



FINANCIAL MANAGEMENT

Improved Financial Systems Are Key to FFMIA Compliance

Highlights of [GAO-05-20](#), a report to the Senate Committee on Governmental Affairs and the House Committee on Government Reform.

Why GAO Did This Study

The ability to produce the data needed to efficiently and effectively manage the day-to-day operations of the federal government and provide accountability to taxpayers has been a long-standing challenge to most federal agencies. To help address this challenge, the Federal Financial Management Improvement Act of 1996 (FFMIA) requires the 23 Chief Financial Officers Act agencies to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the U.S. Government Standard General Ledger (SGL) at the transaction level. FFMIA also requires GAO to report annually on the implementation of the act.

What GAO Recommends

GAO reaffirms its prior recommendations that OMB revise its FFMIA audit guidance to:

- (1) include a statement of positive assurance when reporting an agency's systems to be in substantial compliance with FFMIA, and
- (2) clarify the definition of "substantial compliance" to promote consistent reporting of FFMIA compliance.

As in the past, OMB did not agree with our view on the need for auditors to provide positive assurance on FFMIA, but agreed to consider clarifying the definition of "substantial compliance" in future policy and guidance updates.

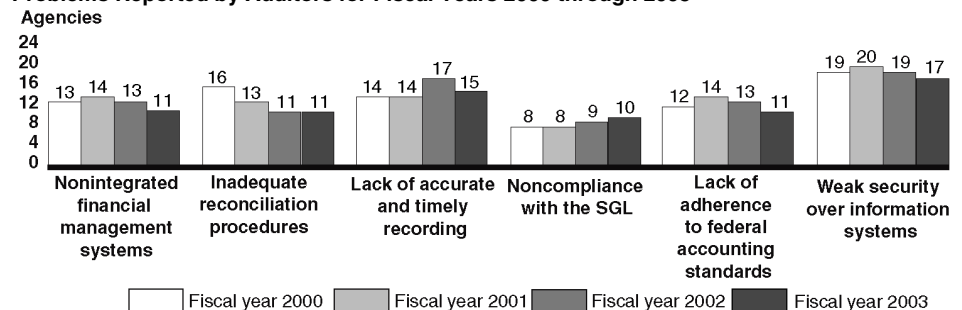
www.gao.gov/cgi-bin/getrpt?GAO-05-20.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sally Thompson at (202) 512-2600 or thompsonsa@gao.gov.

What GAO Found

Federal agencies continue to make progress in addressing their financial management weaknesses; however, for fiscal year 2003, auditors for 17 of the 23 CFO Act agencies still reported that agencies' financial management systems failed to comply with FFMIA. The nature and severity of the reported problems indicate that generally agency management lacked the full range of reliable, useful, and timely information needed for accountability, performance reporting, and decision making. As shown in the figure below, six main types of problems related to agencies' systems were consistently identified.

Problems Reported by Auditors for Fiscal Years 2000 through 2003



Source: GAO analysis.

Note: Based on independent auditors' reports for fiscal years 2000 – 2003, prepared by agency inspectors general and contract auditors.

As prescribed in OMB's reporting guidance, auditors for six agencies provided negative assurance on agency systems' FFMIA compliance for fiscal year 2003. This means that nothing came to their attention to indicate that financial management systems did not meet FFMIA requirements. GAO continues to believe that this type of reporting is not sufficient under the act and that report users may have the false impression that auditors have reported agency systems to be compliant.

To address problems such as nonintegrated systems, inadequate reconciliations, and lack of SGL compliance, agencies are implementing or upgrading financial management systems. Agencies anticipate the new systems will provide reliable, useful, and timely data to support managerial decision making. However, our work at DOD, HHS, and NASA has shown significant problems exist in implementing financial management systems and that agencies are not following the necessary disciplined processes for efficient and effective implementation of these systems. Disciplined processes have been shown to reduce the risks associated with software development and acquisition efforts to acceptable levels and are fundamental to successful system acquisition and implementation. Moreover, governmentwide initiatives to improve financial management systems can help enhance the government's performance and services for citizens.