



Highlights of [GAO-07-914](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate, and the Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires the 24 Chief Financial Officers (CFO) Act agencies to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the *U.S. Government Standard General Ledger* (SGL). FFMIA also requires GAO to report annually on the implementation of the act.

This report, primarily based on GAO and inspectors general reports, discusses (1) the problems that continued to affect agencies systems' FFMIA compliance in fiscal year 2006 and (2) the initiatives under way to help move federal financial management toward FFMIA compliance.

What GAO Recommends

To further understand the key issues that affect FFMIA implementation and challenges in improving financial management systems, the Comptroller General is convening a forum later this year to bring together key officials and experts for a candid discussion of these issues. Accordingly, this report does not include any new recommendations. OMB was supportive of the forum, agreed with GAO's assessment, and stated it was working aggressively to assist agencies in building a strong foundation of financial management practices.

www.gao.gov/cgi-bin/getrpt?GAO-07-914.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or williamsm1@gao.gov.

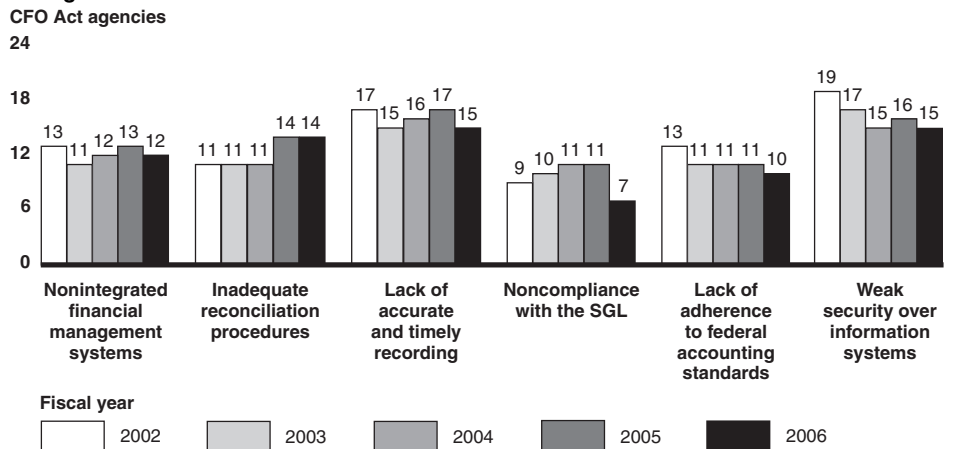
FINANCIAL MANAGEMENT

Long-standing Financial Systems Weaknesses Present a Formidable Challenge

What GAO Found

Federal agencies have continued to make progress in meeting the requirements of FFMIA since the passage of the law in 1996. Most agencies though, have not yet progressed to the stage that their systems are substantially compliant, and some agencies have made little progress. Accordingly, agencies continue to fall short in their attempts to establish the financial systems needed to create the full range of information needed for effective day-to-day management. In fiscal year 2006, auditors for 17 of the 24 CFO Act agencies reported that agencies' financial management systems did not substantially comply with at least one of the three FFMIA requirements. As shown below, based on audit reports, GAO identified six types of problems primarily related to agencies' systems. These problems with agency financial systems remain a significant obstacle to supporting effective management of the federal government.

Number of Agencies with Reported FFMIA Compliance Problems for Fiscal Years 2002 through 2006



Source: GAO analysis, based on independent auditors' financial statement audit reports.

With regard to improvement initiatives, GAO noted continued progress in two key areas: (1) agencies' required remediation plans and (2) the Office of Management and Budget's (OMB) efforts to address system implementation problems. All 12 of the remediation plans GAO reviewed included corrective actions, but several were missing key elements. Moreover, agencies continue to struggle with efforts to modernize their financial management systems. This problem is particularly acute at the Department of Defense. Agency modernization efforts have been consistently hampered by failure to follow best practices in systems development and implementation, commonly referred to as disciplined processes. As a result, these efforts far too often do not meet cost, schedule, and performance goals. To help address these problems, OMB has demonstrated continued progress in the implementation of the financial management line of business initiative. However, additional steps forward are needed to provide a foundation for this initiative.