A MESSAGE FROM THE SECRETARY OF THE TREASURY

I am pleased to present the fiscal year 1999 Financial Report of the United States Government. The Report includes audited financial statements that cover the Executive Branch, as well as parts of the Legislative and Judicial branches of U.S. Government. The Administration initiated the development of this financial report in order to create what we believe is a practical management tool for policy-makers and a source of useful information for the public about the assets, liabilities, and operations of the government.

This report is another significant milestone in our efforts, begun in 1994, to account for the financial activities of the U.S. Government in a timely and professional manner. Developing the capability for the government to produce financial reports in accordance with generally accepted accounting principles is an enormous task.

I am also pleased to report that the standards developed by the Federal Accounting Standards Advisory Board (FASAB) are now recognized by the American Institute of Certified Public Accountants as being generally accepted accounting principles (GAAP) for the Federal Government. This is a major accomplishment. It will enhance the acceptability of our reports and will add to the level of financial professionalism throughout the U.S. Government.

Significant progress continues to be made in the area of financial management. More agencies are completing their financial statements on time and the quality of the data continues to improve. The successful Year 2000 remediation process has resulted in better systems and we have established, through the Joint Financial Management Improvement Program, a government-wide financial software certification process that is beginning to ensure that commercial systems meet the government's needs.

Despite this progress, we have much yet to achieve. A great deal of additional effort will be necessary to fully implement an entirely new and reliable system of reporting on the operations of the U.S. Government. The audit report from the General Accounting Office (GAO) discusses many significant areas in which the reliability of the current financial statements need to be improved before the GAO will be able to render an opinion on these statements.

We are committed to producing and reporting financial information that meets the highest standards of integrity, and to provide to the American people the accountability and professionalism they expect from their government.

Lawrence H. Summers

Fiscal 1999 Financial Report of the United States Government

Management's Discussion and Analysis

Introduction

"No other entity in the world compares in size, scope and complexity to the U.S. Government . . ."

No other entity in the world compares in size, scope and complexity to the U.S. Government. A civilian Federal workforce of nearly two million individuals serves a diverse Nation of more than 270 million Americans. The Federal Government is the largest landowner in the world. Its budgeted spending for fiscal 1999 was $1.7 trillion.

To fulfill its constitutional mandates, the U.S. Government undertakes a wide variety of programs to:

- Maintain strong, ready and modern military forces.
- Provide critical international leadership.
- Contribute to energy security.
- Protect the environment.
- Boost agricultural productivity.
- Facilitate commerce and support housing.
- Support the transportation system.
- Help economically distressed urban and rural communities.
- Assist States and localities in providing essential education and training.
- Promote health care.
- Foster income security.
- Provide benefits and services to veterans.
- Administer justice.

The Budget and Economy

Through the budget process, the President and Congress decide how much to spend and tax in any one fiscal year. The Federal budget, of course, is not the only budget that affects the economy or the American people. The budgets of State and local governments have an impact as well. Federal Government spending was a little less than 19 percent of the gross domestic product (or GDP, which measures the size of the economy) in 1999, the lowest since 1966.

Continued Improvement in Fiscal Performance

Seven years ago, the Federal budget deficit had exploded. It dominated the Government's ability to make policy and imposed an insidious burden on our economy. In 1992, the $290 billion deficit was the largest in American history and was projected to continue spiraling upward without restraint. The economy suffered, interest rates were high and job creation stalled. Capital that should have been used for productive investments to create new jobs was used to finance the Government's massive deficit-driven borrowing.

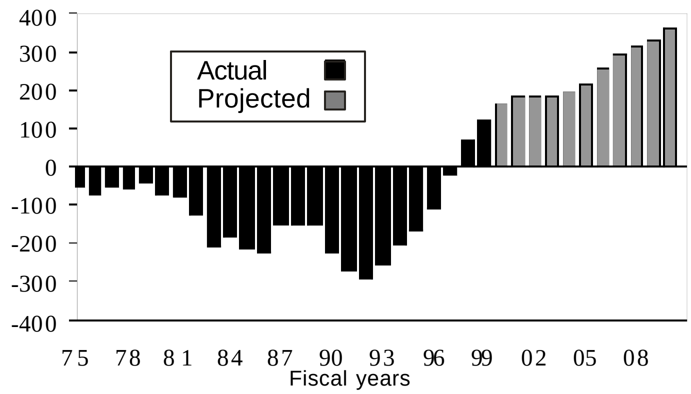
In 1993, the Omnibus Budget Reconciliation Act was signed. Its deficit reduction plan was to cut the deficit in half as a percentage of the economy in 5 years. That goal was met in only 3 years. The 1997 Balanced Budget Act proposed to eliminate the Federal deficit by fiscal 2002. In fact, it reached its goal 4 years ahead of schedule, producing the first budget surplus ($69 billion) in a generation in 1998.

We can now look back with pride at our progress and ahead with confidence as we consider the success of our fiscal discipline and the opportunity to build upon it. Today we have lower interest rates, a higher level of investment and unprecedented prosperity. Our economy has added more than 20 million new jobs. The unemployment rate is the lowest in 30 years; the welfare rolls are down by more than 50 percent since 1993; the core inflation rate is the lowest in 35 years; and more Americans own their homes than at any time in our history. Strong economic growth and passage of deficit reduction programs placed the budget on its path toward surplus.

The fiscal discipline we have demonstrated, combined with a fast-growing economy and rising stock market, contributed to another unified Federal budget surplus in fiscal 1999 of $124 billion. That was $55 billion above the surplus in fiscal 1998. The surplus relative to GDP amounted to 1.4 percent in 1999, the highest such ratio in almost 50 years. Federal debt held by the public was reduced by more than $85 billion in fiscal 1999 and by a total of almost $140 billion over the last 2 years.

Unified Federal Budget Surpluses and Deficits

(In billions of dollars)



Figures for fiscal 2000-2010 are projected. (Fiscal 2001 Budget)

"Today we have lower interest rates, a higher level of investment and unprecedented prosperity. "

These were the first reductions in publicly held debt since 1969 and the largest debt reductions in history.

Receipts increased by about 6 percent in fiscal 1999 to $1,827 billion. This was slower growth than the 9 percent increase in fiscal 1998. The slowdown mainly reflected a decline in net corporate tax receipts, the first since 1990, due in part to weakness in overseas economies, which dampened profits of U.S. exporters. Individual income and payroll tax receipts also grew more slowly in 1999 but still posted a sizable 6.5 percent increase.

Growth of outlays was held to just over 3 percent in fiscal 1999, rising to $1,703 billion. The increase was in line with the gain in 1998. Outlays in relation to GDP were the smallest since 1974, dipping to an 18.7 percent share from 19.1 percent in fiscal 1998.

Pushing outlays down was a drop of $13 billion in net interest payments, reflecting the shrinking size of the Federal debt and the replacement of older debt with new debt at lower interest rates. Medicare payments also fell modestly over the fiscal year.

Spending increased for most other major Federal Government functions, including defense (up 2.4 percent after a small decline in 1998) and Social Security (up about 3 percent in fiscal 1999). The largest percentage gain by far among the major spending categories was for farm price supports, reflecting large outlays of the Commodity Credit Corporation in the wake of depressed agricultural prices.

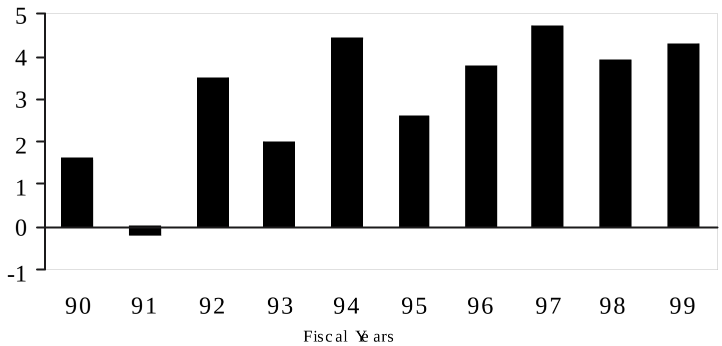
According to the Fiscal Year 2001 Budget, the total unified budget surpluses are projected to increase each year throughout the forecast horizon to 2010. The Administration is committed to using the bulk of the surpluses to strengthen and modernize the Social Security and Medicare programs; invest in key priorities that will extend the economic expansion, such as education; and pay down the publicly held debt. Under Administration proposals, the current $3.6 trillion of debt held by the public is projected to be completely eliminated on a net basis by 2013.

Continued Strong Economic Performance

Fiscal 1999 was one of accelerating economic growth. The expansion entered its ninth year and moved closer to a new record length. Real GDP grew by 4.3 percent across the four quarters of fiscal 1999, which encompasses the fourth quarter of calendar 1998 through the third quarter of calendar 1999. This was faster than growth over the previous fiscal year and higher than the average throughout the expansionary period.

Growth of Real GDP

Percentage change of the four quarters of each fiscal year.



"The expansion entered its ninth year and moved closer to a new record length."

Growth was led by strong gains in productivity. After trending up at an average annual rate of about 1.5 percent from 1974 to 1995, average increases in labor productivity accelerated by more than a full percentage point to 2.7 percent over the past 4 fiscal years. In 1999, productivity growth picked up even more, to 3.1 percent over the four quarters of the fiscal year. This is an unusually favorable performance at this stage of an expansion when productivity growth typically slows down from its earlier pace. Partly, it reflects the capital deepening that has occurred in recent years due to rapid gains in business investment, and partly, it may reflect improvements in production deriving from information technology. The faster rate of growth of productivity has increased overall economic growth and standards of living, allowing the unemployment rate to fall without a buildup of inflationary pressures.

Growth in consumer spending and business investment in capital equipment and software was very rapid in fiscal 1999. Real consumer purchases accelerated to more than 5 percent over the year to post the fastest rate of increase in 14 years. Higher spending was fueled by rising employment and incomes and higher net worths primarily due to the rising stock market. Private investment in equipment and software, which increased at double-digit rates over the past 7 years, also accelerated in fiscal 1999 and recorded its best year of the expansion, rising by 14.5 percent. Falling prices for computers and other high-tech goods due to improvements in quality and processing capacity contributed to the rapid growth in real investment. A widening foreign trade deficit continued to offset strength in other sectors of the economy in fiscal 1999, although the drag on real GDP diminished over the year as exports picked up due to some firming in overseas economies.

Labor markets remained strong in fiscal 1999. The unemployment rate drifted down from 4.5 percent at the start of the year to 4.2 percent by the end of fiscal 1999, and dipped even lower in the first quarter of fiscal 2000. These readings were the lowest in almost three decades. The share of the working-age population with jobs reached a record high, and long-term unemployment fell. The economy added 2.7 million jobs in the fiscal year, just a bit less than annual gains in the prior 2 fiscal years.

The rate of inflation increased in fiscal 1999 due to higher oil prices, but underlying inflationary pressures remained in check even with strong economic growth and low unemployment. The acceleration in productivity growth to more than 3 percent helped to hold down costs. The Consumer Price Index (CPI) rose by 2.6 percent over the fiscal year compared with only 1.4 percent in fiscal 1998 when oil prices fell. Excluding energy and food, however, growth in consumer prices slowed to 2.1 percent in fiscal 1999 from 2.4 percent in fiscal 1998.

The Federal Reserve raised short-term interest rates in the second half of the fiscal year and again in fiscal 2000. These actions more than reversed earlier easing moves that had been undertaken in 1998 to deal with temporary financial turmoil both here and abroad. In raising rates, the Federal Reserve cited concerns that continued faster growth in economic demand than in potential supply could foster inflationary imbalances. Long-term interest rates moved higher over the course of the fiscal year, dampening somewhat the very strong growth in housing.

Improving Financial Management of the Federal Government

For the first 200 years of the U.S. Government's existence, it did not publish consolidated financial reports other than on a budgetary basis. Much progress has been made in the area of financial management over the 3 years since the initial audited *Consolidated Financial Report of the United States Government.* Agencies are producing better records and better financial statements. The Year 2000 (Y2K) process has resulted in better systems, and the Joint Financial Management Improvement Program (JFMIP) certification process has forced many vendors to produce systems that more directly meet Government requirements. Nonetheless, we have more to achieve.

Historically, effective management of the U.S. Government has been hampered by a lack of reliable financial information. To help improve the integrity of financial information, in 1990 the Office of Management and Budget (OMB), the Department of the Treasury (Treasury) and the General Accounting Office (GAO) established the Federal Accounting Standards Advisory Board (FASAB) to develop accounting standards for the U.S. Government. The work of FASAB augments the efforts of the JFMIP to strengthen overall Federal financial management.

"Much progress has been made in the area of financial management . . . "

The standards developed by the FASAB are now recognized by the American Institute of Certified Public Accountants (AICPA) as being generally accepted accounting principles (GAAP) for the Federal Government. This is a major accomplishment. It will enhance the acceptability of our reports and will add to the level of financial professionalism throughout the U.S. Government.

Working to issue agency financial reports consistent with GAAP and to obtain clean audit opinions, the Administration is committed to improving the reliability of Federal financial information. Achieving an unqualified opinion on the financial statements of Federal agencies and the U.S. Government is a first step. Unqualified opinions lead to the development of better financial information which, when provided to management, will provide the basis for producing better decisions. Agencies and the Government as a whole must continue to work to implement systems that report financial and program information quickly and reliably, and then must use that information in the stewardship of the Nation's resources.

The accompanying Financial Report is required by 31 U.S.C. 331(e)(1) and consists of the Management's Discussion and Analysis (MD&A), Statement of Operations and Changes in Net Position, Statement of Net Cost, Balance Sheet, Stewardship Information, Notes to the Financial Statements and Supplemental Information. Each section is preceded by a description of its contents.

Basis of Accounting and Reporting Entity

Accounting Standards

"The recent recognition of Federal accounting standards by the AICPA as GAAP enhances their acceptability..."

The accompanying financial statements generally were prepared based on GAAP standards developed by FASAB. The recent recognition of Federal accounting standards by the AICPA as GAAP enhances their acceptability. These standards form the foundation for preparing consistent and meaningful financial statements both for individual Federal agencies and the Government as a whole.

GAAP for the Federal Government is tailored to the U.S. Government's unique characteristics and special needs. For example, land not used in U.S. Government operations (stewardship land), weapon systems and support property used in the performance of military missions, and vessels held as part of the National Defense Reserve Fleet (national defense assets) are reported in the Stewardship Information section rather than valued on the Balance Sheet. The Government's responsibilities and policy commitments are much broader than the reported Balance Sheet liabilities. They include the social insurance programs disclosed in the Stewardship Information section, as well as a wide range

Accounting Standards, cont.

of other programs under which the Government provides benefits and services to the people of this Nation.

Standards that were implemented in fiscal 1999 at the Governmentwide level require reporting of annual Federal expenses for stewardship investments. These also are examples of standards tailored to the special characteristics of the U.S. Government. Such investments include:

- Non-Federal physical property; the Federal investment in properties owned by State and local governments (e.g., highways and airports).
- Human capital; investments in education and training programs financed by the U.S. Government for the benefit of the public.
- Research and development; the U.S. Government's investments in basic and applied research and development.

The annual expense related to these investments included in the Statement of Net Cost is separately reported in the Stewardship Information section.

A new accounting standard, which became effective for fiscal 1999, requires that deferred maintenance be presented as required supplementary information. Reporting deferred maintenance highlights the reality that it is an expected cost, which has not been paid.

Accrual Basis

These financial statements of the U.S. Government are prepared based on GAAP that requires using the accrual basis of accounting. Under the accrual basis, transactions are reported when the events giving rise to the transactions occur, rather than when cash is received or paid (cash basis). In contrast, Federal budgetary reporting is generally on the cash basis in accordance with accepted budget concepts.

The most significant difference between these two bases involves the timing of recognition and measurement of revenues and costs. For example, GAAP requires recognition of liabilities for costs related to environmental cleanup when the events requiring such costs occur. By contrast, current budget concepts recognize such costs later, at the time payment is made. The effects of these differences are reflected in the Reconciliation of the Excess of Revenue Over Net Cost to the Unified Budget Surplus, in the Supplemental Information section of this Financial Report.

Coverage

The financial statements cover the executive branch, as well as parts of the legislative and judicial branches of the U.S. Government. A list of the significant entities included in these financial statements is in the Appendix. Information from the legislative and judicial branches is limited because those entities are not required by law to submit comprehensive financial statement information to Treasury. Due to its independence, the Federal Reserve System is excluded. In addition, Government-sponsored but privately owned enterprises (such as Federal Home Loan Banks and the Federal National Mortgage Association) are excluded.

Financial Results

The excess of revenue over net cost figure (accrual basis) contained in these financial statements for fiscal 1999 is $76.9 billion. In fiscal 1999, there was a unified budget surplus (primarily on the cash basis) of $124.4 billion. The primary components of the difference that have been identified are principal payments of pre-credit reform loans, $32.4 billion; decreases in the liability for veteran compensation and burial benefits, $94.9 billion; decreases in the liability for military employee benefits, $31.1 billion; increases in the liability for civilian employee benefits, $41.6 billion; increases in environmental liabilities, $88.7 billion; and, increases in capitalized fixed assets, $41.5 billion. For more information on the detailed reconciliation, see the Reconciliation of the Excess of Revenue Over Net Cost to the Unified Budget Surplus in the Supplemental Information section.

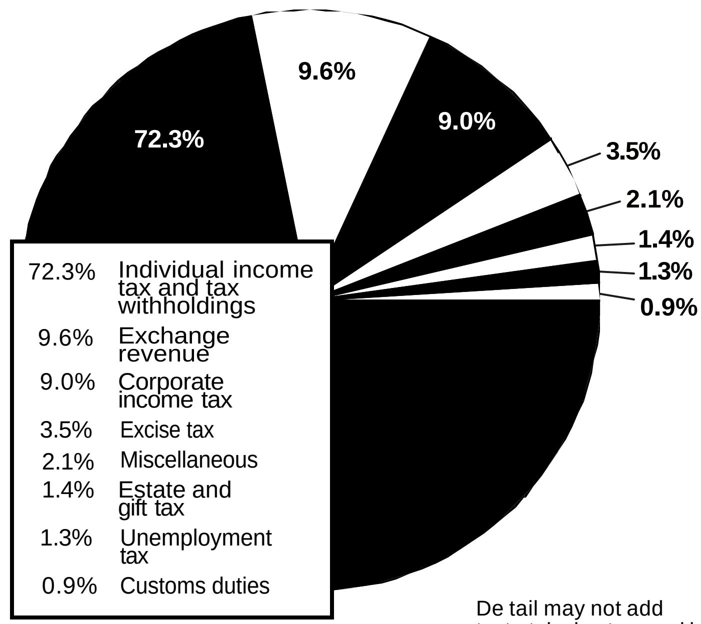
Revenue and Expense Summary

Revenue

Non-exchange revenue is an inflow of resources to the Government that the Government demands or receives by donations. The inflows that it demands include taxes, duties, fines and penalties. Non-exchange revenue is the U.S. Government's primary source of revenue and totaled $1,822.4 billion in 1999. More than 95 percent of this total came from tax receipts, with the remainder coming from customs duties and other miscellaneous receipts.

Earned revenues are inflows of resources that arise from exchange transactions; for example, when the U.S. Government sells goods or services to the public. During 1999, the U.S. Government earned $192.6 billion in exchange revenue. Of these revenues, $182.1 billion is offset against the gross cost of the related functions to arrive at the function's net cost. The U.S. Government also earned $10.5 billion that was not offset against the cost of any function (e.g., royalties on the Outer Continental Shelf lands).

Components of Revenue by Major Source

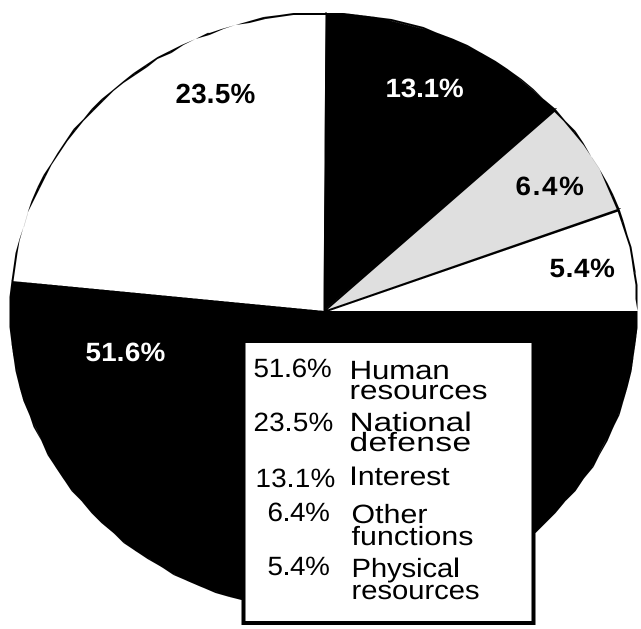


Detail may not add to totals due to rounding.

Expenses by Function

The net cost of U.S. Government operations was $1,756.0 billion for 1999. Net cost represents the gross cost of operations less attributable earned revenues. The Statement of Net Cost reflects the cost incurred to carry out the national priorities identified by the President and the Congress. The functions and subfunctions used to accumulate costs associated with the national priorities are identified in the President's budget and described in detail in the Supplemental Information section of this Financial Report. The accompanying chart presents the percentage of the net cost of U.S. Government operations represented by each of the U.S. Government's major functions.

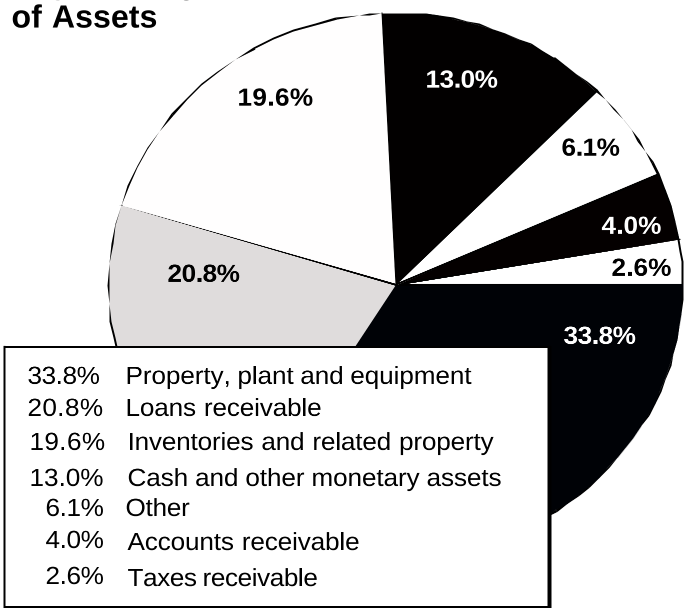
Net Cost by Major Function



Detail may not add to totals due to rounding.

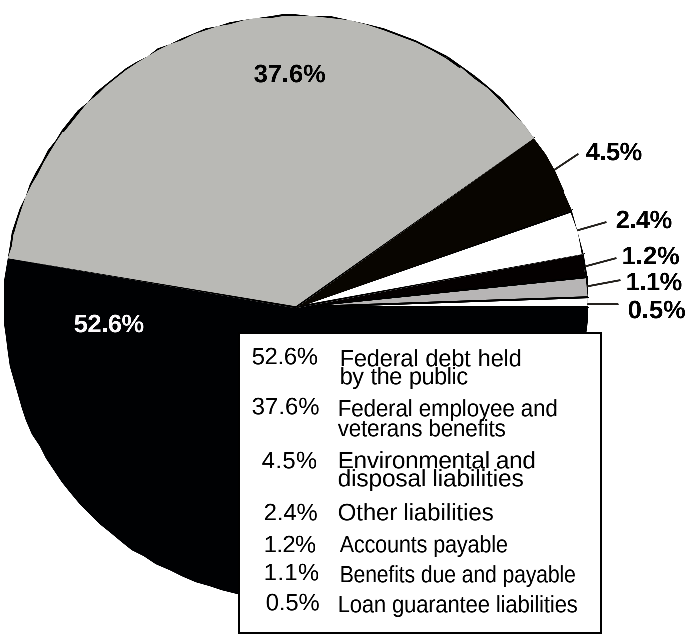
Asset and Liability Summary

Major Categories of Assets



Detail may not add to totals due to rounding.

Major Categories of Liabilities



Detail may not add to totals due to rounding.

Assets

The assets of the U.S. Government are the resources available to pay liabilities or to satisfy future service needs. The accompanying chart depicts the major categories of reported assets as of September 30, 1999, as a percentage of reported total assets. Detailed information about the components of these asset categories can be found in the Notes to the Financial Statements.

The assets presented on the Balance Sheet are not a comprehensive list of Federal resources. For example, the U.S. Government's most important financial resource, its ability to tax and regulate commerce, cannot be quantified and is not reflected. Natural resources, stewardship land (national parks, forests and grazing lands), national defense assets and heritage assets are other examples of resources that are not included in the $883.0 billion of Federal assets reported on the Balance Sheet at the end of fiscal 1999. As can be seen, significant assets of the Federal Government are not reflected on the Balance Sheet.

Liabilities

At the end of fiscal 1999, the U.S. Government reported liabilities of $6,909.2 billion. These liabilities are probable and measurable future outflows of resources arising out of past transactions or events. The largest component of these liabilities ($3,631.6 billion) is represented by Federal debt securities held by the public. The next largest component ($2,600.7 billion) relates to pension, disability and health care costs for Federal civilian and military employees as well as for veterans. Included in this component is a Department of Veteran Affairs program whereby veterans or their dependents receive compensation benefits if the veteran was disabled or died from military service-connected causes. Changes in the assumptions for this actuarial liability resulted in a liability decrease of $94.9 billion. Another liability, which will likely require substantial future budgetary resources to liquidate, is related to environmental cleanup costs associated with environmental damage/contamination. As of September 30, 1999, the cost of cleaning up environmental damage/contamination across Government programs was estimated to be $313.2 billion, an increase of $88.7 billion from 1998.

The accompanying chart presents the percentage of total Federal liabilities represented by each of the categories of liabilities reported on the Balance Sheet. Additional details about the U.S. Government's reported liabilities can be found in the Notes to the Financial Statements.

Long-term Budgetary Outlook

The longer term economic and budget outlook is favorable—even more so than only a few years ago. With prudent fiscal policy, the budget could remain in surplus for many decades. The Administration projects budget surpluses in 2000 and throughout the customary 10-year budget window. However, such projections are inherently uncertain, because, while prudent fiscal policy can safeguard our hard-earned prosperity, so too can reckless choices dissipate the benefits of the budget discipline that is responsible for our ongoing success.

There are foreseeable challenges that will threaten budgetary stability in the 21st century. In less than 10 years, the "baby-boomers"—the large generation born between 1946 and 1964—will become eligible for early retirement under Social Security. In the space of two decades, the elderly's share of the U.S. population will jump from around 13 percent to 21 percent. This demographic bulge will put pressure on the Federal budget through Medicare and Social Security. Fiscal discipline—paying down the debt and reducing or eliminating interest payments—improves the long-run budget balance. Additional reforms such as the Administration proposals described below, will be needed to strengthen Social Security and Medicare. Additional information on receipt and outlay estimates can be found in the Current Services Assessment in the Stewardship Information section of this Financial Report.

Financial Condition of the Medicare Trust Funds

Two trust funds have been established to finance the Medicare program. The Medicare Part A Hospital Insurance Trust Fund is financed by a 2.9 percent tax on wages and salaries required to be paid equally by employees and employers. The Medicare Part B Supplementary Medical Insurance Trust Fund receives premium payments on behalf of Medicare beneficiaries who have elected coverage. The Balanced Budget Act of 1997 provides that the Medicare Part B premium is set at a level that will cover 25 percent of program costs. The remainder of the program cost is funded by congressional appropriations.

The 1999 Trustees' Annual Report projects that the Medicare Part A Trust Fund's assets will be depleted by 2015 using intermediate or "best estimate" assumptions. The Administration has proposed changes that will extend that date by at least a decade to at least 2025. Additional information about the Medicare program can be found in the Stewardship Information section of this Financial Report. At the time this report was prepared, the 2000 Trustees' Annual report was scheduled to be released on March 30, 2000. It's revised estimates will differ from those reported the previous year, which have been included in this Financial Report.

Financial Condition of the Social Security Trust Funds

Two trust funds have been established by law to finance the Social Security program (OASDI): Federal Old-Age and Survivors Insurance (OASI) and Federal Disability Insurance (DI). OASI pays retirement and survivors benefits and DI pays benefits after a worker becomes disabled. OASDI revenues consist primarily of taxes on earnings that are paid by employees, their employers and the self-employed. OASDI also receives revenue from taxation of some Social Security benefits. Revenues that are not needed to pay current benefits or administrative expenses are invested in Treasury securities to earn interest for the trust funds. The Board of Trustees of the OASI and DI Trust Funds provides the President and the Congress with short-range (10 years) and long-range (75 years) actuarial estimates of each trust fund. Because of the inherent uncertainty in estimates for as long as 75 years into the future, the Social Security Trustees use three alternative sets of economic and demographic assumptions to show a range of possibilities. Most analysts use the Trustees' intermediate or "best estimate" set of assumptions to evaluate the financial condition of the Social Security program.

Under current legislation and using intermediate assumptions, the Trustees estimated in their 1999 report, released on March 30, 1999, that by 2014 cash disbursements for the programs will exceed cash receipts and by 2034 the combined trust fund assets, primarily investments in Treasury securities, will be exhausted. With no change in the program, in 2014 the trust funds are expected to begin using interest on their investments to cover the cash shortfall and to pay benefits. Starting in 2022, they would begin redeeming their investments in Treasury securities to provide the needed funding. In 2034, trust fund assets would be exhausted; at that time, dedicated tax revenues would be sufficient to pay only approximately 71 percent of the benefits due. At the time this report was prepared, the Trustees' Annual Report was scheduled to be released on March 30, 2000. Its revised estimates will differ from those reported the previous year, which have been included in this Financial Report.

"The Administration has proposed plans that would extend the life of the trust funds to at least 2050 . . ."

The Administration has proposed plans that would extend the life of the trust funds to at least 2050, and intends to work with Congress on a bipartisan basis to enact long-term Social Security solvency and reform. Acting sooner rather than later to address the long-term financing needs of the program will make the required changes less severe and disruptive and ensure that Social Security works as well for future generations as it has for past generations. Additional information about the Social Security program can be found in the Stewardship Information section of this Financial Report.

Improving Government Management Overall

In addition to improving financial management, the Federal Government has in recent years devoted substantial efforts to improving other areas of management. These efforts are established and reported annually by OMB as Priority Management Objectives (PMOs). Coordinated, sustained and intensive management initiatives have been designed to address the issues in the accompanying text.

"Coordinated, sustained and intensive management initiatives have been designed to address the issues . . . "

Real progress has been made to improve program implementation and execution throughout the Government, on both a Governmentwide and agency-specific basis. For example:

Managing the Year 2000 (Y2K) computer problem. The Administration's first and foremost management objective was to resolve the Y2K computer problem. Y2K posed the single largest technology management challenge in history. The Federal Government's transition through the date change was, beyond all expectations, remarkably trouble free.

Modernizing student aid delivery. Significant progress was made modernizing student aid benefit delivery by expanding electronic access to benefits and services and reforming contracting, systems development, and program oversight practices. The new performance-based organization, created in 1998, hired a chief operating officer, assessed customer needs, developed a systems modernization blueprint, issued a 5-year performance plan and reorganized the staff into three service-oriented channels for students, schools and financial institutions.

Reengineering the naturalization process and reducing the citizenship application backlog. The Department of Justice's Immigration and Naturalization Service (INS) redesigned its naturalization process to streamline and automate operations, and simultaneously reduced a backlog of more than 1.8 million applications for citizenship. In 1999, INS reduced the backlog by more than 500,000 applications, and the average processing time between application and naturalization of qualified candidates has been reduced from 27 months in 1998 to 12 months in 1999. INS expects performance to improve further.

Improving management of the decennial census. The Bureau of the Census in the Department of Commerce ensured that the necessary support structure—which includes opening data capture centers, regional census offices and local census offices; printing forms; establishing a telephone questionnaire assistance program; printing language assistance guides; and recruiting and training temporary census workers—was established and tested and ready for operation.

Priority Management Objectives

Strengthening Governmentwide Management

1. Use performance information to improve program management and make better budget decisions.
2. Improve financial management information.
3. Use capital planning and investment control to better manage information technology.
4. Provide for computer security and protect critical information infrastructure.
5. Strengthen statistical programs.
6. Implement acquisition reforms.
7. Implement electronic Government initiatives.
8. Better manage Federal financial portfolios.
9. Align Federal human resources to support agency goals.
10. Verify that the right person is getting the right benefit.
11. Streamline and simplify Federal grant management.
12. Capitalize on Federal energy efficiency.

Improving Program Implementation

13. Modernize student aid delivery.
14. Improve the Department of Energy's (DOE's) program and contract management.
15. Strengthen the Health Care Financing Administration's (HCFA's) management capacity.
16. Implement Housing and Human Development (HUD) reform.
17. Reform management of Indian Trust Funds.
18. Implement Federal Aviation Administration (FAA) management reforms.
19. Implement Internal Revenue Service (IRS) reforms.
20. Streamline the Social Security Administration's (SSA's) disability claims process.
21. Revolutionize Department of Defense (DOD) business affairs.
22. Manage risks in building the International Space Station.
23. Improve security at diplomatic facilities around the world.
24. Reengineer the naturalization process and reduce the citizenship application backlog.

Systems, Controls and Legal Compliance

The Federal Government faces daunting problems in modernizing its financial management systems. Changing technology, as well as changing information needs, are occurring so rapidly that technology advances in today's systems become obsolete with identification of new data and systems requirements. The cornerstone of sound financial management, as well as performance measurement, is accurate, timely and useful information. Many Federal financial systems are simply unable to provide the data needed to manage programs and make good decisions. The Government needs to upgrade and replace many of its financial management systems.

The Federal Financial Management Improvement Act (FFMIA) pointed out that the development of financial management systems that support GAAP will improve Federal financial management. Improvement in financial systems depends upon: (1) an environment in which financial management systems can be successfully planned, developed, operated and maintained; (2) Governmentwide systems requirements that support information standards; and (3) the availability of systems that meet the Governmentwide systems requirements articulated in FFMIA. FFMIA supports and complements the Chief Financial Officers (CFO) Act, the Government Performance and Results Act, and the Government Management Reform Act. It establishes in statute certain financial management system requirements that are

Controls and Compliance, cont.

already established by the executive branch. Specifically, Federal systems must comply with Federal Financial Management Systems requirements, Federal Accounting Standards and the Standard General Ledger, at the transaction level.

The CFO Council, OMB, Treasury, the Joint Financial Management Improvement Program (JFMIP) and Federal agencies are all working to implement critical improvements to Federal financial management systems in six areas: (1) planning and investment; (2) Governmentwide and agency financial management systems infrastructures; (3) comprehensive data requirements; (4) comprehensive functional requirements; (5) industry partnerships; and (6) systems deployment.

This past year, JFMIP implemented a program of comprehensive testing of vendor core systems to determine compliance with JFMIP standards. Nine systems involving seven vendors have passed the rigorous tests. Only those systems certified by JFMIP as compliant may be purchased by program agencies as of October 1, 1999.

Numerous strong internal controls exist over Federal assets. These controls include the existence of a statutory budget and centralized cash management, debt and disbursement functions. In addition, Treasury's Financial Management Service (FMS) publishes the "Monthly Treasury Statement of Receipts and Outlays of the United States Government" (MTS), a summary statement prepared from agency accounting reports. The MTS presents the receipts, outlays, resulting budget surplus or deficit, and Federal debt for the month and the fiscal year-to-date and compares those figures to the same period in the previous year.

Financial Management Challenges

GAO has reported that serious financial management improvement challenges face the U.S. Government. The central challenge to producing reliable, useful and timely data throughout the year and at yearend is overhauling financial and related management information systems. Agencies also must address problems with fundamental recordkeeping, incomplete documentation and weak internal controls before their systems can produce reliable information on an ongoing basis.

Audits of agency financial statements disclose deficiencies that impede compliance with GAAP and, accordingly, improved financial management. As a result, despite progress over the past year, GAO again was unable to render an opinion on the reliability of the Governmentwide financial statements. The following exhibit illustrates agency progress toward unqualified audit opinions on their financial statements. (Audits for all of the 24 major agencies were not required until fiscal 1996.)

In 1996, only six agencies were able to obtain clean opinions. In 1999, 13 (and ultimately perhaps as many as 15) agencies received clean opinions

"While efforts have been substantial and there has been real progress, the task is extremely large . . ."

and 4 others received qualified opinions. This leaves only five agencies with disclaimed opinions, a condition where the auditors are unable to render an opinion, generally because of deficiencies in the accounting records. However, in a few cases, agencies could not prepare their financial statements in time for the audits to be completed within the March 1 timeframe. A total of seven agencies made some improvement in their audit opinions and four more than last year submitted their statements by the due date. While efforts have been substantial and there has been real progress, the task is extremely large and has been hampered by Y2K work receiving the bulk of systems resources in 1999. Additional progress is expected in 2000.

While progress has been made, recent audits disclosed that major agencies continue to have serious shortcomings in financial management reporting and systems that preclude their financial reports from being audited and receiving unqualified opinions. These agencies must satisfactorily address these problems in order to receive an unqualified opinion on their financial statements and for the U.S. Government to receive an unqualified opinion on its financial statements.

With respect to intragovernmental transactions, the challenge pertains to identifying and eliminating transactions between agencies. The audits of the U.S. Government's financial statements for fiscal 1997 through 1999 disclosed that agencies could not effectively identify transactions with other agencies so they could be eliminated for Governmentwide reporting. If these transactions are not properly eliminated, total U.S. Government assets, liabilities, revenues and expenses will be misstated by the amount of these transactions.

Challenges, cont.

During fiscal 1999, Treasury continued to focus on resolving intragovernmental transaction issues. For fiduciary balances totaling over $2 trillion involving the Bureau of the Public Debt and the Federal Financing Bank, virtually all of the accounting differences have been explained so that these transactions can be eliminated. Progress also has been made regarding intragovernmental buying and selling transactions by using a revised elimination methodology, but work remains to be done in this area.

Treasury continues to assist agencies in reconciling their fund balance amount with the amount reported by Treasury. During this past year, Treasury issued policy statements and guidelines for accomplishing the reconciliation. Reconciliation is an ongoing accounting function, and agencies have made significant strides to institutionalize the process.

(grey)	Unqualified opinions
(vertical lines)	Qualified opinions
(blank)	Opinion disclaimers
?	Agencies that have not yet filed.

CFO Act Agency Audit Opinions on Financial Statements

Agency	1996	1997	1998	1999
USDA	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Commerce	Disclaimer	Disclaimer	Disclaimer	Unqualified
DOD	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Education	Disclaimer	Unqualified	Disclaimer	Qualified
DOE	Unqualified	Unqualified	Qualified	Unqualified
HHS	Disclaimer	Qualified	Qualified	Unqualified
HUD	Qualified	Qualified	Unqualified	Disclaimer
DOI	Qualified	Unqualified	Unqualified	?
DOJ	Disclaimer	Disclaimer	Disclaimer	Qualified
DOL	Qualified	Unqualified	Unqualified	Unqualified
State	Qualified	Unqualified	Unqualified	?
DOT	Disclaimer	Disclaimer	Disclaimer	Unqualified
Treasury	Disclaimer	Qualified	Qualified	Qualified
VA	Qualified	Qualified	Qualified	Unqualified
AID	Disclaimer	Disclaimer	Disclaimer	Disclaimer
EPA	Qualified	Unqualified	Unqualified	Qualified
FEMA	Disclaimer	Disclaimer	Unqualified	Unqualified
GSA	Unqualified	Unqualified	Unqualified	Unqualified
NASA	Unqualified	Unqualified	Unqualified	Unqualified
NRC	Unqualified	Unqualified	Unqualified	Unqualified
NSF	Qualified	Qualified	Unqualified	Unqualified
OPM	Disclaimer	Disclaimer	Disclaimer	Disclaimer
SBA	Unqualified	Unqualified	Unqualified	Unqualified
SSA	Unqualified	Unqualified	Unqualified	Unqualified
Total unqualified	6	11	12	13

Additional Information

Additional details about the information contained in these financial statements can be found in the financial statements of the individual agencies listed in the Appendix. In addition, related U.S. Government publications such as the "Budget of the United States Government," the "Treasury Bulletin," the "Monthly Treasury Statement of Receipts and Outlays of the United States Government," the "Monthly Statement of the Public Debt of the United States," and the Trustee's reports for the Social Security and Medicare programs may be of interest.