



Highlights of [GAO-03-572T](#), testimony before the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

# FISCAL YEAR 2002 U.S. GOVERNMENT FINANCIAL STATEMENTS

## Sustained Leadership and Oversight Needed for Effective Implementation of Financial Management Reform

### Why GAO Did This Study

GAO is required by law to audit the consolidated financial statements of the U.S. government.

Timely, accurate, and useful financial information is essential for making informed operating decisions day to day, managing the federal government's operations more efficiently and effectively, meeting the goals of federal financial management reform legislation, supporting results-oriented management approaches, and ensuring accountability on an ongoing basis.

The importance of such information is heightened by the unprecedented demographic challenge of an aging population. Federal spending on the elderly, health care, and new homeland security and defense commitments increases the need to look at competing claims on the budget and at new priorities.

Over the past year, the Principals of the Joint Financial Management Improvement Program continued efforts to accelerate progress in financial management reform. Also, President Bush has implemented the President's Management Agenda to provide direction to, and closely monitor, management reform across government, which encompasses improved financial management performance. To effectively implement federal financial management reform, sustained leadership and oversight are essential.

[www.gao.gov/cgi-bin/getrpt?GAO-03-572T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-572T).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Jeffrey Steinhoff or Gary Engel at (202) 512-2600.

### What GAO Found

As in the 5 previous fiscal years, the federal government continues to have a significant number of material weaknesses related to financial systems, fundamental recordkeeping and financial reporting, and incomplete documentation. Several of these material weaknesses resulted in conditions that continued to prevent us from expressing an opinion on the U.S. government's consolidated financial statements for the fiscal years ended September 30, 2002 and 2001.

Three major impediments to an opinion on the consolidated financial statements are (1) serious financial management problems at DOD, (2) the federal government's inability to fully account for and reconcile billions of dollars of transactions between federal entities, and (3) the federal government's inability to properly prepare the consolidated financial statements.

Federal agencies have continued to make progress in obtaining unqualified audit opinions—21 of 24 Chief Financial Officers (CFO) Act agencies for fiscal year 2002 (see table), up from 6 for fiscal year 1996. Irrespective of the unqualified opinions, many federal agencies do not have timely, accurate, and useful financial information and sound controls with which to make informed decisions and to ensure accountability on an ongoing basis.

Building on the success achieved in obtaining unqualified audit opinions, federal agency management must continue to work toward fully resolving the pervasive and generally long-standing material weaknesses that have been reported for the past 6 fiscal years. The President's Management Agenda stated that without sound internal control and accurate and timely financial information, it is not possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

**Fiscal Year 2002 CFO Act Agency Results Reported by Auditors**

Agencies with unqualified opinions	Agencies with unqualified opinions and no material weaknesses or noncompliances
21 <sup>a</sup>	4 <sup>b</sup>

Source: GAO.

<sup>a</sup> Agriculture, Commerce, Education, Energy, Federal Emergency Management Agency, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, Treasury, Veterans Affairs, Environmental Protection Agency, General Services Administration, National Aeronautics and Space Administration, National Science Foundation, Nuclear Regulatory Commission, Office of Personnel Management, and Social Security Administration.

<sup>b</sup> Energy, General Services Administration, National Science Foundation, and Social Security Administration.