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Testimony

Before the Subcommittee on Benefits, Committee on  
Veterans' Affairs, House of Representatives

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FINANCIAL AUDITS

American Battle  
Monuments Commission's  
Operations for Fiscal Year  
1997

Statement of David L. Clark  
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Accounting and Information Management Division



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## Legislative Initiatives to Improve Financial Management

Mr. Chairman and Members of the Subcommittee:

We are pleased to discuss our recent audit reports on the American Battle Monuments Commission's (ABMC) fiscal year 1997 financial statements.<sup>1</sup> Our testimony will cover three areas. First, we will describe legislative initiatives over the past several years to improve financial management across the federal government, and how requirements for ABMC to produce audited financial statements fit into that larger context. Second, we will discuss our audit reports on ABMC's financial statements and suggestions for improving ABMC's operations. Third, we will share our ideas for further enhancing ABMC's accountability.

The Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act of 1994, requires major departments and agencies to annually produce agencywide financial statements, and, beginning with fiscal year 1997, for the Secretary of the Treasury, in cooperation with the Director of the Office of Management and Budget (OMB), to annually prepare consolidated financial statements for the entire government. Inspectors general at the major departments and agencies are responsible for annually auditing their respective departments' and agencies' financial statements, and we are responsible for auditing the consolidated financial statements.<sup>2</sup>

The three principals concerned with overall financial management in the federal government (the Secretary of the Treasury, the Director of OMB, and the Comptroller General) established the Federal Accounting Standards Advisory Board (FASAB) in 1990 to develop and recommend federal financial accounting standards to be used in preparing federal financial statements. FASAB completed work on the basic standards in 1996, with some initially going into effect in fiscal year 1998.

The legislative initiatives were designed to subject the federal government to the same fiscal discipline imposed for years on the private sector and state and local governments and to provide the Congress, agency officials,

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<sup>1</sup>Financial Audit: American Battle Monuments Commission's Financial Statements for Fiscal Year 1997 ([GAO/AIMD-98-81](#), February 27, 1998); Management Letter: American Battle Monuments Commission's Financial Statement Audit for Fiscal Year 1997 ([GAO/AIMD-98-130R](#), April 28, 1998); and American Battle Monuments Commission: World War II Memorial Fund Audit for Fiscal Year 1997 ([GAO/AIMD-98-129R](#), April 28, 1998).

<sup>2</sup>The majority of federal departments and agencies were unable to obtain unqualified opinions on their financial statements in the first year that they were audited. Since then, several of the departments and agencies have made significant progress and have now obtained unqualified opinions.

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and others with reliable information through audited financial statements. Financial audits determine the reliability of the financial information reported, provide information on the adequacy of systems and controls used to ensure accurate financial reports and safeguard assets, and report on agencies' compliance with laws and regulations.

Section 602 (b) of the Veterans' Benefits Improvements Act of 1996<sup>3</sup> requires that ABMC prepare agencywide financial statements beginning with those for fiscal year 1997, and that we audit the statements. ABMC is required to submit its financial statements to the House and Senate Committees on Veterans' Affairs by March 1 of each year, beginning in 1998. Section 602 (b) provides that ABMC's financial statements be consistent with the requirements of the expanded CFO Act, and helps to put ABMC's financial reporting on a par with major federal departments and agencies. Accordingly, the requirements are designed to institutionalize accountability over ABMC's financial operations, and should also help facilitate the inclusion of ABMC's financial results in the consolidated financial statements of the United States government.

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## Audit of ABMC's Financial Statements

To help fulfill our audit responsibilities for fiscal year 1997, we contracted with KPMG Peat Marwick LLP (KPMG), an independent certified public accounting firm, to perform a financial statement audit in accordance with generally accepted government auditing standards,<sup>4</sup> OMB requirements,<sup>5</sup> and GAO's Financial Audit Manual. We evaluated the nature, timing, and extent of the work; monitored progress throughout the audit; reviewed KPMG's workpapers; met with KPMG partners and staff members and evaluated their key judgments; met with officials of ABMC; performed independent tests of the accounting records; and performed other procedures we deemed appropriate in the circumstances.

We concur with KPMG's report, which indicated that (1) ABMC's balance sheet was reliable in all material respects, (2) ABMC's assertions regarding the effectiveness of its internal controls were fairly stated, and (3) no reportable instances of noncompliance with laws and regulations were found. The scope of KPMG's work was not intended to express an opinion on the rest of ABMC's financial statements (statement of net cost and

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<sup>3</sup>Public Law 104-275.

<sup>4</sup>The standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

<sup>5</sup>OMB requirements are contained in OMB Bulletin 93-06, as amended, Audit Requirements for Federal Financial Assistance.

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changes in net position, statement of budgetary resources, and statement of financing) because (1) fiscal year 1997 was the first year that ABMC was required to prepare agencywide statements and have them audited and (2) it was not feasible to extend audit procedures to audit October 1, 1996, opening balances, which would have been necessary to express an opinion on those statements. We expect the audit of ABMC's 1998 financial statements to include opinions on all of ABMC's statements.

It is important to note that, pursuant to a separate mandate,<sup>6</sup> we audited and reported on the revenues and expenditures of ABMC's World War II memorial fund for fiscal year 1997. Our audit did not disclose any reportable conditions regarding ABMC's accounting for the fund.

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## Suggestions for Improving ABMC's Financial Operations

ABMC took significant strides in fiscal year 1997 to strengthen its financial management and comply with the new financial requirements. For example, ABMC contracted with the Department of the Treasury's Financial Management Service to study ABMC's financial management system. As a result of that effort, ABMC plans to select a commercial off-the-shelf system from approved vendors on the General Services Administration's Financial Management Systems Software schedule. The single, integrated financial management system selected will replace ABMC's current nonintegrated, labor-intensive systems, and is to conform to all current guidance and be Year 2000 compliant.<sup>7</sup> Also, ABMC was one of the first agencies in the federal government to comply early with federal accounting standards recommended by FASAB, which were not effective until fiscal year 1998.

The audit of ABMC's financial statements, however, identified four areas of weaknesses regarding the effectiveness of ABMC's internal controls over financial reporting. The weaknesses are primarily systems related and are intended to be resolved through ABMC's selection and implementation of a new financial management system. For example, a new system, if properly selected and implemented, should allow ABMC to accurately record obligations prior to recording expenditures and improve general access controls over automated operations. In addition, the audit identified the

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<sup>6</sup>Public Law 102-414, the World War II 50th Anniversary Commemorative Coins Act.

<sup>7</sup>The Year 2000 problem is rooted in the way dates are recorded and calculated in many computer systems. For the past several decades, systems have typically used two digits to represent the year in order to conserve on electronic data storage and reduce operating costs. With this two-digit format, however, the year 2000 is indistinguishable from the year 1900. As a result, system or application programs that use dates to perform calculations, comparisons, or sorting may generate incorrect results when working with years after 1999.

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need for ABMC to ensure that it has a full-time information systems officer and that it provides adequate training on accounting operations.

The audit also resulted in a number of suggestions in other less significant areas that ABMC officials said they would consider. For example, ABMC agreed to consider developing a comprehensive, current set of accounting policies and procedures to standardize their procedures at all locations and a formal system to account for all material assets as well as requiring periodic physical inventories for all ABMC locations.

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## Other Ideas to Enhance ABMC's Accountability

Preparing agencywide financial statements and attaining an unqualified opinion on its balance sheet are significant milestones for ABMC in institutionalizing sound financial management and organizational accountability. In that regard, we offer two suggestions for using the audited financial statements to further enhance ABMC's accountability.

First, we suggest that ABMC include its audited financial statements in its annual report. ABMC's 1997 annual report included a brief section summarizing the results of its 1997 financial statement audit, but did not include either the statements or the auditor's report in the annual report, thus causing the public and the Congress to have to identify and obtain separate documents in order to review ABMC's financial operations. In this regard, under authority provided in the Government Management Reform Act of 1994, OMB instituted a pilot project whereby, for fiscal year 1997, 12 agencies produced an accountability report linking together information previously contained in separate reports. These accountability reports, which included the agencies' audited financial statements, provided consolidated analyses of both financial and performance management data.

Second, we suggest that ABMC have a separate column in all its financial statements for the World War II memorial fund. ABMC's 1997 financial statements combined that fund with its other trust funds in all of its financial statements, except for the statement of net cost and changes in net position, which had a separate column for the fund. ABMC's goal is to raise \$100 million in donations from individuals, corporations, and foundations, and the fund's activity is already larger than the other current trust funds combined. ABMC would be in a better position to demonstrate its financial stewardship over the World War II memorial fund if it separately accounted for the fund in all of its agencywide financial statements.

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Mr. Chairman, this concludes my statement. I would be happy to respond to any questions that you or other members of the Subcommittee may have at this time.

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