

# How to Analyze Federal Government Financial Statements

AGA Northern Virginia Chapter

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# The Disclaimer

This presentation and its  
opinions are my own.

# The Opening Cartoon



# Some Obstacles to Effective Analysis

- Heroic efforts at year end to produce F/S
- No reliable interim statements
- Many analysis techniques are N/A
- Format does not facilitate analysis
- Limited guidance in analysis of federal F/S
- Budget verses proprietary accounting
- What's not there

# Improving Financial Analysis

- What can financial analysis tell us?
- How can we improve statements and audits by financial analysis?
- What tools and techniques exist to help us?

# Scope of Analysis

- Consolidated U.S. Government
- Federal Departments and Agencies
- Enterprise, Revolving, and Trust Operations
- Government Corporations
- Other specialized analysis

# Analysis Methodology

- Purpose of analysis
- Understand entity & identify characteristics
- Understand accounting model & limitations
- Identify key financial attributes
- Develop measures and indicators
- Identify tools & techniques of analysis
- Summarize and interpret results

# Audit Analysis Criteria

- SAS #56 Analytical Procedures (AU 329)
- GAO/PCIE Financial Audit Manual (FAM):
  - Preliminary Analytical Procedures (FAM 225)
  - Substantive Analytical Procedures (FAM 475)
  - Overall Analytical Procedures (FAM 520)

# Financial Attributes of Programs

- Operating Costs
- Operating Results
- Operating Efficiency
- Capital Investments
- Financial Obligations
- Financial Condition

# Financial Attribute of Entities

- Operating Costs
- Capital Investments
- Asset Management
- Administrative Cost Management

# Develop Measures & Indicators

- **Measures** express directly in \$ terms (i.e. \$100 million in operating costs)
- **Indicators** express relative or comparable terms (i.e. ratios, cost per square foot, \$ per FTE, etc.)

# Tools of Analysis

- Comparative Analysis
- Ratio Analysis
- Index Analysis
- Common Size Analysis

# Techniques of Analysis

- Trend Analysis
- Structural Analysis
- Cross Sectional Analysis
- Causal Factor Analysis

# Investigating Variances

- Understand the entity
- Develop expectations
- Talk to the right people
- Ask open ended questions
- Obtain supporting evidence
- Be alert for errors and fraud

# Summarize & Interpret Results

- State the period of analysis
- Identify program activity areas
- Identify attributes analyzed
- Provide narrative to tell a story
- Use figures, tables, and graphics
- Balance the positive & negative

# The Closing Cartoon



*"We've done what we can. Now it's all in  
the hands of the accountants."*

# Questions?

