marine Corps transitioned from its legacy financial management system to the Defense Agencies Initiative. A Marine Corps official stated that the transition has led to improvements in data accuracy due to the system providing consistent, compliant, and better-structured data, resulting in improved decision-making.

- **Systems cost savings.** DOD reported improvements in the accuracy of its systems inventory, consolidation and retirement of certain systems, and reduction of maintenance costs for legacy systems. For example, DOD reported that since fiscal year 2021, it has retired over 17 legacy defense business systems, allowing it to focus improvement efforts and resources on enduring systems.

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[11]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

[12]The Marine Corps obtained the unmodified opinion on its fiscal year 2023 financial statements based on substantial effort after completing a 2-year audit cycle. As of the date of our audit report, the audited fiscal year 2024 financial statements for the Marine Corps were not issued.

[13]For more information, see GAO, *Financial Management: DOD Has Identified Benefits of Financial Statement Audits and Could Expand Its Monitoring*, GAO-24-106890 (Washington, D.C.: Sept. 24, 2024).

- **Improved ability to use funds.** DOD reported that it improved how it manages its budget obligations, resulting in the availability of budget funds that could be used for more immediate mission-support and mission-critical needs. For example, in fiscal year 2020, the Navy identified and reapplied $687 million in budget authority to critical requirements.

- **Mitigation of cybersecurity risks.** DOD reported cybersecurity improvements to address aspects of cybersecurity weaknesses identified through financial statement audits. For example, in fiscal year 2023, the Air Force reported partially implementing an identity, credential, and access management tool—aligned with a DOD-wide strategy—that will help address cybersecurity risks, for example, by enhancing user access controls.

- **More efficient processes.** DOD components reported instances of implementing more efficient financial management processes, saving over a million labor hours. For example, in fiscal year 2023, DOD reported that the Army had 79 robotic process automations in place, including 14 for its financial systems, that eliminated the need for 5,600 labor hours that year.

- **Enhanced visibility over assets and inventory.** DOD components reported identifying more than $16 billion worth of previously untracked assets (including real property and equipment) and inventory. For example, in fiscal year 2021, the Navy reported that it identified more than $4.3 billion in untracked materials—such as equipment and supplies—which can save on purchase costs by making items available for requisition. Also, remediation of issues identified through financial audits led to better real property management, resulting in improved real property records and redeployment of maintenance costs.

DOD has acknowledged that achieving a clean audit opinion will take time. DOD management prioritized certain critical areas for improvement (i.e., for fiscal year 2024, its priorities were to improve fund balance with Treasury, strengthen the internal control environment, create a universe of transactions, and optimize asset valuations).[14] While fund balance with Treasury remains a material weakness at the DOD department-wide level, eight components reported resolving or downgrading material weaknesses in this area in fiscal year 2024, including the Army General Fund, Navy Working Capital Fund, and Air Force Working Capital Fund. In addition, certain components reported progress in addressing other material weaknesses. For example, the Army Working Capital Fund reduced three material weaknesses related to general equipment, real property, and environmental and disposal liabilities to significant deficiencies, and the Air Force General Fund reduced its military equipment material weakness to a significant deficiency.

Various efforts are also under way to address the other two major impediments to rendering an opinion on the accrual-based consolidated financial statements. In addition to the Department of the Treasury's and the Office of Management and Budget's (OMB) continued leadership, federal entities' strong and sustained commitment is critical to fully addressing these impediments.

Treasury made progress addressing the material weakness related to the government's inability to adequately account for intragovernmental activity and balances between federal entities. For example, in fiscal years 2024 and 2023, Treasury was able to work with entities to reduce intragovernmental differences to amounts Treasury determined were immaterial to the consolidated financial statements,

[14]Fund balance with Treasury is the amount in an entity's accounts with Treasury that is available for making expenditures and paying liabilities. Universe of transactions relates to transaction-level populations supporting material financial statement line items.

although it is uncertain if this outcome can be sustained in the future due to underlying deficiencies at federal entities.

Treasury also continued to provide information and assistance to significant federal entities to aid in resolving intragovernmental differences. This included Treasury providing quarterly scorecards highlighting differences needing the entities' attention,[15] meeting with entities to encourage improved intragovernmental processes, and reinforcing the entities' responsibilities to resolve intragovernmental differences.

Treasury also made progress addressing the material weaknesses related to the federal government's process for preparing the consolidated financial statements. In recent years, Treasury's corrective actions included implementing new processes for preparing the consolidated financial statements, enhancing guidance for federal entity financial reporting, and implementing procedures to address certain previously identified internal control deficiencies.[16]

In addition to the three major impediments, certain federal entities have experienced financial management challenges in recent years.

- The Small Business Administration (SBA), which had substantial activity related to COVID-19 relief programs, such as the Paycheck Protection Program and the COVID-19 Economic Injury Disaster Loan program, was unable to obtain an opinion on its fiscal years 2020 through 2024 financial statements, after years of receiving clean opinions.[17] SBA's auditor reported several material weaknesses in internal control in fiscal years 2020 through 2024 related to these COVID-19 programs that contributed to SBA's inability to obtain an audit opinion. These weaknesses limit the reliability of SBA's financial reporting and increase the risk of fraud and improper payments. Due to the continuing material weaknesses in controls associated with the two programs that led to loans going to potentially ineligible borrowers, we have designated Emergency Loans for Small Businesses as a high-risk area since 2021.[18]

- The Department of Education, after years of receiving clean opinions, was unable to obtain an opinion on its fiscal years 2022 through 2024 financial statements. Education's auditor continued to report a material weakness related to the department's controls over the data used for estimating the costs of its loan programs. This condition led to errors in the estimated costs of the

[15]Treasury produces a quarterly scorecard for each significant entity, as well as any other entity reporting significant intragovernmental balances or differences, that reports various aspects of each entity's intragovernmental differences with its trading partners, including the composition of the differences by trading partner and category. Pursuant to Treasury guidance, entities are expected to resolve, with their respective trading partners, the differences identified in their scorecards.

[16]GAO, *U.S. Consolidated Financial Statements: Continued Improvements Needed in Treasury and OMB Preparation Process Controls*, GAO-24-107443 (Washington, D.C.: July 10, 2024).

[17]The most recent auditor's report is included in Small Business Administration, *Agency Financial Report for Fiscal Year 2024* (Washington, D.C.: Nov. 15, 2024).

[18]For more information on GAO's high-risk area with regards to Emergency Loans for Small Businesses, see GAO, *High-Risk Area: Emergency Loans for Small Businesses*, accessed January 8, 2025, https//www.gao.gov/highrisk/emergency-loans-for-small-businesses.

department's student loan programs and increases the risk that the balance sheet and related notes could be materially misstated.[19]

- The Department of Labor received a qualified opinion on its fiscal years 2021 through 2024 financial statements. Labor was unable to adequately support assumptions used for estimating remaining obligations and benefit overpayments related to the unemployment insurance program.[20]

- The Department of Agriculture received a qualified opinion on its fiscal years 2023 and 2024 financial statements. Agriculture was unable to support certain budget obligations for Supplemental Nutrition Assistance Program benefits.[21]

- The Department of Energy received a qualified opinion on its fiscal year 2024 financial statements. Energy was unable to adequately support a material portion of its environmental liability balance as of September 30, 2024.[22]

The material weaknesses underlying the financial management challenges discussed above (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost, as well as the financial and nonfinancial performance, of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable, useful, and timely financial information to operate effectively and efficiently. We have made a number of recommendations to OMB, Treasury, DOD, and SBA to address these issues.[23] These entities have taken or plan to take actions to address these recommendations. In addition, federal entity auditors have made recommendations to address underlying deficiencies at the individual entities.

In addition to the material weaknesses referred to above, we identified two other continuing material weaknesses. These are the federal government's inability to (1) determine the full extent to which improper payments, including fraud, occur and reasonably assure that appropriate actions are taken to reduce them and (2) identify and resolve information system control deficiencies and manage information security risks on an ongoing basis. For fiscal year 2024, 12 of the 24 agencies covered by the CFO Act reported material weaknesses or significant deficiencies in information system controls.

The fiscal year 2024 government-wide total of reported improper payment estimates was $162 billion, but it did not include estimates for certain risk-susceptible programs. The specific programs and activities included in the government-wide total of reported improper payment estimates may change from year to year. While increases in estimated improper payments were reported for several programs

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[19]The most recent auditor's report is included in Department of Education, *Agency Financial Report for Fiscal Year 2024* (Washington, D.C.: Nov. 14, 2024).

[20]The most recent auditor's report is included in Department of Labor, *Agency Financial Report for Fiscal Year 2024* (Washington, D.C.: Nov. 14, 2024).

[21]The most recent auditor's report is included in Department of Agriculture, *Agency Financial Report for Fiscal Year 2024* (Washington, D.C.: Nov. 14, 2024).

[22]Department of Energy, *Agency Financial Report for Fiscal Year 2024* (Washington, D.C.: Dec. 12, 2024).

[23]See GAO, *High Risk Area: DOD Financial Management*, accessed January 8, 2025, https://www.gao.gov/highrisk/dod-financial-management; GAO-24-107443; and *High Risk Area: Emergency Loans for Small Businesses*, accessed January 8, 2025, https://www.gao.gov/highrisk/emergency-loans-for-small-businesses. Further, other auditors have made recommendations to DOD and SBA for improving their financial management.

and activities, these were more than offset by decreases for certain other programs and activities, resulting in a $74 billion reduction in reported improper payment estimates from fiscal year 2023.

For example, HHS reported a decrease of about $19.2 billion in estimated improper payments for Medicaid in fiscal year 2024. According to HHS, this decrease was due to (1) reviews that accounted for certain flexibilities afforded to states during the COVID-19 pandemic, such as postponed eligibility determinations and reduced requirements around provider enrollment or revalidations, and (2) improved state compliance with Medicaid requirements. Also, a significant reduction in COVID-19-related spending in fiscal year 2024 resulted in a decrease in reported improper payment estimates for COVID-19-related programs. For example, the government-wide estimate no longer includes Labor's Federal Pandemic Unemployment Assistance, which reported $43.6 billion in estimated improper payments in fiscal year 2023.

Further, the federal government is unable to determine the full extent to which fraud occurs in federal programs. While all fraudulent payments are considered improper, not all improper payments are due to fraud.[24] Also, the improper payment estimation process is not designed to detect or measure the amount of fraud that may exist. In April 2024, we estimated total direct annual financial losses to the government from fraud to be between $233 billion and $521 billion for fiscal years 2018 through 2022.[25] The range reflects the different risk environments during this period.[26]

Fraud estimates can provide a better understanding of the scope of the problem, help prioritize resources, and demonstrate return on investment from fraud prevention and detection efforts. Accordingly, we made recommendations to OMB and Treasury to help improve the federal government's ability to estimate fraud. Specifically, we recommended that Treasury identify methods to expand government-wide fraud estimation, in consultation with OMB. We also recommended that OMB develop guidance on the collection of federal agency and Office of Inspector General data to support fraud estimation, in coordination with agencies and the Council of the Inspectors General on Integrity and Efficiency.

Our audit report presents additional details concerning these material weaknesses and their effect on the accrual-based consolidated financial statements, sustainability financial statements, and managing federal government operations. Until the problems outlined in our audit report are adequately addressed, they will continue to have adverse implications for the federal government and the American people.

Unsustainable Long-Term Fiscal Path

The 2024 Statement of Long-Term Fiscal Projections and related information in Note 24, *Long-Term Fiscal Projections*, to the consolidated financial statements and the unaudited Required Supplementary Information section of the *2024 Financial Report of the United States Government* (*2024 Financial*

[24]GAO, *Improper Payments and Fraud: How They Are Related but Different*, GAO-24-106608 (Washington, D.C.: Dec. 7, 2023).

[25]GAO, *Fraud Risk Management: 2018-2022 Data Show Federal Government Loses an Estimated $233 Billion to $521 Billion Annually to Fraud, Based on Various Risk Environments*, GAO-24-105833 (Washington, D.C.: Apr. 16, 2024).

[26]The different risk environments in 2018 through 2022 are associated with differences in fraud risk factors between those years. These risk factors include large volumes of payments being made, programs that are new to agencies, and limitations in the experience or training of those making eligibility determinations or payment certifications. For example, we have reported on the heightened fraud risk environment associated with some pandemic programs. The estimated losses represent about 3 to 7 percent of average federal obligations for fiscal years 2018 through 2022.

Report) show that, based on current revenue and spending policies, the federal government continues to face an unsustainable long-term fiscal path. GAO and the Congressional Budget Office (CBO) prepare long-term federal fiscal simulations, which also continue to show federal debt held by the public rising as a share of gross domestic product (GDP) in the long term.[27] This situation—in which debt held by the public grows faster than GDP—means the federal government's long-term fiscal path is unsustainable.

GAO, CBO, and the *2024 Financial Report*, although using somewhat different assumptions, all project that debt held by the public as a share of GDP (debt-to-GDP) will surpass its historical high (106 percent in 1946) by 2028. Health care and Social Security remain key drivers of federal noninterest spending in the long-term projections. In addition, GAO, CBO and the *2024 Financial Report* project that net interest spending will continue to grow and assume an increasingly larger share of federal spending. As debt levels grow, the government typically must spend more on interest. Moreover, rising interest rates can increase the government's interest costs. In fiscal year 2024, net interest spending of $881.7 billion (primarily interest on debt held by the public) was more than budget outlays for national defense or for Medicare.

The *2024 Financial Report* provides an estimate of the magnitude of policy changes needed to achieve a target debt-to-GDP ratio of 98 percent (the 2024 level) in 2099 (the fiscal gap).[28] Policymakers could close the fiscal gap, achieving the target ratio, through a combination of revenue increases and noninterest spending reductions. For example, the fiscal gap could be closed by increasing projected annual revenue by 22.5 percent, reducing projected annual noninterest spending by 19.0 percent, or some combination of the two. The projections show that the longer policy changes are delayed, the more significant the magnitude of policy changes will need to be to achieve the debt-to-GDP target.

GAO issues an annual report on the fiscal health of the federal government, which provides more information on actions that Congress and the administration can consider to help address the federal government's unsustainable long-term fiscal path.[29] Since 2017, we have suggested that Congress develop a strategy to place the federal government on a sustainable fiscal path—where government spending and revenue result in a stable or declining debt-to-GDP ratio over the long term. It is vital that the United States remains in a strong economic position to meet its social and security needs, as well as to preserve flexibility to address unforeseen events, such as an economic downturn or large-scale disaster. A strategy can provide a cohesive picture of the government's long-term goals and can serve as a mechanism for building consensus around these goals. We have reported on elements the strategy could include, such as the following:[30]

- Establishing fiscal rules and targets to help frame and control the overall results of spending and revenue decisions that affect the debt.

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[27]For more information on GAO's simulations, see GAO, *The Nation's Fiscal Health: Road Map Needed to Address Projected Unsustainable Debt Levels*, GAO-24-106987 (Washington, D.C.: Feb. 15, 2024). For more information on CBO's simulations, see Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (Washington, D.C.: June 18, 2024).

[28]Fiscal gap can also be calculated using different time horizons and different target debt-to-GDP ratios. GAO projects a fiscal gap for a 30-year period. For more information, see GAO, "Interactive Graphic: Exploring the Tough Choices for a Sustainable Fiscal Path," accessed January 8, 2025, https://files.gao.gov/multimedia/gao-23-106201/interactive.

[29]GAO, *Featured Topic: America's Fiscal Future*, accessed January 8, 2025, https://www.gao.gov/americas-fiscal-future.

[30]GAO-24-106987.

- Addressing the imbalance between spending and revenue policies, which would require examining all spending, including entitlement programs and other mandatory programs, as well as tax policies, including tax credits and deductions.

- Addressing financing gaps for Social Security and Medicare trust funds, which are expected to be depleted in 2035 and 2036, respectively.

In 2015, we first recommended that Congress consider alternative approaches to the current debt limit process.[31] Recently, in December 2024, we recommended that Congress consider immediately replacing the debt limit with an approach that links debt decisions to spending and revenue decisions at the time they are made.[32] The current debt limit is a statutory limit on the total amount of outstanding federal debt.[33] It is an after-the-fact measure that restricts Treasury's authority to borrow and fund the spending and revenue decisions that Congress and the President have already enacted.

As a result, the government periodically runs out of borrowing authority needed to pay existing, legally committed obligations. Last-minute negotiations on the debt limit can increase the risk of a default on government debt and other obligations. A default would disrupt financial markets, with immediate, potentially severe consequences for businesses and households. A default could also inflict long-lasting damage to the economy and could worsen the fiscal outlook.

The Fiscal Responsibility Act of 2023 temporarily suspended the debt limit from June 3, 2023, through January 1, 2025.[34] An increase or suspension of the debt limit was not enacted by January 1, 2025, and pursuant to the act, the debt limit was increased on January 2, 2025, to $36,104 billion. On December 27, 2024, the Secretary of the Treasury notified Congress that the federal government is expected to reach the debt limit between January 14 and January 23, 2025, at which time it will be necessary for Treasury to start taking extraordinary measures.

When the debt limit is reached, it will be necessary for Treasury to deviate from its normal debt management operations and use extraordinary measures, which can temporarily free up existing borrowing authority, and cash on hand to continue making payments. As we reported in December 2024, extraordinary measures that Treasury can take are limited and eventually run out, leading to a risk of default.[35] As of the date of our audit report (January 8, 2025), the debt limit has not been raised or suspended.

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[31]We identified alternative approaches in GAO, *Debt Limit: Market Responses to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (Washington, D.C.: July 9, 2015).

[32]GAO, *Debt Limit: Statutory Changes Could Avert the Risk of a Government Default and Its Potentially Severe Consequences*, GAO-25-107089 (Washington, D.C.: Dec. 11, 2024).

[33]The debt limit is codified at 31 U.S.C. § 3101(b), as amended, and applies to federal debt issued pursuant to authority under 31 U.S.C. chapter 31. A very small amount of total federal debt is not subject to the debt limit. This amount primarily comprises unamortized discounts on Treasury bills and Zero Coupon Treasury bonds; debt securities issued by agencies other than Treasury, such as the Tennessee Valley Authority; and debt securities issued by the Federal Financing Bank.

[34]Pub. L. No. 118-5, div. D, § 401, 137 Stat. 48.

[35]GAO-25-107089.

Further, there are other risks—such as natural disasters and climate change, global or regional military conflicts, housing finance, and public health crises—that could negatively affect the federal government's financial condition in the future, including the following:

- Disaster costs are expected to increase beyond current levels as extreme weather events become more frequent and intense because of climate change, as the U.S. Global Change Research Program and the National Academies of Sciences, Engineering, and Medicine have observed and projected. Sources of risk include additional losses on federal insurance programs (e.g., crop and flood insurance) and damage to federal property that might be affected. For example, as currently structured, the National Flood Insurance Program's premiums and dedicated resources are not sufficient to cover expected costs without borrowing from Treasury. As of September 30, 2024, the Federal Emergency Management Agency (FEMA), which administers the National Flood Insurance Program, owed about $21 billion to Treasury for money borrowed to pay claims and other expenses. We have reported that FEMA is unlikely to collect enough in premiums in the future to repay this debt.[36]

- Federal support of the housing finance market remains significant even though the market has largely recovered since the 2007 to 2009 financial crisis. In 2008, the federal government placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises to help ensure their financial stability. These agreements could affect the federal government's financial condition. At the end of fiscal year 2024, the federal government reported about $306 billion of investments in these government-sponsored enterprises, which is net of about $33 billion in valuation losses. The reported maximum remaining commitment to these entities, if needed, is about $254 billion.

- The U.S. Postal Service (USPS) continues to be in poor financial condition. USPS cannot fund its current level of services and meet its financial obligations from its current level of revenues. Since the Postal Service Reform Act of 2022, USPS has reported net losses of about $9.5 billion (fiscal year 2024) and about $6.5 billion (fiscal year 2023). We have reported that USPS's business model is still not financially sustainable despite Congress and USPS taking significant actions in recent years to address its financial condition.[37] USPS's key costs, such as compensation and benefits, keep rising, and if its expenses continue to exceed its revenue, the government's future financial condition may be affected.

Our audit report on the U.S. government's consolidated financial statements would not be possible without the commitment and professionalism of inspectors general throughout the federal government who are responsible for annually auditing the financial statements of individual federal entities. We also appreciate the cooperation and assistance of Treasury and OMB officials as well as the federal entities' chief financial officers' flexibility, adaptability, and ability to issue their financial statements on a timely

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[36]GAO, *Flood Insurance: FEMA's New Rate-Setting Methodology Improves Actuarial Soundness but Highlights Need for Broader Program Reform*, GAO-23-105977 (Washington, D.C.: July 31, 2023).

[37]GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, GAO-23-106203 (Washington, D.C.: Apr. 20, 2023).

basis. We look forward to continuing to work with these individuals, the administration, and Congress to achieve the goals and objectives of federal financial management reform.

Our audit report begins on page 208. Our guide, *Understanding the Financial Report of the United States Government*, is intended to help those who seek to obtain a better understanding of the financial report and is available on GAO's website at https://www.gao.gov.[38]

If you have any questions about our audit report, please contact me on (202) 512-5500 or Robert F. Dacey, Chief Accountant, or Dawn B. Simpson, Director, Financial Management and Assurance, on (202) 512-3406.

Gene L. Dodaro
Comptroller General
of the United States

cc: The Majority Leader of the Senate
The Minority Leader of the Senate
The Majority Leader of the House of Representatives
The Minority Leader of the House of Representatives

[38]GAO, *Understanding the Financial Report of the United States Government*, GAO-18-239SP (Washington, D.C.: Feb. 2018).