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FINANCIAL MANAGEMENT

Agencies Face Many Challenges in Meeting the Goals of the Federal Financial Management Improvement Act

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G A O
Accountability * Integrity * Reliability

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the challenges most of the major federal departments and agencies face in meeting the basic expectations laid out in the Federal Financial Management Improvement Act of 1996 (FFMIA). That act, and several before it dating back to 1982, most notably the Chief Financial Officers (CFO) Act of 1990, have underscored the importance of improving financial management across the federal government. As such, FFMIA and predecessor legislation, as well as many audit reports by our office and the Inspector General (IG) community have continually pointed out that reliable, useful, and timely information has not been available across government to ensure financial accountability and to help improve economy, efficiency, and effectiveness. The central challenge in generating reliable and timely data throughout the year is overhauling financial and related management information systems. To help focus attention on this challenge, 4 years ago the Congress passed FFMIA, which requires the 24 major departments and agencies[1] to implement and maintain financial management systems that comply substantially with (1) federal financial systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* (SGL) at the transaction level.

Today I will discuss (1) problems with agencies' systems that prevent them from meeting the expectations of FFMIA, (2) how agencies are able to receive a "clean" (unqualified) audit opinion on their financial statements even though their financial systems do not comply with FFMIA's requirements, and (3) key elements in addressing these systems problems, including the importance of sound information technology investment and control processes. As required by the act, we plan to issue our fourth annual report on agency compliance with FFMIA by October 1 of this year.

Mr. Chairman, from the outset today, I want to dispel the notion that this is merely a compliance issue. The expectations in the CFO Act and FFMIA are integral to producing the data needed to efficiently and effectively manage the day-to-day operations of the federal government and provide accountability to the taxpayers. When federal agencies can meet these expectations, they will have achieved what the Comptroller General has referred to as the "end game"—systems and processes that routinely generate reliable, useful, and timely information the government needs to

[1]The 24 Chief Financial Officers (CFO) Act agencies are listed in table 1.

assure accountability to taxpayers, manage for results, and help decisionmakers make timely, well-informed judgments.

Aside from poor data and weak assurances regarding accountability, the issues I will discuss today can result in excessive time spent by staff in trying to correct data problems and compensate for systems shortcomings. We recently issued an *Executive Guide: Creating Value Through World-class Financial Management*,[2] which describes some of the best practices used by effective finance operations to support the mission objectives of their organizations. They devote an increasingly smaller portion of their staff resources to routine accounting activities, such as external reporting and, instead, are able to use reliable and timely financial and other data to provide products and services that directly support strategic decision-making and ultimately improve overall business performance.

FFMIA Is a Key Component of the Management Reform Framework

FFMIA is part of a series of management reform legislation passed by the Congress over the past 2 decades. This series of legislation started with the Federal Managers' Financial Integrity Act of 1982, which the Congress passed to strengthen internal control and accounting systems throughout the federal government, among other purposes. However, as we reported in 1989,[3] 7 years after the Financial Integrity Act was passed, agencies had achieved some success in identifying and correcting material internal control and accounting system weaknesses, but their efforts to implement the Financial Integrity Act had not produced the results intended by the Congress. At that time, we also reported that the government did not have the internal control systems necessary to effectively operate its programs and safeguard its assets and that its accounting systems were antiquated and second-rate.

So, in the 1990s, the Congress passed additional management reform legislation to improve the general and financial management of the federal government. The combination of reforms ushered in by (1) the Chief Financial Officers Act of 1990, (2) the Government Management and Reform Act of 1994, (3) FFMIA, (4) the Government Performance and Results Act of 1993, and (5) the Clinger-Cohen Act of 1996, if successfully implemented, provides a basis for improving accountability over government operations and routinely producing sound cost and operating

[2] *Executive Guide: Creating Value Through World-class Financial Management* (GAO/AIMD-00-134, April 2000).

[3] *Financial Integrity Act: Inadequate Controls Result in Ineffective Federal Programs and Billions in Losses* (GAO/AFMD-90-10, November 28, 1989).

performance information, thereby making it possible to better assess and improve the government's financial condition and operating performance. In addition, we recently updated our *Standards for Internal Control in the Federal Government*,[4] which is issued pursuant to the Financial Integrity Act to help agency managers implement effective internal control, an integral part of improving financial management systems.

FFMIA requires auditors performing annual financial statement audits of the CFO Act agencies to report whether agencies' financial management systems comply with the act's requirements. The act defines financial management systems as the financial systems and financial portions of mixed systems[5] necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. FFMIA also requires agency heads to determine annually, based on the audit report on the entity's financial statements and any other relevant information, whether their agency financial management systems satisfy the act's requirements. If the agency head determines that the systems do not comply, FFMIA requires the agency head, in consultation with the Director of the Office of Management and Budget (OMB), to establish a remediation plan to bring the systems into substantial compliance. FFMIA also contains a requirement that IGs are to report instances and reasons when an agency has not met the intermediate target dates established in their remediation plans.

To develop this testimony, we reviewed fiscal year 1999 audit results for the 23 CFO Act agencies that had issued audited financial statements as of June 1, 2000.[6] We also relied on our ongoing work on FFMIA, including reviews of agency remediation plans, federal accounting standards, and federal financial systems requirements. We did our work from February through May 2000, in accordance with generally accepted government auditing standards.

[4] *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

[5] FFMIA defines mixed systems as information systems that support both financial and nonfinancial functions of the federal government or components thereof.

[6] The statutory reporting deadline for audit reports discussing the results of the fiscal year 1999 financial statement audits for the CFO agencies was March 1, 2000. As of June 1, 2000, the Department of State had not yet issued its fiscal year 1999 audited financial statements.

Widespread Noncompliance Indicates Serious Systems Problems

Auditors for 20 of the 23 CFO Act agencies, whose audit reports have been issued, reported that for fiscal year 1999, the agencies' systems did not comply substantially with federal financial systems requirements, federal accounting standards, and/or the SGL.[7] Auditors for three agencies—the Department of Energy, the National Aeronautics and Space Administration, and the National Science Foundation—reported the agencies' systems to be in substantial compliance. These results were similar to those for fiscal years 1997 and 1998. Reasons for noncompliance range from nonintegrated financial management systems to information security weaknesses. This continuing widespread noncompliance with FFMIA is indicative of the overall long-standing poor condition of agency financial systems. Correcting the systems problems that cause noncompliance with FFMIA is a challenge for many agencies because of the age and poor condition of their critical financial systems. Some of the federal government's computer systems were originally designed and developed years ago and do not meet current systems requirements and cannot provide reliable financial information for managing day-to-day government operations and holding managers accountable. Further, the inadequacy of federal financial management systems prevents a host of financial reporting and financial analysis needs from being met.

Based on our review of fiscal year 1999 audit reports for the 20 agencies reported to be noncompliant, we identified five primary reasons:

- nonintegrated financial management systems,
- inadequate reconciliation procedures,
- noncompliance with the SGL,
- lack of adherence to federal accounting standards, and
- weak security over information systems.

Table 1 shows the 20 noncompliant agencies and problems reported by their auditors.

[7]Management of 3 of the 20 agencies—the Federal Emergency Management Agency, the Social Security Administration, and the Office of Personnel Management (OPM)—determined that their agencies' systems did comply substantially with FFMIA's requirements. Management of these three agencies acknowledged that the weaknesses identified by the auditors exist, but did not agree that the weaknesses caused "substantial noncompliance." (In the case of OPM, management determined that the systems for the Retirement, Health Benefits Insurance, and Life Insurance programs did comply substantially with FFMIA. For the Revolving Fund and Salaries and Expenses, OPM management agreed with its auditors that the systems did not comply substantially with FFMIA.)

Table 1: Problems Reported by Auditors in Fiscal Year 1999

Agency	Nonintegrated financial management systems	Inadequate reconciliation procedures	Non-compliance with the SGL	Lack of adherence to federal accounting standards	Weak security over information systems
Department of Agriculture	√	√	√	√	√
Department of Commerce	√	√	√		√
Department of Defense	√	√	√	√	√
Department of Education	√	√		√	√
Department of Health and Human Services	√	√			√
Department of Housing and Urban Development	√	√	√	√	√
Department of the Interior				√	√
Department of Justice	√	√		√	√
Department of Labor	√	√	√	√	√
Department of Transportation	√		√	√	√
Department of the Treasury	√	√	√	√	√
Department of Veterans Affairs	√	√	√	√	√
Agency for International Development	√	√	√	√	√
Environmental Protection Agency		√		√	√
Federal Emergency Management Agency	√	√			√
General Services Administration					√
Nuclear Regulatory Commission				√	
Office of Personnel Management		√	√	√	√
Small Business	√		√	√	√

Agency	Nonintegrated financial management systems	Inadequate reconciliation procedures	Non-compliance with the SGL	Lack of adherence to federal accounting standards	Weak security over information systems
Administration					
Social Security Administration					√
Totals	14	14	11	15	19

Source: GAO analysis of agency audit reports for fiscal year 1999.

To understand how these weaknesses affect agencies' financial management efforts and to bring about any lasting improvements, it is important to understand what these weaknesses mean and their impact on the government's operations. The following sections describe the five types of weaknesses and provide examples identified by the agencies' auditors.

Nonintegrated Financial Management Systems

One of the federal financial systems requirements is that agencies' financial management systems must be integrated.[8] According to the CFO Act, agencies are to develop and maintain an integrated accounting and financial management system that complies with federal systems requirements and provides for (1) complete, reliable, consistent, and timely information that is responsive to the financial information needs of the agency and facilitates the systematic measurement of performance, (2) the development and reporting of cost information, and (3) the integration of accounting, budgeting, and program information. In this regard, OMB Circular A-127, *Financial Management Systems*, requires agencies to establish and maintain an integrated financial management system that conforms with the Joint Financial Management Improvement Program's (JFMIP)[9] functional requirements.

[8]Federal financial system requirements define an integrated financial system as one that coordinates a number of previously unconnected functions to improve overall efficiency and control. Characteristics of such a system include (1) standard data classifications for recording financial events, (2) common processes for processing similar transactions, (3) consistent internal controls over data entry, transaction processing, and reporting, and (4) a system design that eliminates unnecessary duplication of transaction entry.

[9]JFMIP is a cooperative undertaking of OMB, the Department of the Treasury, the Office of Personnel Management (OPM), and GAO working with operating agencies to improve financial management practices throughout the government. The program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget (now OMB), and the Comptroller General and was given statutory authorization in the Budget and Accounting Procedures Act of 1950. The Civil Service Commission, now OPM, joined JFMIP in 1966.

When agencies do not have an integrated financial management system—which includes a budget system and program systems that maintain financial information, such as logistics, personnel, and acquisition systems—they are often forced to rely on ad hoc programming or analysis or actions, such as taking physical inventories to determine what assets they have on hand, in order to satisfy financial reporting and analysis responsibilities. In these situations, agencies must expend major effort and resources, and some agencies rely heavily on external consultants to develop information that their systems should be able to provide on a daily or recurring basis. In addition, opportunities for errors are significantly increased when agencies' systems are not integrated.

Modern, integrated financial systems rely on transaction-based entries to update all relevant accounts, be they for budgetary control, proprietary accounting objectives, or program management. In these modern, integrated systems, financial data is carried in a common format, and the effects of financial transactions in one application are accurately transmitted to other affected applications. Accordingly, aside from the timeliness in recording transactions, the use of integrated systems largely negates the risk of out-of-balance situations and data entry errors. Thus, agencies can have at their disposal information that can quickly provide year-to-date balances, but more importantly, can be used for analysis throughout the year.

A continuing, serious problem is that agencies lack modern, integrated financial management systems. As shown in table 1, auditors for 14 of the 20 noncompliant agencies reported this as a problem. For example, as we testified before this Subcommittee this February,[10] the Internal Revenue Service (IRS) had to focus substantial efforts on developing compensating processes to work around its serious systems and internal control weaknesses to derive year-end balances for its financial statements.[11] Because IRS' aging financial management systems have not been redesigned to meet current systems requirements and financial reporting standards, IRS' approach to preparing financial statements relied heavily on costly, time-consuming processes, statistical projections, and external consultants to derive year-end balances. For instance, IRS has pervasive

[10] *Internal Revenue Service: Results of Fiscal Year 1999 Financial Statement Audit* (GAO/T-AIMD-00-104, February 29, 2000).

[11] The Department of the Treasury is one of the 20 noncompliant agencies. IRS' systems problems were one of the main reasons for Treasury's noncompliance with FFMIA.

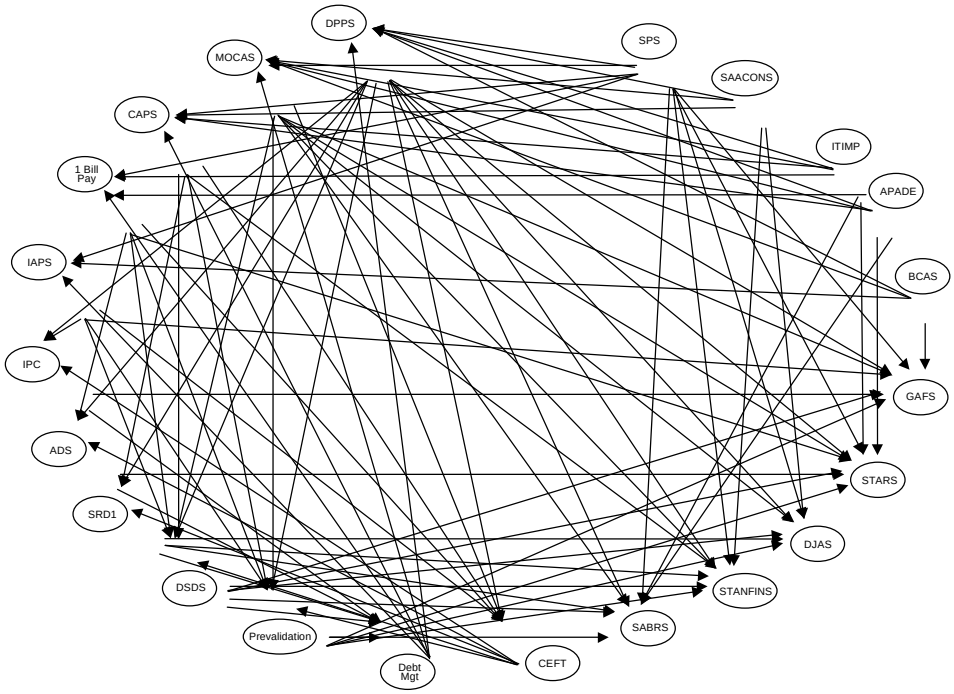
problems in managing and reporting unpaid assessments.[12] IRS does not have a subsidiary ledger that tracks and accumulates unpaid assessments and their status on an ongoing basis. The absence of the subsidiary ledger adversely affects IRS' ability to effectively manage and accurately report these assessments. Typically, an entity's accounts receivable balances would be supported by detailed records, listings, or a subsidiary ledger of individual amounts, which are all part of an integrated financial management system. To compensate for the lack of an unpaid assessment subsidiary ledger, IRS uses ad hoc programs that extract data from the tax master files—its database of taxpayer information. However, as in past years, the results still required significant adjustments totaling tens of billions of dollars before taxes receivable can be reliably reported on the balance sheet. IRS top management recognizes this and has demonstrated a strong commitment to developing an integrated system as part of tax systems modernization.

As we testified before this Subcommittee last month,[13] the Department of Defense (DOD) lacks integrated accounting systems. DOD relies on an inventory of 168 systems—consisting of 98 finance and accounting systems and 70 critical feeder systems—to carry out its financial management responsibilities. These critical feeder systems provide about 80 percent of the data needed for sound financial management. Because DOD lacks the integrated systems needed to properly control assets and accumulate costs, millions of transactions are keyed and then re-keyed into a vast number of systems. To illustrate the degree of difficulty faced by DOD, figure 1, which we included in our earlier testimony, shows for one business area—contract and vendor payments—the number of systems involved and their relationships to one another.

[12]Unpaid assessments consist of amounts for which (1) IRS can support the existence of a receivable through taxpayer agreement or a favorable court ruling (federal taxes receivable), (2) neither the taxpayer nor the court has affirmed that the amounts are owed (compliance assessments), and (3) IRS does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (write-offs).

[13]*Department of Defense: Progress in Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

Figure 1: DOD's Current Systems Environment for the Contract and Vendor Payment Process



Source: Department of Defense.

In addition to the 22 financial systems involved in the contract payment process that are shown in figure 1, DOD has identified many other critical acquisition systems used in the contract payment process that are not shown on this diagram. To further complicate the processing of these transactions, each transaction must be recorded using a nonstandard, complex line of accounting that accumulates appropriation, budget, and management information for contract payments. For example, the following line of accounting is used for the Army's Operations and Maintenance appropriation.

2162020573106325796.BD26FBQSUPCA200GRE12340109003AB22WORNAAS34030

As we previously testified, because DOD's financial management systems are not integrated and payment and accounting processes are complex and generally involve separate functions carried out by separate offices using different systems, each line of accounting must be manually entered multiple times, compounding the likelihood of data entry errors. Billions of dollars of adjustments are made to correct transactions processed for

functions such as inventory and contract payments. During fiscal year 1999, almost one of every three dollars in contract payment transactions was made to adjust a previously recorded transaction. In addition, DOD's IG found that $7.6 trillion of adjustments to DOD's accounting transactions were required last year to prepare DOD's financial statements. As with IRS, DOD's top management recognizes the severity of the problems and has several actions planned and underway to address these problems.

Inadequate Reconciliation Procedures

A reconciliation process, even if performed manually, is a valuable part of a sound financial management system. In fact, the less integrated financial management systems are, the greater the need for adequate reconciliations because data for the same transaction may be separately entered in multiple systems. Reconciliation of records from the multiple systems would ensure that transaction data was entered correctly in each one. Reconciliation is also an important control for establishing agreement between two sets of independently maintained but related records because it helps to ensure the integrity of the underlying accounting data supporting the financial statements. For example, in a private company, the ledger account for Cash in Bank is reconciled with the bank statement received from the bank, and the home office record of shipments to a branch office is reconciled with the record of receipts maintained by the branch. Our recently updated *Standards for Internal Control in the Federal Government* highlight reconciliation as a key control activity.

As shown in table 1, auditors for 14 of the 20 noncompliant agencies reported that the agencies had reconciliation problems, including difficulty reconciling their Fund Balance with Treasury accounts (that is, their cash accounts) with the Department of the Treasury's records. Treasury policy requires agencies to reconcile their accounting records with Treasury records monthly, which is comparable to individuals reconciling their checkbooks to their monthly bank statements.

For example, the Department of Education's auditors reported[14] that Education did not perform proper or timely reconciliations of its financial accounting records throughout fiscal year 1999. And, at fiscal year-end, the balance in Education's Fund Balance with Treasury account varied

[14] *The U.S. Department of Education, Audited Financial Statements, Year Ended September 30, 1999, Report of Independent Auditors*, Ernst & Young LLP, February 2, 2000. Also see *Financial Management: Financial Management Weaknesses at the Department of Education* (GAO/T-AIMD-00-50, December 6, 1999), *Financial Management: Education Faces Challenges in Achieving Financial Management Reform* (GAO/T-AIMD-00-106, March 1, 2000), and *Financial Management: Education's Financial Management Problems Persist* (GAO/T-AIMD-00-180, May 24, 2000).

considerably from the related balance reported by Treasury. In order to make the account balances agree, Education made an unsupported adjustment of a net amount of about $244 million to its Fund Balance with Treasury account. This means that Education simply changed its records to agree with Treasury balances without determining the causes of the differences and without modifying the underlying transactions or accounts giving rise to the discrepancies. Because Education had not been performing periodic reconciliations and discerning reasons for differences on an ongoing basis, it could not determine which records, if any, were correct and accordingly, relied on Treasury's records, not its own.

In another example, the Department of Housing and Urban Development's (HUD) IG reported[15] that HUD fell behind schedule in its reconciliation processes to identify discrepancies with Treasury because of the implementation of a new core accounting system. As a result, HUD made many adjustments to make its Fund Balance with Treasury accounts agree with Treasury records. HUD made 42 adjustments totaling about $17.6 billion to adjust fiscal year 1998 ending balances and 242 adjustments totaling about $59.6 billion to adjust fiscal year 1999 activity. Therefore, on a day-to-day basis, HUD's decisionmakers cannot be assured that the information in its financial systems is reliable. In addition, the reconciliation problems delayed closing of the general ledger and preparation of the financial statements which in turn contributed to the IG's disclaimer of opinion[16] on HUD's fiscal year 1999 financial statements.

Noncompliance With the SGL

Implementation of the SGL at the transaction level is one of the major requirements of FFMIA. However, as shown in table 1, auditors for 11 of the 20 noncompliant agencies reported that the agencies' systems did not comply with SGL requirements. The SGL was established by an interagency task force through the direction of OMB and mandated for use by OMB and Treasury regulations in 1986. The SGL promotes consistency in financial transaction processing and reporting by providing a uniform chart of accounts and pro forma transactions that are to be used to standardize federal agencies' financial information accumulation and processing, enhance financial control, and support budget and external

[15] *Report on Efforts to Audit the U.S. Department of Housing and Urban Development's Fiscal Year 1999 Financial Statements* (00-FO-177-0003, March 1, 2000).

[16] A disclaimer of opinion means the auditors are unable to determine the overall fairness of the financial statements. This type of result might occur if the audit revealed the system of internal control to be grossly inadequate or if the auditors for any reason did not or could not perform sufficient work to have a basis for an opinion.

reporting, including financial statement preparation. The SGL is intended to improve data stewardship throughout the government, enabling consistent reporting at all levels within the agencies, and providing comparable data and enabling financial analysis at the governmentwide level. By not implementing the SGL, agencies are challenged to provide consistent financial information across their component entities and functions. The effect of such differences is further compounded at the governmentwide level and contributed to our disclaimer of opinion on the U.S. government's consolidated financial report for fiscal years 1997, 1998, and 1999 because the government could not ensure that that the information in its financial statements was properly and consistently compiled.[17]

A Treasury official stated in testimony before this Subcommittee on March 31,[18] that the federal government needs to increase the use of the SGL in agency accounting systems to improve the reliability and accuracy of financial information. The official continued by stating

> Our ability to prepare the consolidated financial report using SGL data so that it is consistent with data in agency statements is hampered by the fact that a large number of agencies do not properly use the SGL. In many instances, agencies cannot adequately produce and send the SGL data to Treasury because their systems do not record accounting events using the SGL at the transaction level as mandated by the FFMIA. This results in additional workload and processes to ensure that amounts are recorded in the proper accounts. Additionally, this frustrates attempts to maximize efficiency through the creation of automated analytical tools.

For example, the Agency for International Development's (AID) IG reported[19] that AID did not record accounts receivable in accordance with

[17] *Financial Audit: 1997 Consolidated Financial Statements of the United States Government* (GAO/AIMD-98-127, March 31, 1998), *Financial Audit: 1998 Financial Report of the United States Government* (GAO/AIMD-99-130), and *Financial Audit: 1999 Financial Report of the United States Government* (GAO/AIMD-00-131, March 31, 2000).

[18] *Are the Financial Records of the Federal Government Reliable?*, Testimony of Donald V. Hammond, Fiscal Assistant Secretary, Department of the Treasury, March 31, 2000.

[19] *Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance For Fiscal Year 1999* (Report No. 0-000-00-006-F, February 18, 2000).

the SGL at the transaction level. AID relied on data calls[20] to obtain the total amount of outstanding accounts receivable because it did not have integrated financial management systems. These data calls were posted to the general ledger at the summary level as opposed to the transaction level as required. According to the IG, by using data calls to determine outstanding accounts receivable, AID is at risk that the information obtained is not accurate or complete.

Lack of Adherence to Federal Accounting Standards

One of FFMIA's requirements is that agencies' financial management systems comply with applicable federal accounting standards, which are developed by the Federal Accounting Standards Advisory Board (FASAB).[21] Currently, there are 17 statements of federal financial accounting standards (SFFAS) and 3 statements of federal financial accounting concepts.[22] FASAB continues to deliberate on new and emerging accounting issues that could result in the issuance of additional standards; therefore, agencies' systems must be able to accommodate any new standards that may be issued in the future.

As shown in table 1, auditors for 15 of the 20 noncompliant agencies reported that the agencies had problems complying with one or more federal accounting standards. Some agencies have experienced difficulty implementing these standards because their financial management systems are not capable of producing the financial data needed.

For example, the processes and procedures used by the Department of Agriculture's (USDA) lending agencies to estimate and reestimate loan subsidy costs do not comply with SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*. SFFAS No. 2, which generally mirrors the requirements of the Federal Credit Reform Act of 1990, contains guidance

[20]"Data calls" is a term used to describe the process of requesting various offices to provide outstanding balances as of year-end. The resulting reports are prepared from data contained outside the formal accounting system.

[21]In October 1990, the Secretary of the Treasury, the Director of OMB, and the Comptroller General established FASAB to recommend a set of generally accepted accounting standards for the federal government. FASAB develops accounting standards after considering the financial and budgetary information needs of the Congress, executive agencies, other users of federal financial information, and comments from the public. FASAB forwards the standards to the three principals—the Comptroller General, the Secretary of the Treasury, and the Director of OMB—for a 90-day review. If there are no objections during the review period, the standards are considered final and FASAB publishes them on its website and in print.

[22]Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements. Statements of Federal Financial Accounting Concepts explain the objectives and ideas upon which FASAB develops the standards.

for agencies to estimate the cost of direct and guaranteed loan programs when preparing their annual budgets. The data used for these budgetary estimates are generally reestimated after the fiscal year-end to reflect any changes in actual loan performance since the budget was prepared. SFFAS No. 2 also contains guidance for recording the reestimated cost of direct loans and the reestimated liability for loan guarantees in the agency's financial statements. Further, SFFAS No. 2 states that agencies should use historical experience as a primary factor upon which estimates of future loan performance should be developed.

We testified before this Subcommittee in March[23] that USDA was unable to develop reasonable estimates of the costs of its loan programs because its financial systems were not able to capture the data needed to make these estimates. Also, USDA lacked historical information on borrower behavior, such as how many borrowers will pay early, pay late, or default on their loans and at what point in time. As a result, Congress and other decisionmakers do not know whether they can rely on the agency-reported costs of USDA's loan programs included in the agency's budget request and in its annual financial statements—estimated to be in excess of $27.3 billion as of September 30, 1999—for programmatic and budgetary decision-making. Cost estimates based on unreliable data can affect the availability of credit programs to potential borrowers because changes in these estimates can affect the number and amount of loans and guarantees that can be made.

The Department of Transportation (DOT) also has had difficulty implementing federal accounting standards. DOT's IG reported[24] that DOT did not comply with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, because its accounting system cannot capture costs by major program. According to SFFAS No. 4, federal agencies must provide reliable and timely information on the full costs of their programs, activities, and outputs. The CFO Act also calls for the development of cost information and the systematic measurement of performance. Agencies need this cost information to successfully

[23] *Financial Management: USDA Faces Major Financial Management Challenges* (GAO/T-AIMD-00-115, March 21, 2000).

[24] *Office of Inspector General Audit Report, Fiscal Year 1999 Consolidated Financial Statements, Department of Transportation*, Report No. FE-2000-062, March 8, 2000.

implement the Government Performance and Results Act (GPRA),[25] which seeks to shift the focus of federal management and decision-making from a preoccupation with the number of tasks completed or services provided to a more direct consideration of the results of programs—that is, the real differences the tasks or services make to the nation or individual taxpayer. The lack of cost accounting information limits an agency's ability to meaningfully evaluate performance in terms of efficiency and cost-effectiveness. Agency cost accounting information can be used by the Congress and federal managers to make decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance, as called for in GPRA. However, without relevant and reliable cost accounting information, which is a governmentwide problem, federal managers cannot be sure that resources are spent to achieve expected results and outputs and that waste and inefficiency are minimized.

Weak Security Over Information Systems

Information security weaknesses are one of the primary causes of noncompliance with FFMIA and a huge concern for federal agencies and the general public. As we recently testified,[26] hacker attacks have shown just how quickly computer viruses—such as Melissa and ILOVEYOU—can spread and just how vulnerable federal information systems are to such computer attacks. These viruses have clearly highlighted the urgent and serious need for stronger agency and governmentwide protection over agency data.

As shown in table 1, auditors for 19 of the 20 noncompliant agencies reported information security weaknesses as a problem in fiscal year 1999. Further, our analyses as well as those of agency inspectors general show that virtually all of the largest federal agencies have significant computer security weaknesses.[27] These weaknesses, which we designated as a

[25]GPRA requires agencies to set multiyear strategic goals in their strategic plans and corresponding annual goals in their performance reports, measure performance toward the achievement of those goals, and report on their progress in their annual performance reports. These reports are intended to provide important information to agency managers, policymakers, and the public on what each agency accomplished with the resources it was given.

[26]*Information Security: The Melissa Computer Virus Demonstrates Urgent Need for Stronger Protection Over Systems and Sensitive Data* (GAO/T-AIMD-99-146, April 15, 1999) and *Information Security: "ILOVEYOU" Computer Virus Emphasizes Critical Need for Agency and Governmentwide Improvements* (GAO/T-AIMD-00-171, May 10, 2000).

[27]*Critical Infrastructure Protection: Comments on the National Plan for Information Systems Protection* (GAO/T-AIMD-00-72, February 1, 2000) and *Federal Information Security: Actions Needed to Address Widespread Weaknesses* (GAO/T-AIMD-00-135, March 29, 2000).

governmentwide high-risk area in 1997 and 1999,[28] are placing enormous amounts of federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Our recent update to the federal government's internal control standards highlights the need for adequate control over automated information systems to ensure protection from inappropriate access and unauthorized use by hackers and other trespassers or inappropriate use by agency personnel.

The most serious reported information security problem is inadequately restricted access to agency data, including sensitive data such as taxpayer records, personal medical information, and law enforcement data. Other types of information security weaknesses include inadequacies in segregating duties to help ensure that people do not conduct unauthorized actions without detection, in preventing unauthorized software from being implemented, and in mitigating and recovering from unplanned interruptions in computer service. Unresolved information security weaknesses could adversely affect the ability of agencies to produce accurate data for decision-making and financial reporting because such weaknesses could compromise the reliability and availability of data that are recorded in or transmitted by an agency's financial management systems.

For example, we testified in May that the Department of Education was plagued by serious internal control and system deficiencies, including computer security vulnerabilities.[29] Education places significant reliance on its financial management systems to perform basic functions, such as making payments to grantees and maintaining budget controls. Consequently, weaknesses in Education's information systems, such as lack of an effective process to monitor security violations, increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, all of which could occur without being detected in a timely manner. Given the high volume of transactions that flow through Education's Grant Administration and Payment System alone—over $30 billion a year—it is

[28] *High-Risk Series: An Overview* (GAO/HR-97-1, February 1997) and *High-Risk Series: An Update* (GAO/HR-99-1, January 1999).

[29] *Financial Management: Education's Financial Management Problems Persist* (GAO/T-AIMD-00-180, May 24, 2000).

imperative that Education focus on addressing its computer security vulnerabilities.

The Department of Health and Human Services (HHS) is another agency with weak security over its information systems. HHS' IG cited[30] weaknesses in the entitywide security structure at the Health Care Financing Administration (HCFA), which administers the Medicare program. HCFA relies on extensive computer operations at both its central office and the Medicare contractors to administer the Medicare program and to process and account for Medicare expenditures, which totaled more than $200 billion in fiscal year 1999. Controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts. These control weaknesses do not effectively prevent unauthorized access to and disclosure of sensitive Medicare information.

One more example of an agency with serious information security weaknesses is the Environmental Protection Agency (EPA). In February,[31] we reported that EPA's agencywide security program was ineffective because of pervasive problems, the most serious of which were related to inadequate protection from intrusions through the Internet and poor security planning. We identified weaknesses that made it possible for intruders, as well as EPA employees or contractors, to bypass or disable computer access controls and undertake any of a wide variety of inappropriate or malicious acts, including tampering with data, browsing sensitive information, and seriously disrupting or disabling computer-supported operations. Weaknesses we identified were associated with the operating systems of EPA's main computers and agencywide network and therefore affect the security of all of the EPA operations that rely on them. These operations include computer applications that EPA relies on to carry out their day-to-day operations, including financial management. EPA officials recognize the seriousness of the issues and have informed us of some corrective actions and announced other plans which, if properly implemented, can begin to address several of these serious problems.

[30] *Report on the Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 1999*, Report No. A-17-99-00002, February 2000.

[31] *Information Security: Fundamental Weaknesses Place EPA Data and Operations at Risk* (GAO/T-AIMD-00-97, February 17, 2000).

Increasing Number of Agencies Receive Unqualified Audit Opinion, but Systems Weaknesses Remain

Although the number of agencies receiving "clean" or unqualified audit opinions[32] is increasing, the financial management systems of most agencies continue to be noncompliant with FFMIA's requirements and, therefore, fall short of the CFO Act's and FFMIA's goal to provide reliable, useful, and timely information to assist in day-to-day management. Fourteen of the 23 CFO Act agencies whose audit reports were issued as of June 1, 2000, received unqualified audit opinions on their financial statements for fiscal year 1999, up from 12 in fiscal year 1998 and 11 in fiscal year 1997. Yet FFMIA noncompliance has been fairly consistent since fiscal year 1997 when the systems of 20 of the 24 CFO Act agencies were reported to be noncompliant. In fiscal year 1998, the systems of 21 of the 24 agencies were reported to be noncompliant, and in fiscal year 1999, the systems of 20 of the 23 agencies whose audit reports had been issued were reported to be noncompliant. The Department of State, which had not issued its audit report as of June 1, 2000, was found to be noncompliant with FFMIA in fiscal years 1997 and 1998.

Auditors of 11 of the 14 agencies that received unqualified audit opinions reported that the agencies' financial systems did not comply substantially with FFMIA's requirements in fiscal year 1999. In many cases, these agencies spent considerable resources to obtain a clean opinion because their financial statements could not be produced from their financial systems. Table 2 summarizes the auditors' FFMIA determinations and financial statement opinions for fiscal year 1999 and highlights the 11 agencies that received clean audit opinions in spite of their systems problems.

[32]In an unqualified opinion, the auditor concludes that the principal statements and accompanying notes present fairly, in all material respects, the assets, liabilities, and net position of the entity at the end of the period, and the net costs, changes in net position, budgetary resources, and reconciliation of net costs with budgetary obligations for the period then ended.

Table 2: Auditors' FFMIA Determinations and Financial Statement Opinions for Fiscal Year 1999

Agency	Auditor's determination of substantial compliance		Audit opinion		
	Yes	No	Unqualified	Qualified	Disclaimer
Department of Agriculture		√			√
Department of Commerce		√	√		
Department of Defense		√			√
Department of Education		√		[a]	
Department of Energy [b]	√		√		
Department of Health and Human Services		√	√		
Department of Housing and Urban Development		√			√
Department of the Interior		√	√		
Department of Justice		√		√	
Department of Labor		√	√		
Department of State [c]					
Department of Transportation		√	√		
Department of the Treasury		√		√	
Department of Veterans Affairs		√	√		
Agency for International Development		√			√
Environmental Protection Agency		√		√	
Federal Emergency Management Agency		√	√		
General Services Administration		√	√		
National Aeronautics and Space Administration	√		√		
National Science Foundation	√		√		
Nuclear Regulatory Commission		√	√		
Office of Personnel Management		√	[d]		
Small Business Administration		√	√		
Social Security Administration		√	√		
Total	3	20	14	3	4

= Auditors gave the agency's financial statements an unqualified audit opinion, but reported that the agency's systems did not comply substantially with FFMIA's requirements.

[a]Education received a disclaimer of opinion on its Statement of Financing and qualified opinions on its other financial statements.

[b]According to OMB guidance in OMB Bulletin 98-08, material weaknesses in internal controls that affect an agency's ability to prepare auditable financial statements and related disclosures is an indication of noncompliance with FFMIA. In its fiscal year 1999 Report on Internal Controls, the Department of Energy's IG reported a material weakness related to the Western Area Power Administration's new financial management system. The report states, "While the Department's systems as a whole substantially comply with FFMIA, the new financial management system implemented by Western was not in compliance with the FFMIA requirements as of September 30, 1999….Thus, Western was unable to adequately track and report on budget execution and meet external reporting requirements, including preparation of financial statements."

[c]Audit report not issued as of June 1, 2000.

[d]The Office of Personnel Management does not prepare agency-wide financial statements. For fiscal year 1999, OPM received disclaimers of opinion on its financial statements for Revolving Fund and Salaries and Expenses and unqualified opinions on the financial statements for the Retirement, Health Benefits Insurance, and Life Insurance Programs.

Source: GAO analysis of agency audit reports for fiscal year 1999.

Financial statement audit results are key indicators of the quality of agency financial data at year-end and provide an annual public scorecard on accountability. Agencies are to be commended for receiving unqualified audit opinions. At the same time, a clean audit opinion is not an end in and of itself. A clean audit opinion assures financial statement users only that the information is fairly presented as of the date of the financial statements. It provides no assurance about the effectiveness and efficiency of financial systems used to prepare the statements or whether use of the same or other information for management use would be appropriate. The results shown in table 2 indicate that, although auditors reported that the financial statements of 14 of the 23 CFO Act agencies were fairly presented and reliable at the end of the fiscal year, the financial systems of 20 of the agencies have weaknesses, some of which are so serious that they are not able to routinely provide reliable, useful, and timely information on an ongoing basis.

It bears repeating that the goal of the CFO Act, FFMIA, and other key financial legislation is to establish systems that routinely produce reliable, useful, and timely financial information for decisionmakers in the agency, in the Congress, and elsewhere as part of agencies' ongoing daily operations. In order to receive an unqualified opinion, many agencies whose systems did not comply with FFMIA had to rely on time-consuming ad hoc programming and analysis of data produced by inadequate systems

that are not integrated or reconciled and often require significant audit adjustments.

HHS is an example of an agency that obtained a clean opinion, even though its systems did not satisfy FFMIA requirements. HHS' IG reported[33] that the accounting systems used by HHS and its operating divisions did not meet FFMIA criteria because they were not adequate for preparing reliable and timely financial statements. Because of these systems inadequacies, HHS resorted to a manually intensive and error-prone process, involving numerous manual account adjustments. Together, this led to delays in preparing the statements, increased the risk of material misstatements, and limited the resources available for financial analyses. The extent and magnitude of account adjustments required at year-end demonstrate that the systems were not operating efficiently or effectively. For example, HCFA, HHS' largest operating division with almost $300 billion in net outlays[34] in fiscal year 1999, issued its initial financial statements in mid-December 1999 and then made billions of dollars in adjustments to payables and receivables before producing final, auditable financial statements in late January 2000.

Likewise, while IRS was able to receive a clean audit opinion on its fiscal year 1999 Statement of Custodial Activity, its systems do not comply with FFMIA. We were able to verify that the reported balances on the Statement of Custodial Activity were fairly stated, in all material respects, only after extensive audit procedures and tens of billions of dollars of adjustments. IRS had to rely on extensive, labor-intensive, and time consuming compensating ad hoc procedures to enable it to report reliable revenue and refund balances on its Statement of Custodial Activity.

DOT received its first unqualified opinion on its fiscal year 1999 departmentwide financial statements. However, like several other agencies, in spite of the clean opinion, DOT's IG reported[35] that its systems did not comply substantially with FFMIA. DOT's existing core accounting system—designed to be the primary system for producing financial information and financial statements—was not the primary source of information used to prepare the financial statements. Because the core

[33]*Report on the Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 1999*, Report No. A-17-99-00002, February 2000.

[34]The almost $300 billion in net outlays includes the Medicare and Medicaid programs, which are both administered by HCFA.

[35]*Office of Inspector General Audit Report, Fiscal Year 1999 Consolidated Financial Statements, Department of Transportation*, Report No. FE-2000-062, March 8, 2000.

system did not provide the necessary data, DOT made about 800 adjusting entries totaling $36 billion. Also, according to the IG,[36] the Federal Aviation Administration's property systems were not designed as an integrated system to accurately account for property costs. Therefore, DOT hired additional contractors, detailed employees, and used extensive overtime and compensatory time to provide sufficient evidence to support the amounts of property, plant, and equipment shown on its financial statements. The IG reported that these manual and labor-intensive methods are expensive; prone to errors, mistakes, and inaccuracies; and cannot be sustained.

As I have just illustrated, many agencies rely on time-consuming, costly procedures to receive a clean opinion. Absent substantive improvements in underlying financial systems, these agencies will likely continue to rely on these procedures every year to maintain that opinion. Similarly, agencies that have not yet achieved the milestone of receiving a clean opinion will feel pressure to also perform such costly procedures every year until their systems are able to produce reliable, useful, and timely financial information. Having good systems would eliminate the time and expense needed to routinely produce a complete set of auditable financial statements and allow financial management staff to address other critical and frankly more valuable functions, such as analyzing cost data and other financial data and developing financial and program results information.

The Social Security Administration (SSA) has achieved the end game—systems and processes that routinely generate reliable, useful, and timely information. SSA is able to prepare financial statements from information in its financial system. SSA's audited financial statements for fiscal year 1999, for which it received a clean opinion, were issued on November 18, 1999, only 7 weeks after the close of the fiscal year and almost 3½ months before the March 1 statutory deadline. SSA's auditor did find serious problems with computer security and continuity of operations but otherwise found that SSA's financial systems substantially comply with FFMIA.

Having an effective, integrated financial management system that can produce financial statements in a timely manner would prevent the need for time-consuming and costly procedures. In our *Executive Guide: Creating Value Through World-class Financial Management*, we identified the success factors, practices, and outcomes associated with world-class

[36] *Fiscal Year 1999 Financial Statements, Federal Aviation Administration*, Report No. FE-2000-060, February 29, 2000.

financial management efforts. We found that many leading finance organizations have a goal to reduce the time spent on routine accounting activities, such as financial statement preparation, so that financial management staff can spend more time on activities such as business performance analysis or cost analysis.

Mr. Chairman, these problems are not new. As I mentioned at the outset of my testimony, financial systems problems date back many years, and agencies have known about their severity for just as long. In 1989, we reported that many federal financial systems were weak, outdated, and inefficient and could not routinely produce relevant, timely, and comprehensive data.[37] Now, over 10 years later, the vast majority of agencies' financial systems still do not meet the goals of the CFO Act, although today, through the rigors of the financial statement audit process and the requirements of FFMIA, agencies have a better understanding of their problems and the impetus to resolve those problems. As I will discuss later, agencies have efforts planned or underway to address their systems problems, and we are seeing a commitment across government. However, until these systems problems are resolved, agencies will continue with their extraordinary, inefficient, time-consuming efforts to obtain a clean opinion.

We may be back in a few years to report that substantially more, perhaps even all, of the 24 CFO Act agencies have received clean audit opinions. I feel less confident that their systems will, in the short term, comply with FFMIA and meet the intended results of the CFO Act. The biggest concern is that while all or almost all agencies will have devised and mastered a repeatable process for developing reliable annual results of operations and year-end balances, overhauling financial systems is a much more difficult challenge. Overhauling systems is at the heart of the end game we have spoken about—reliable, useful, and timely data for accurately measuring performance and providing a basis for ongoing management and decision-making.

Key Elements for Improving Financial Management Systems

Bringing financial management systems into compliance with the requirements of FFMIA is a formidable challenge for any agency. Today, across government, agencies recognize the severity of their systems weaknesses and have made plans or are already taking action to resolve them, including the development of new core financial management

[37] *Financial Integrity Act: Inadequate Controls Result in Ineffective Federal Programs and Billions in Losses* (GAO/AFMD-90-10, November 28, 1989).

systems. We have issued guidance to help agencies make information technology investment decisions and improve information security management. JFMIP has efforts underway, including the testing of commercial off-the-shelf software for compliance with current systems requirements and updating and issuing systems requirements documents. Finally, lessons learned from the government's Year 2000 efforts can be applied to efforts to help improve agencies' financial management systems so that they can produce the reliable, useful, and timely information needed by management and other decisionmakers.

Plans to Replace or Overhaul Agencies' Systems

Agencies have submitted remediation plans to OMB describing the corrective actions they plan to take to address the problems previously discussed in this statement, including the replacement or overhaul of their financial management systems. We are currently reviewing these plans and intend to include the results of our review in our annual FFMIA report in October. In our previous report on FFMIA,[38] we reviewed agency audit reports and remediation plans and found that several agencies' corrective actions included development of new core financial management systems to replace noncompliant systems. Information from OMB's inventory of financial systems shows that over the next few years, significant amounts of money will be needed to replace or upgrade 79 percent of the over 1,100 financial management system applications[39] that were reported as being in operation at the time.

Information Technology Investment and Security Guidance

Replacing financial systems will understandably take time, and the systems may not be operational for several years. For many years, federal agencies have struggled with delivering promised system capabilities on time and within budget. This has proven to be a difficult challenge. We have reported in the past that billions of dollars have been wasted on systems development projects. This waste helped give rise to the 1996 enactment of the Clinger-Cohen Act. Clinger-Cohen put in place a disciplined system development process for deciding upon and controlling information technology investments.

[38] *Financial Management: Federal Financial Management Improvement Act Results for Fiscal Year 1998* (GAO/AIMD-00-3, October 1, 1999).

[39] An application is a group of interrelated components of financial or mixed systems that supports one or more functions and has the following characteristics: a common data base, common data element definitions, standardized processing of similar types of transactions, and common version control over software.

To ensure that information technology dollars are directed toward prudent investments designed to achieve cost savings, increase productivity, and improve the timeliness and quality of service delivery, agencies need to apply the framework outlined in the Clinger-Cohen Act and implementing guidance.[40] This includes adopting sound information technology investment and control processes, designing well-developed architectures to guide information flows and technical standards, and establishing disciplined approaches for developing and acquiring computer software.

In this regard, we have worked on strengthening federal agency management of information technology investment and have developed guidance based on best practices in the public and private sectors related to information technology investment. Two guides resulting from our work are:

- *Assessing Risks and Returns: A Guide for Evaluating Agencies' IT Investment Decision-making* (GAO/AIMD-10.1.13, February 1997) and
- *Executive Guide: Measuring Performance and Demonstrating Results of Information Technology Investments* (GAO/AIMD-98-89, March 1998).

However, it is important to remember that these guides are not a "silver bullet" to guarantee success. Rather, the key is for an organization to adopt and effectively implement policies and procedures, such as those described in the guides, that foster the necessary discipline for the organization to produce predictable and repeatable results. Therefore, it is critical that an organization first choose the practices that are compatible with its culture and then effectively implement those practices.

In addition to the guidance we issued on information technology investment decisions, we have issued guides to help agencies improve security over their information systems. As mentioned previously, weaknesses in information systems security was a reported cause of FFMIA noncompliance for 19 of the 20 noncompliant agencies. We have identified best practices for improving information security management, which we published in two guides:

- *Information Security Management: Learning from Leading Organizations* (GAO/AIMD-98-68, May 1998) and

[40]The Clinger-Cohen Act of 1996 builds on the best practices of leading public and private organizations by requiring agencies to better link information technology planning and investment decisions to program missions and goals.

- *Information Security Risk Assessment: Practices of Leading Organizations* (GAO/AIMD-00-33, November 1999).

Our guides are consistent with guidance on information security program management provided to agencies by OMB and the National Institute of Standards and Technology. In addition, the May 1998 guide has been endorsed by the federal Chief Information Officers Council as a useful resource for agency managers.

JFMIP Software Certification

An important effort focused specifically on improving federal financial systems is the work of the JFMIP. In a governmentwide cooperative effort to improve federal financial systems, JFMIP established its Program Management Office (PMO) in 1998 with resources provided by the 24 CFO agencies to assist agencies and vendors in developing and implementing commercial off-the-shelf software that complies with current financial management system requirements. The PMO's responsibilities include, among other things, developing comprehensive testing vehicles, interpreting requirements, serving as an information clearinghouse for federal financial systems, and facilitating communication with the private sector.

In fiscal year 1999, the PMO implemented a new software testing process in which it tests vendor products to certify that they meet current JFMIP systems requirements. The PMO publishes the testing results in its Web-based electronic repository, called the Knowledgebase, which also includes information for agencies and vendors about financial systems requirements, business practices, and certified vendor products. JFMIP compliant systems help assure an agency that the system properly records transactions defined in the JFMIP Core Financial System Requirements document. However, agencies will still need to define their business requirements and then compare the various applications against those requirements to identify gaps. Once these gaps are identified, agencies need to determine the cost, schedule, and performance impacts associated with these gaps and determine the best approach to accomplishing the requirement—modifying the system or, if the desired functionality is not cost effective, eliminating the requirement. OMB Circular A-127, *Financial Management Systems*, requires that agencies replacing software to meet core financial system requirements use off-the-shelf software that has been tested and certified through the JFMIP software certification process as meeting JFMIP core financial system requirements.

Systems Requirements Documents and Checklists

JFMIP has also been updating existing financial management systems requirements, as well as issuing requirements documents covering systems where none previously existed. JFMIP's systems requirements publications are the primary source of governmentwide requirements for financial management systems. These requirements are detailed in the Federal Financial Management Systems Requirements (FFMSR) series issued by JFMIP which, according to OMB Circular A-127, *Financial Management Systems*, agencies are required to follow. Table 3 lists the publications in the FFMSR series and their issue dates.

Table 3: Publications in the Federal Financial Management System Requirements Series

Federal Financial Management System Requirements (FFMSR) Document		Issue date
FFMSR-0	*Framework for Federal Financial Management Systems*	January 1995
FFMSR-7	*Inventory System Requirements*	June 1995
FFMSR-8	*Managerial Cost Accounting System Requirements*	February 1998
JFMIP-SR-99-4	*Core Financial System Requirements*	February 1999
JFMIP-SR-99-5	*Human Resources & Payroll Systems Requirements*	April 1999
JFMIP-SR-99-8	*Direct Loan System Requirements*	June 1999
JFMIP-SR-99-9	*Travel System Requirements*	July 1999
JFMIP-SR-99-14	*Seized Property and Forfeited Asset Systems Requirements*	December 1999
JFMIP-SR-00-01	*Guaranteed Loan System Requirements*	March 2000

JFMIP is also developing systems requirements where none existed. JFMIP issued an exposure draft on *Property Management System Requirements* this past April and is finalizing its *Grant Financial System Requirements*. JFMIP systems requirements, among other things, provide a framework for establishing integrated financial management systems to support program and financial managers. JFMIP also issued an exposure draft[41] of a guide to assist agencies in performing financial management systems reviews as required by FFMIA and other legislation.

As one of the JFMIP's principals, we have published checklists to assist agencies in implementing and monitoring their systems and to assist management and auditors in reviewing systems to determine whether they are in substantial compliance with FFMIA. The checklists are based on

[41] *Financial Management Systems Compliance Review Guide* (JFMIP-MI-99-15, October 1999, exposure draft).

JFMIP systems requirements documents. We issue them when JFMIP requirements are published for the first time and when requirements are updated. Table 4 lists the checklists we have issued in final form or as exposure drafts.

Table 4: Checklists for Reviewing Systems Under the Federal Financial Management Improvement Act

	Checklist	Issue date
GAO/AIMD-98-21.2.1	*Framework for Federal Financial Management System Checklist*	May 1998
GAO/AIMD-00-21.2.2	*Core Financial System Requirements Checklist*	February 2000
GAO/AIMD-00-21.2.3	*Human Resources and Payroll Systems Checklist*	March 2000
GAO/AIMD-98-21.2.4	*Inventory System Checklist*	May 1998
GAO/AIMD-21.2.5	*Seized Property and Forfeited Assets System Requirements Checklist* (exposure draft)	April 2000
GAO/AIMD-21-2.6	*Direct Loan System Requirements Checklist*	April 2000
GAO/AIMD-21.2.8	*Travel System Requirements Checklist*	May 2000
GAO/AIMD-99-21.2.9	*System Requirements for Managerial Cost Accounting Checklist*	January 1999

Lessons Learned From Year 2000 Efforts

Finally, the leadership and partnerships established to successfully address the Year 2000 computing problem provide valuable lessons that can also be used to address financial management reform across government. In our October 1999 FFMIA report[42] we noted that addressing Year 2000 conversion issues was understandably a priority for federal agencies and that Year 2000 preparation had resulted in delaying financial systems changes in some agencies. We also reported that, over the long term, there should be residual benefits from Year 2000 efforts. Now that the federal government has made the successful conversion to Year 2000, it has learned some valuable lessons.

We testified before this Subcommittee in January about the Year 2000 computing challenge, including lessons that can be carried forward to improve the management of information technology activities.[43] Among

[42] *Financial Management: Federal Financial Management Improvement Act Results for Fiscal Year 1998* (GAO/AIMD-00-3, October 1, 1999).

[43] *Year 2000 Computing Challenge: Leadership and Partnerships Result in Limited Rollover Disruptions* (GAO/T-AIMD-00-70, January 27, 2000).

the lessons learned were the importance of (1) providing high-level congressional and executive branch leadership, (2) understanding the importance of computer-supported operations, (3) providing standard guidance, (4) establishing partnerships, (5) facilitating progress and monitoring performance, and (6) implementing fundamental information technology improvements. The Year 2000 efforts have reinforced an understanding of the importance of consistent and persistent top management attention, which is essential to solving any intractable problem.

According to officials at OMB, the Year 2000 problem also gave agency chief information officers a "crash course" in how to accomplish projects. Many chief information officers were relatively new in their positions, and expediting Year 2000 efforts required many of them to quickly gain an understanding of their agency's systems, work extensively with agency program managers and chief financial officers, and become familiar with budgeting and financial management practices. Addressing these issues, in turn, provided them with real-time experience in responding to far-reaching management problems and in finding solutions. These experiences could prove valuable to resolving the systems issues impeding compliance with FFMIA.

Conclusions

Long-standing problems with agencies' financial systems make it difficult for the agencies to produce reliable, useful, and timely financial information and hold managers accountable. Federal managers need this important information for formulating budgets, managing government programs, and making difficult policy choices. The extraordinary efforts that many agencies go through to produce auditable financial statements are not sustainable in the long term. These efforts use significant resources that could be used for other important financial-related work. For these reasons, the widespread systems problems need top management attention. We learned from the Year 2000 experience that proactive leadership at the highest levels of government is one of the most important factors in prompting attention and action on a widespread problem.

The federal government's size and complexity and the discipline needed to overhaul or replace its financial management systems present a significant challenge—not simply a challenge to overcome a technical glitch, but a demanding management challenge that requires attention from the highest levels of government. We recognize that it will take time, investment, and sustained emphasis on correcting deficiencies to improve federal financial management systems to the level required by FFMIA and for effectively

managing government funds. However, with concerted effort, including attention from top agency management and the Congress, the federal government can make progress toward improving its financial management systems and thus achieve the goals of the CFO Act and provide accountability to the nation's taxpayers.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have.

Contacts and Acknowledgments

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