



# FINANCIAL MANAGEMENT

## FFMIA Implementation Necessary to Achieve Accountability

Highlights of GAO-03-31 report to Congressional Committees

### 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 at most federal agencies. To help address this challenge, the Federal Financial Management Improvement Act of 1996 (FFMIA) requires the 24 Chief Financial Officers Act agencies to implement and maintain financial management systems that comply substantially with (1) federal 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.

### What GAO Recommends

GAO reaffirms its prior recommendations that OMB revise its FFMIA audit testing and reporting guidance including recommendations to

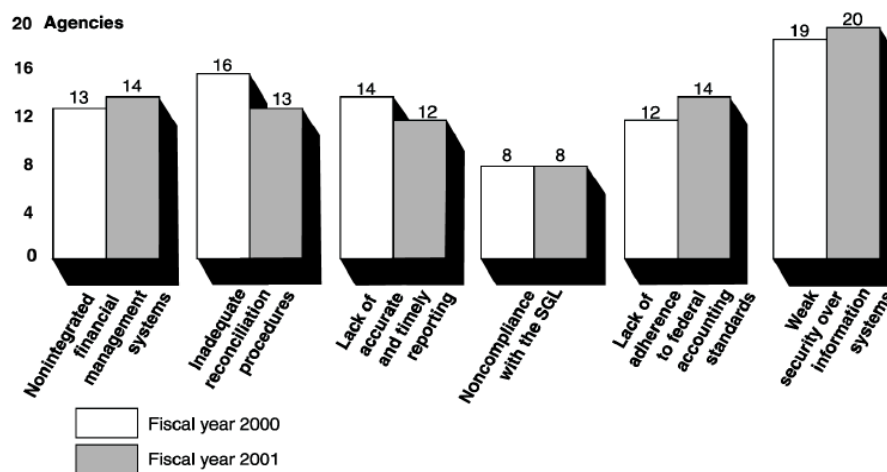
- (1) provide a statement of positive assurance when reporting an agency's systems to be in substantial compliance with FFMIA, and
- (2) emphasize the significance of agencies' ability to provide cost management information for measuring the results of program performance.

OMB agreed to reconsider revising its audit guidance once its overall federal financial management policy is finalized.

### What GAO Found

Since enactment of FFMIA in 1996, agencies have generally continued to make progress to achieve compliance with the act. At the same time, most agencies' systems continue to have shortcomings. As shown in the chart below, audit reports highlight 6 recurring problems that were consistently reported at 20 agencies whose auditors concluded that systems were not in compliance with one or more FFMIA requirements.

### Problems Reported by Auditors for Fiscal Years 2000 and 2001



Following OMB's reporting guidance, auditors for the remaining four agencies provided negative assurance on compliance, meaning that nothing came to their attention indicating that these agencies' financial management systems did not meet FFMIA requirements. GAO does not believe that this type of reporting is sufficient. FFMIA requires the auditor to state "whether" the agency systems are in substantial compliance, which in our view, requires the auditor to perform sufficient audit tests to be able to provide positive assurance.

Agencies have recognized the seriousness of their financial system problems, and many initiatives are planned or underway to overhaul financial management systems, including efforts to develop cost management information which is key to measuring program performance. Increasing attention from the highest levels of the federal government is being targeted on improving financial management. The *President's Management Agenda Fiscal Year 2002* included improved financial performance as one of the five top governmentwide management goals. The administration is aggressively pursuing strategies to reform federal business practices, and has underscored the need for financial management systems modernization.