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.
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