

Audit of the US Government's Finances:

Where are we, how did we get there, and
where are we headed?

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Importance of Audited Information

- }] Reliable and complete financial and performance information—for individual federal entities and for the federal government as a whole
 - Needed for Congress, the President, and federal managers to operate as effectively and efficiently as possible
- }] Audits of component reporting entities should allow the Congress and the President to hold management accountable
- }] Audited information is important for the citizenry to hold government officials accountable

Significant Federal Financial Management Reforms

- } The Chief Financial Officers Act of 1990
 - Pilot financial statement audits
 - CFO management structure at OMB and 24 major agencies
- } Government Management Reform Act of 1994 (GMRA)
 - annual audited financial statements for 24 CFO Act agencies and government as a whole
- } Accountability of Tax Dollars Act of 2002-
 - requires most other executive branch entities to prepare audited financial statements

Significant Federal Financial Management Reforms

- } Federal Managers' Financial Integrity Act of 1982 (FMFIA)
 - Requirements for annual agency assessment of internal controls, including ICFR
- } Federal Financial Management Improvement Act of 1996 (FFMIA)
 - Goal - CFO Act agency managers routinely having access to reliable, useful, and timely financial-related information with which to measure performance and increase accountability throughout the year.

Significant Federal Financial Management Reforms

- } Performance and Results Act of 1993, as amended by the Government Performance and Results Modernization Act of 2010
 - Strategic planning process, annual performance plans, and annual performance reports
 - Federal Government and agency priority goals with quarterly progress reviews
 - Agency Chief Operating Officers

Transparency Legislation

- } The Federal Funding Accountability and Transparency Act of 2006
 - added new transparency and accountability requirements to Federal financial management
- } Digital Accountability and Transparency Act of 2014 (DATA Act)

DATA Act

- } Disclose direct Federal agency expenditures
- } Link Federal contract, loan, and grant spending information to programs of Federal agencies to enable taxpayers and policy makers to track Federal spending more effectively
- } Establish Government-wide data standards for financial data
- } Provide consistent, reliable, and searchable Government-wide spending data that is displayed accurately for taxpayers and policy makers on USASpending.gov
- } Improve the quality of data submitted to USASpending.gov by holding Federal agencies accountable for the completeness and accuracy of the data submitted

DATA Act

- } Improve the transparency and accountability of federal spending data by providing consistent, reliable, and complete data on federal spending.
- } Assist decision makers in addressing the federal government's fiscal challenges.
- } Report information that complements the annual audited financial statements by providing much more detailed information on federal program spending and the activities of those programs.

Significant Progress Made

- For FY 2017, 21 of the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies received unmodified ("clean") opinions
 - FY 1996, only 6 CFO Act agencies received clean audit opinions
- FASAB issued set of financial accounting standards
- Assertions about ICFR

More Work Remains

- } Three major impediments continue to prevent us from rendering an opinion on the government-wide financial statements:
 - serious financial management problems at the Department of Defense (DOD) that have prevented its financial statements from being auditable,
 - the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and
 - the federal government's ineffective process for preparing the consolidated financial statements.

Resolving Impediments: DOD Financial management problems

- } DOD established the Financial Improvement and Audit Readiness (FIAR) Directorate - seeks to develop, manage, and implement a strategic approach for addressing internal control weaknesses and for achieving auditability
- } The focus of DOD's strategy has shifted from preparing for audit readiness to undergoing a full financial statement audit and remediating audit findings
- } DOD plans to undergo a DOD-wide consolidated financial statement audit for FY 2018

Value of Audits Reported by DOD

- } Provide management with independent validation and feedback on the effectiveness of DOD business systems, processes, and controls.
- } Managers can use audit information to identify root causes of deficiencies and prioritize remediation work.
- } DOD leadership will be able to use root cause information to manage risk and make strategic decisions.
- } Audits will ensure that DOD leadership has visibility over quantities, locations, and conditions of DOD property, which affects readiness, as well as programming and budgeting decisions.

Resolving Impediments: DOD Financial Management Problems

- } DOD acknowledged that achieving a clean audit opinion will take time
- } DOD stated that over the next several years, the closure of audit findings will serve as an objective measure of progress toward that goal

Resolving Impediments: Unreconciled Intragovernmental Differences

- } Treasury working with significant federal entities to resolve differences in intragovernmental activity and balances between federal entities
- } Quarterly scorecard process
 - highlights differences requiring the entities' attention,
 - identifies differences that need to be resolved through a formal dispute resolution process, and
 - reinforces the entities' responsibilities to resolve intragovernmental differences.

Resolving Impediments: Ineffective Processes for Preparing Consolidated Financial Statements

- } Preparation and audit of General Fund financial statements
- } Development of auditable support for the Reconciliations of Net Operating Cost and Budget Deficit and Statements of Changes in Cash Balance from Budget and Other Activities
- } Accounting for treaties and international agreements

Factors Affecting the Future

- } Continuing budget pressures - finding ways to operate more efficiently
- } Desire for increased governmental accountability – Open government
 - Public access to the federal government’s financial information, conveyed in easy to understand terms
- } Technology developments -
 - Increasing public expectation for easy access to information, conveyed in easy to understand terms
 - Tools to analyze data – data analytics/visualization
 - Lower transaction processing costs

Factors Affecting the Future

- } Changing workforce – opportunity for change in skills
- } Evolving financial reporting model
- } Development of common processes, systems, and data – shared systems
- } Enhanced enterprise risk management – revised OMB Circular A-123

Conclusion