

G A O  
Accountability • Integrity • Reliability

# Highlights

Highlights of [GAO-05-881](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate, and the Committee on Government Reform, House of Representatives

## 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 continues to be a challenge for most federal agencies. To help address this challenge, the Federal Financial Management Improvement Act of 1996 (FFMIA) requires the Chief Financial Officers (CFO) Act agencies to implement and maintain financial management systems that comply substantially with (1) federal financial management 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 guidance to require positive assurance regarding substantial compliance with the requirements of FFMIA, and clarify “substantial compliance” to promote consistent reporting. As in the past, OMB did not agree with GAO’s 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. We believe that positive assurance is a statutory requirement and will continue to work with OMB on this issue.

[www.gao.gov/cgi-bin/getrpt?GAO-05-881](http://www.gao.gov/cgi-bin/getrpt?GAO-05-881).

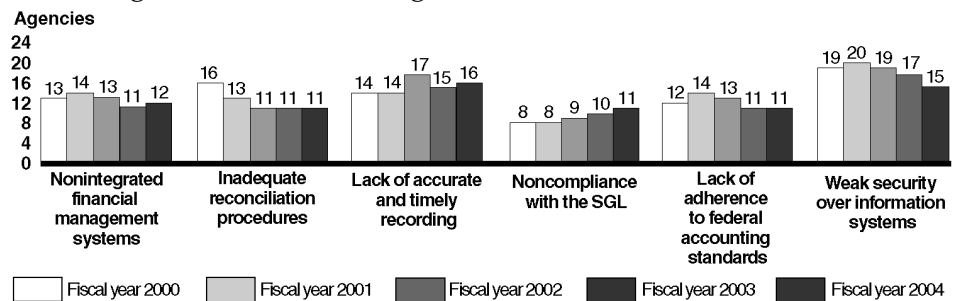
To view the full product, including the scope and methodology, click on the link above. For more information, contact Sally Thompson at (202) 512-2600 or [thompsonsa@gao.gov](mailto:thompsonsa@gao.gov).

## FINANCIAL MANAGEMENT

# Achieving FFMIA Compliance Continues to Challenge Agencies

## What GAO Found

While most CFO Act agencies have obtained clean or unqualified audit opinions on their financial statements, the underlying financial systems remain a serious problem. Agencies still lack the capacity to create the full range of information needed for effective day-to-day management. In fiscal year 2004, auditors for 16 of the 23 CFO Act agencies reported that agencies’ financial management systems failed to comply with FFMIA. As shown in the figure below, primarily six types of problems related to agencies systems were identified in the audit reports. These same types of problems have been consistently reported for agencies with noncompliant systems for a number of years. GAO views these problems with agency financial systems to be a significant challenge to improving the management of the federal government.



Source: GAO analysis, based on independent auditors’ reports prepared by agency inspectors general and contract auditors for fiscal years 2000-2004.

Auditors for six agencies provided negative assurance on systems’ FFMIA compliance for fiscal year 2004. This means that nothing came to their attention to indicate that financial management systems did not meet FFMIA requirements. OMB’s current reporting guidance calls for negative assurance; however, GAO continues to believe that this type of reporting is not sufficient for reporting under the act. In addition, negative assurance may provide the false impression that the auditors are reporting that the agencies’ systems are compliant. In contrast, auditors for the Department of Labor (DOL) provided positive assurance by reporting that DOL’s financial management systems substantially complied with FFMIA requirements. In fiscal year 2005, DOL auditors plan to enhance their audit procedures to focus on the reliability and use of managerial cost information. GAO looks forward to other auditors adopting a similar reporting practice that adds more value. In addition, auditors have expressed concern about providing positive assurance because of the need to clarify the meaning of substantial compliance.

OMB continues to move ahead on other initiatives to enhance financial management in the federal government. Moreover, the continuing leadership and support of Congress will be crucial in reforming financial management in the federal government.