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Testimony

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**U. S. GOVERNMENT
FINANCIAL STATEMENTS**

**Results of GAO's Fiscal
Year 1997 Audit**

Statement of Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division



Mr. Chairman and Members of the Subcommittee:

We are pleased to discuss the results of our audit of the United States government's consolidated financial statements. The Chief Financial Officers (CFO) Act, as expanded by the Government Management Reform Act, requires the Secretary of the Treasury, in cooperation with the Director of the Office of Management and Budget (OMB), to annually prepare these statements, beginning with those for fiscal year 1997, and GAO is required to audit them. Yesterday, the first consolidated financial statements for the U.S. government, along with our report, were submitted to the Congress and the President by the statutory deadline.

The preparation of this historic document is the latest product of a series of reforms with the goal of producing much needed improvements in the federal government's financial management. These efforts have included the development and issuance of a new set of generally accepted accounting standards for the federal government.¹

In 1990, the CFO Act established a pilot program under which a few agencies began preparing and auditing financial statements. Following the successful pilot program, each of the government's 24 largest departments and agencies was statutorily required to annually produce audited financial statements using the new accounting standards, beginning with fiscal year 1996.

* These reforms now subject the federal government to the same fiscal discipline imposed for years on the private sector and state and local governments. This discipline is needed to correct long-standing serious weaknesses in financial management systems, controls, and reporting practices. Considerable effort is underway across government to make needed improvements and progress is being made, but it will take concerted, sustained attention to rectify years of inattention.

The most serious challenges are framed by the results of our audit of the consolidated financial statements of the U.S. government for fiscal year 1997. In summary, significant financial systems weaknesses, problems with fundamental recordkeeping, incomplete documentation, and weak internal controls, including computer controls, prevented the government from accurately reporting a large portion of its assets, liabilities, and costs. These deficiencies affect the reliability of the consolidated financial

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* ¹Federal accounting standards are developed and recommended by the Federal Accounting Standards Advisory Board, which was established in October 1990 by the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General.

statements and much of the underlying financial information. They also affect the government's ability to accurately measure the full cost and financial performance of programs and effectively and efficiently manage its operations. Major problems included the federal government's inability to

- properly account for and report billions of dollars of property, equipment, materials, and supplies;
- properly estimate the cost of most federal credit programs and the related loans receivable and loan guarantee liabilities;
- estimate and report material amounts of environmental and disposal liabilities and related costs;
- determine the proper amount of various reported liabilities, including postretirement health benefits for military and federal civilian employees, veterans compensation benefits, accounts payable, and other liabilities;
- accurately report major portions of the net costs of government operations;
- determine the full extent of improper payments that occur in major programs and that are estimated to involve billions of dollars annually;
- properly account for billions of dollars of basic transactions, especially those between governmental entities;
- ensure that the information in the consolidated financial statements is consistent with agencies' financial statements;
- ensure that all disbursements are properly recorded; and
- effectively reconcile the change in net position reported in the financial statements with budget results.

Such deficiencies prevented us from being able to form an opinion on the reliability of the consolidated financial statements. They are the result of widespread material internal control and financial systems weaknesses that significantly impair the federal government's ability to adequately safeguard assets, ensure proper recording of transactions, and ensure compliance with laws and regulations. Additionally, (1) serious computer control weaknesses expose the government's financial information to inappropriate disclosure, destruction, modification, or fraud and (2) material control weaknesses affect the government's tax collection activities.

Our audit of the federal government's consolidated financial statements and the Inspectors General (IG) audits of agencies' financial statements have resulted in an identification and analysis of deficiencies in the government's recordkeeping and control systems and recommendations to

correct them. Fixing these problems represents a significant challenge because of the size and complexity of the federal government and the discipline needed to comply with new accounting and reporting requirements. Several individual agencies that have been audited for a number of years faced serious deficiencies in their initial audits and made good progress in resolving them.

With a concerted effort, the federal government, as a whole, can continue to make progress toward ensuring full accountability and generating reliable information on a regular basis. Annual financial statement audits are essential to ensuring the effectiveness of the improvements now underway, and ultimately, to producing the reliable and complete information needed by decisionmakers and the public to evaluate the government's financial performance. They are also central to helping the government implement broader management reforms called for by the Government Performance and Results Act.

The following sections outline (1) our disclaimer of opinion on the government's fiscal year 1997 consolidated financial statements, (2) internal controls weaknesses, and (3) serious difficulties complying with financial systems requirements. They also present information on (1) the Year 2000 computing problem, (2) issues affecting the government's long-term financial condition, and (3) actions underway to improve financial reporting across the government.

Disclaimer of Opinion

Overall, because we were unable to determine the reliability of significant portions of the government's fiscal year 1997 consolidated financial statements, we were unable to express an opinion on them. However, we were able to determine that amounts reported for environmental and disposal liabilities and liabilities for veterans compensation benefits are understated by material amounts.



Because of the government's serious systems, recordkeeping, documentation, and control deficiencies, amounts reported in the consolidated financial statements and related notes do not provide a reliable source of information for decision-making by the government or the public. These deficiencies also diminish the reliability of any information contained in any other financial management information—including budget information and information used to manage the government day-to-day—which is taken from the same data sources as the consolidated financial statements.