# U.S. Government Financial Statements: Fiscal Year 2000 Reporting Underscores the Need to Accelerate Federal Financial Management Reform

Based on Testimony by
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In passing the Chief Financial Officers Act of 1990 and other financial management reforms, Congress sought to remedy a problem that had long hindered financial accountability in the federal government—the lack of timely, accurate, and useful financial and other management information. Without such information, the government cannot measure and control costs, manage for results, or make fully informed decisions on allocating finite resources. One key reform was to require the 24 major federal departments and agencies to have annual audited financial statements beginning in fiscal year 1996. The following year, the U.S. government began to issue consolidated financial statements and to have them audited.

This is the fourth consecutive year in which GAO could not express an opinion on the U.S. government's consolidated financial statements. Material weaknesses in internal controls and in accounting and reporting prevented GAO from providing Congress and the American people with an opinion on whether the consolidated financial statements were fairly stated in accordance with U.S. generally accepted accounting principles. These weaknesses also call into question the reliability of important federal financial data, including information that is used to manage the government's day-to-day operations and budget information reported by agencies.

Despite the persistence of many significant financial management weaknesses that GAO has cited for years, agencies are making progress in addressing the underlying causes of these problems, including inadequate financial management systems, poor recordkeeping and financial reporting, incomplete documentation, and ineffective internal controls. Increasing the pace of ongoing and planned financial management reforms is essential. Reports by the Inspectors General and their contract auditors show that only 3 of the 24 major departments and agencies had neither a material control weakness nor material compliance problems with applicable laws and regulations.

Agencies have made marked strides in obtaining unqualified audit opinions on their financial statements. Just four years ago, only six agencies received an unqualified audit opinion on their financial statements; in fiscal year 2000, that number rose to 18. Also, for the first time, the Office of Management and Budget (OMB) reported that all 24 major departments and agencies met the March 1 reporting deadline.

Even so, agencies can further improve the timeliness of their financial statement submissions.  For example, auditors for the Social Security Administration's (SSA) financial statements for fiscal year 2000 delivered their report to SSA two months after the close of the government's fiscal year—three months before the March 1 deadline.

Many agencies undertake tremendous efforts—some lasting five months or more—to produce annual financial statements.  The reality is that if agencies had sound financial management systems, these "heroic" efforts would be unnecessary. Many of the unqualified opinions I mentioned earlier were obtained by committing significant financial and human resources on extensive ad hoc procedures and by making adjustments of billions of dollars to derive financial statements months after the fiscal year had ended.  Obtaining an unqualified opinion by using costly and time-consuming manual efforts is a hollow accomplishment that may ultimately mislead the public about the real state of financial management at these agencies. We need to target these resources at the underlying problems so that a clean opinion is meaningful.  In addition, for an agency to claim success, clean opinions cannot be accompanied by material control weaknesses or compliance problems.

The chief financial officers at the various agencies, the Inspectors General, the Department of the Treasury, OMB, and GAO have worked together extensively during the past four years.  From the outset, everyone understood that overcoming the decades of neglect would not be easy.

In recent weeks, I have met with Treasury Secretary Paul O'Neill and OMB Director Mitch Daniels on the need for aggressive action to speed progress in financial management reform.  I am heartened by their strong support for these efforts.  We have agreed to jointly pursue short- and long-term strategies and operational plans to overcome the problems that prevent GAO from expressing an opinion on the U.S. government's consolidated financial statements.

What, specifically, are these problems?  The major ones include the following:  (1) Financial management problems at specific agencies—particularly the Departments of Defense and Agriculture—that have been unable to produce auditable financial statements.   (2) Problems in reconciling intragovernmental transactions.  (3) Information security weaknesses. (4) Poorly designed and non-integrated financial management systems that fail to provide timely, accurate, and useful information for managing day-to-day operations.

Providing sound information on a timely and consistent basis remains the ultimate goal of financial management reform. It is especially important for Congress and other policymakers to have this kind of financial information when considering the long-range fiscal problems facing the government and our nation.

Current budget surpluses offer an opportunity to address some of the pent-up demands that were deferred during the era of deficits, but they do not end our obligation to prepare for the future. We must consider how today's choices will affect our future ability to meet the needs of an aging America, including rising health care costs and the retirement of the baby boomer generation.

The question before this Congress is how to balance current wants and needs against our nation's long-term challenges. These challenges include reforming and strengthening Medicare and Social Security at the earliest opportunity. In their March 2001 report, the Trustees of these programs said that although the short-term condition of both Medicare and Social Security have improved since last year, the long-term financial outlook for Medicare has deteriorated—a development with significant implications for the budget and the economy. We must begin to take steps to close the $4.6 trillion funding gap projected for the Hospital Insurance Fund (Medicare Part A) over the next 75 years. Efforts to add a prescription drug benefit to Medicare must also consider incremental solutions that target legitimate needs rather than unlimited wants. Any benefit expansion should also be coupled with program reforms to avoid worsening Medicare's already considerable long-range financial imbalance.

Today, the government is moving from balancing the budget to balancing fiscal risk. The surpluses offer us an opportunity to move beyond deficit reduction and ask basic questions about what government does and how government does business. That is why lasting financial management reform is so essential. Only by generating timely, accurate, and useful information can government maximize its economy and efficiency, ensure its accountability to taxpayers, manage for results, and help policymakers make informed decisions.

# BIOGRAPHY OF DAVID M. WALKER

*David M. Walker became the seventh Comptroller General of the United States and began his 15-year term when he took his oath of office on November 9, 1998. As Comptroller General, Mr. Walker is the nation's chief accountability officer and the head of the General Accounting Office (GAO), a legislative branch agency founded in 1921. GAO helps Congress maximize the performance and ensure the accountability of the federal government for the benefit of the American people. Immediately prior to his appointment as Comptroller General, Mr. Walker was a partner and global managing director of Arthur Andersen LLP's human capital services practice and a member of the board of Arthur Andersen Financial Advisors, a registered investment advisor. He also served as a Public Trustee for Social Security and Medicare from 1990 to 1995, while he was a partner with Arthur Andersen. Before joining Arthur Andersen, Mr. Walker was Assistant Secretary of Labor for Pension and Welfare Benefit Programs and Acting Executive Director for the Pension Benefit Guaranty Corporation. His earlier technical, professional, and business experience was gained with Price Waterhouse, Coopers & Lybrand, and with Source Services Corporation. Mr. Walker is a certified public accountant. He has a B.S. degree in accounting from Jacksonville University and a Senior Management in Government Certificate in Public Policy from the John F. Kennedy School of Government at Harvard University. He is married to the former Mary Etheredge, and they have two adult children—a daughter, Carol, and a son, Andy.*