



Federal Financial Management Reform: Past Initiatives and Future Prospects

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Summary

In the 1990s Congress enacted a series of laws to reform and improve financial management in the federal government, starting with the Chief Financial Officers Act of 1990 (CFO Act, 104 Stat. 2838). A major component of the 1990 law was the establishment of a new leadership structure for federal financial management, consisting of two new positions within the Office of Management and Budget (OMB), and creation of 24 chief financial officer positions in the major executive departments and agencies. The Government Management Reform Act of 1994 (108 Stat. 285) substantially expanded the requirement in the CFO Act for agencies' audited financial statements. The Federal Financial Management Improvement Act of 1996 (FFMIA, 110 Stat. 3009-389) built upon the prior legislation and incorporated into statute certain financial system requirements already established as executive branch policy.

From 2001 through 2008, the improved financial performance initiative of the *President's Management Agenda* provided a framework for efforts to improve implementation of the Chief Financial Officers Act, as amended, and other financial management reform laws. Under the initiative, agency CFOs were responsible for establishing a sound foundation for financial management, exemplifying these standards: (1) having in place a financial system in compliance with FFMIA requirements; (2) meeting financial reporting deadlines; (3) achieving a "clean" audit; and (4) strengthening internal controls and resolving material weaknesses in a timely manner. This report assesses the record of the federal government in this endeavor.

Progress toward improved federal financial management via the *Agenda* is evident. Taken as a whole, federal agencies have achieved more timely financial reporting and more unqualified audit opinions. The number of agencies in compliance with the requirements of the FFMIA has increased, and the number of auditor-reported material weaknesses has declined. With the substantial revision of OMB Circular A-123 in 2004, the requirements for internal control in federal agencies have been strengthened, particularly regarding management's responsibility for assessment of internal control over financial reporting.

Yet notable federal financial management challenges remain unresolved and may be of oversight interest in the 111th Congress. Two cabinet departments have yet to earn clean audit opinions. For 12 straight years, the financial report of the U.S. government, containing government-wide consolidated financial statements issued by the Treasury Department and OMB, has received disclaimed audit opinions from the Government Accountability Office, due to problems repeatedly identified by GAO as major contributors to these disclaimers.

One theme in the performance and management agenda of the Obama Administration appears especially tied to ongoing efforts to improve federal financial management. Ensuring responsible spending of Recovery Act (P.L. 111-5) funds will depend upon the capacity of executive branch agencies to produce the requisite data quickly and accurately in order to fulfill reporting and transparency requirements in the law itself, as well as in OMB's implementing guidance.

This report will be updated as developments may warrant.

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Introduction

In the 1990s, Congress enacted a series of laws to reform and improve financial management in the federal government, starting with the Chief Financial Officers Act of 1990 (CFO Act, 104 Stat. 2838). An earlier effort at financial management reform preceding the CFO Act, however, remains in force and should be noted. The Federal Managers Financial Integrity Act of 1982 (FMFIA) was intended to strengthen internal controls and accounting systems.¹ It established reporting requirements whereby the agency head must provide an annual statement on whether the agency has adequate and effective management controls consistent with standards prescribed by the Comptroller General and conforming to Office of Management and Budget (OMB) guidelines. If the agency is not in compliance, the report must identify any material weaknesses in the systems and describe remedial plans. The agency head must also assess whether accounting systems conform to requisite standards.² By the end of 1989, however, after seven years under the FMFIA, only limited progress had occurred, and the General Accounting Office (GAO, now the Government Accountability Office) “reported that the government did not have the internal control systems necessary to effectively operate its programs and safeguard its assets and that its accounting systems were antiquated and second-rate.”³

Chief Financial Officers Act of 1990

The CFO Act reflected the culmination of a bipartisan effort, stretching over five years, to increase federal accountability through additional financial management reforms. The CFO act was generally viewed as the most important financial management legislation in 40 years—since the Budget and Accounting Procedures Act of 1950 (64 Stat. 2317). A major component of the 1990 law was the establishment of a new leadership structure for federal financial management, consisting of two new positions within OMB: a new Deputy Director for Management (to serve as the federal government’s chief financial officer) and a Controller (to head the statutorily established Office of Federal Financial Management). In addition, the law created 24 chief financial officers for the major executive departments and agencies; there were also to be 24 deputy CFOs.⁴ Of the 24 CFO positions, those in the 15 cabinet-level departments, the Environmental Protection Agency, and the National Aeronautics and Space Administration are

¹ 96 Stat. 814-815; 31 U.S.C. 3512. Arguably, the Inspector General Act of 1978, with its focus on increased accountability in the federal government through improved audits and investigations, might be viewed as the earliest in this series of related financial management reform laws. For further discussion of the IG Act, see CRS Report 98-379, *Statutory Offices of Inspector General: Past and Present*, by Frederick M. Kaiser. For further discussion of FMFIA, as well as other laws mentioned below, see CRS Report RL30795, *General Management Laws: A Compendium*, by Clinton T. Brass et al..

² While the FMFIA reporting requirements remain in force, they are now submitted as part of an agency’s accountability report, pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531, 114 Stat. 2537).

³ U.S. General Accounting Office, *Federal Financial Management Improvement Act Results for Fiscal Year 1999*, GAO-AIMD-00-307, Sept. 2000, p. 7.

⁴ There were originally 23 CFO agencies, but when the Social Security Administration was established as an independent agency, pursuant to the Social Security Independence and Program Improvements Act of 1994 (108 Stat. 1467), an additional CFO position was created, bringing the total to 24 (including FEMA). When FEMA was transferred into the newly created Department of Homeland Security in 2003, FEMA did not retain its status as a CFO Act agency. DHS was brought directly under the CFO Act in 2004 (as discussed below), and the total returned to 24 CFO Act agencies.

filled by presidential appointees and confirmed by the Senate.⁵ The remaining seven CFO positions,⁶ along with all 24 deputy CFO positions, are career positions, filled by agency-head appointment. Each of the 24 agency CFOs reports directly to the agency head and is responsible for all agency financial management operations, activities, and personnel.

Other provisions in the CFO Act, as originally enacted, addressed improvement of financial management systems, requirements for audited financial statements and management reporting, and changes in audits and reporting requirements for government corporations. A noteworthy new reporting requirement called for the preparation annually of a financial management status report and government-wide five-year financial management plan.⁷

The 1990 law also established a Chief Financial Officers Council, chaired by OMB's Deputy Director for Management. Other members stipulated in the CFO Act included the Controller, the Fiscal Assistant Secretary of Treasury, and the 24 agency CFOs. In March 1994, the council adopted recommendations for reform. Membership was expanded to include the 24 career deputy CFOs, to provide cooperation and continuity of effort beyond the average shorter tenure of the CFOs (mostly political appointees), and four new officer positions were added. The CFO Council meets periodically to coordinate relevant agency activities, and has developed into an important interagency entity.⁸

Amendments to the CFO Act have extended its original purview. In 1993 the Government Performance and Results Act (GPRA) built upon agency financial information mandated by the CFO Act; GPRA stipulated new performance measurement requirements, extending the initial language in the CFO Act regarding "systematic measurement of performance" for selected activities.⁹

Government Management Reform Act of 1994

Provisions in the Federal Financial Management Act of 1994¹⁰ (incorporated into the Government Management Reform Act), substantially expanded the requirements in the CFO Act for audited financial statements. Initially, under the CFO Act, all covered agency heads were to prepare and submit to OMB audited financial statements for each revolving and trust fund, and for accounts that performed substantial commercial functions. In addition, a three-year pilot program (eventually involving 10 of the original 23 agencies) commenced, requiring preparation of audited financial statements for all agency accounts. The 1994 amendments extended the requirement for audited financial statements covering all accounts to include all 24 CFO agencies. Beginning March 1, 1997, and annually thereafter, the agency head was to submit to the OMB Director "an audited financial statement for the preceding fiscal year, covering all accounts and

⁵ The President may appoint these CFOs directly with the advice and consent of the Senate, or may designate a CFO from among agency officials who have already been confirmed by the Senate for other positions.

⁶ Agencies with appointed CFOs include the Agency for International Development, General Services Administration, National Science Foundation, Nuclear Regulatory Commission, Office of Personnel Management, Small Business Administration, and the Social Security Administration.

⁷ The 2009 financial management report and plan, *Federal Financial Management Report 2009*, issued Jan. 7, 2009, available electronically at http://www.whitehouse.gov/omb/assets/about_omb/fy09_5yr_plan.pdf.

⁸ The council's website is at <http://www.cfoc.gov>.

⁹ See P.L. 103-62, 107 Stat. 285.

¹⁰ Enacted as Title IV of the Government Management Reform Act of 1994; P.L. 103-356, 108 Stat. 3412.

associated activities of each office, bureau, and activity of the agency.”¹¹ The 1994 law also expanded the scope of audited financial statements, by requiring submission each year of consolidated government-wide statements, covering all federal executive branch agencies, to be prepared by the Secretary of the Treasury, in coordination with the Director of OMB.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) of 1996¹² built upon the prior legislation and incorporated into statute certain financial system requirements already established as executive branch policy. The FFMIA established a general requirement for CFO agencies to “implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level.” The 1996 law requires auditors to report on agency compliance with these requirements, and agency heads to correct deficiencies within certain time periods. The law also requires the OMB Director and the Comptroller General in GAO to make annual status reports to Congress.

Subsequent Laws

Accountability of Tax Dollars Act of 2002

The original requirements for audited financial statements in the CFO Act were substantially expanded by provisions in the Accountability of Tax Dollars Act (ATDA)¹³ This law further amended the CFO Act to extend the requirements for preparation of audited financial statements to most executive branch agencies. A recent listing from OMB identified 72 agencies required to submit audited financial statements pursuant to the ATDA.¹⁴

Improper Payments Information Act of 2002 (IPIA)¹⁵

The IPIA directs each executive branch agency, in accordance with OMB guidance, to review all its programs and activities each year, identify those susceptible to significant improper payments, and estimate the amount of improper payment exposure. Agencies are then to report annually to Congress on improper payments, using a standardized methodology determined by OMB.¹⁶

¹¹ Subsequently, the deadline for submission of the audited financial statement to OMB has become November 15, as discussed below.

¹² Enacted as Title VIII in the Omnibus Consolidated Appropriations Act for FY1997; 110 Stat. 3009-389; 31 U.S.C. 3512 note.

¹³ P.L. 107-289, 116 Stat. 2049. Nov. 7, 2002.

¹⁴ See the *Federal Financial Management Report 2009*, Appendix D, pp. 38-41.

¹⁵ P.L. 107-289, 116 Stat. 2219.

¹⁶ The IPIA originally set a deadline of March 31 for agencies to report to Congress on their improper payments in the prior fiscal year. The improper payments reports are now included in the performance and accountability reports, or PARs, due to the President (via OMB) and Congress 45 days after the close of an agency’s fiscal year, generally November 15. See OMB Circular A-136, “Form and Content of the Performance and Accountability Report (PAR),” available electronically at http://www.whitehouse.gov/omb/assets/omb/circulars/a136/a136_revised_2008.pdf.



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Improper payment is defined as any payment that should not have been made or that was made in an incorrect amount.

With respect to any program or activity with estimated annual improper payments exceeding \$10 million, each agency is also required to provide a report on agency actions to reduce such improper payments, including (1) the causes of the improper payments and the results of the actions taken to address them; (2) whether the agency has information systems and other necessary infrastructure to reduce such payments to “minimal cost-effective levels”; (3) if not, budgetary resources requested to accomplish needed changes in information systems and infrastructure; and (4) steps the agency has taken to ensure that managers are held accountable for reducing improper payments.

Other Measures

The Department of Homeland Security Financial Accountability Act of 2004¹⁷ brought DHS directly under the CFO Act of 1990, as amended. The 2004 law also served to bring DHS under the GMRA and the FMFIA. Previously DHS was the only federal cabinet department not so covered. The Homeland Security Act of 2002, which created DHS, provided for a CFO position in the new department.¹⁸ Unlike the appointment procedure for CFOs in other cabinet-level departments, however, the CFO in DHS was appointed by the President, but not subject to Senate confirmation; the law made no reference to the CFO Act or to Chapter 9 of Title 31.

Other laws of relevance to improving federal financial management but less specifically to the CFO Act, as amended, include the Information Technology Management Reform Act of 1996 (110 Stat. 679, known as a part of the Clinger-Cohen Act of 1996), and the Federal Funding Accountability and Transparency Act of 2006 (P.L. 109-282, often shortened to FFATA). The Clinger-Cohen Act contained various initiatives designed to facilitate capital investment in federal IT, so that each agency would purchase the best and most cost effective IT available. The FFATA required that OMB establish a publically available website, providing access to information about entities that are awarded federal grants, loans, contracts, and other forms of assistance.¹⁹

President’s Management Agenda

In August 2001, the *President’s Management Agenda* was announced by President George W. Bush, with the stated purpose of “improving the management and performance of the federal government.”²⁰

¹⁷ P.L. 108-330, 118 Stat.1275.

¹⁸ P.L. 107-296, Sec. 103; 116 Stat. 2145.

¹⁹ For further discussion, see CRS Report RL34718, *The Federal Funding Accountability and Transparency Act: Implementation and Proposed Amendments*, by Garrett Hatch.

²⁰ U.S. Office of Management and Budget, *The President’s Management Agenda—FY2002* (Washington: OMB, 2001), p. 1. Subsequently referred to as *Agenda*.

Background

The *Agenda* identified five government-wide initiatives which, according to President George W. Bush, represented “the most apparent deficiencies where the opportunity to improve is greatest.”²¹ Improved financial performance was designated as one of these initiatives;²² two facets of it were later designated as separate program initiatives — improving management of real property assets and eliminating improper payments.

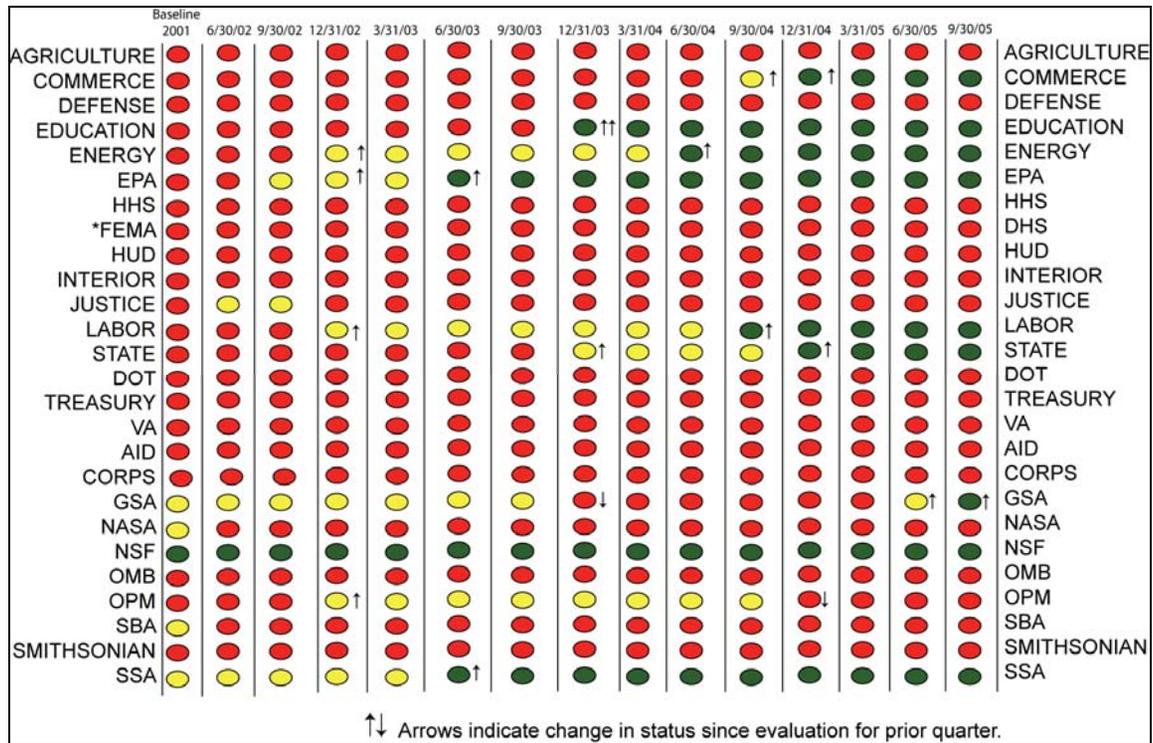
The Scorecard

The President’s budget submission for FY2003 introduced a “Management Scorecard” to measure progress in each of the five PMA reform areas. Grades for the agencies on each of the initiatives, based on a traffic light motif of green for success, yellow for mixed results, and red for unsatisfactory, were updated quarterly by OMB (through 2008). For each initiative, there were multiple “standards for success,” or core criteria, which an agency was to meet in order to get a green rating. There were likewise listings for each initiative of conditions amounting to “fatal flaws”; if an agency displayed any one of these, it received a red grade for the quarter. A yellow grade was received when an agency was free of red conditions and had achieved some, but not all, of the core criteria.

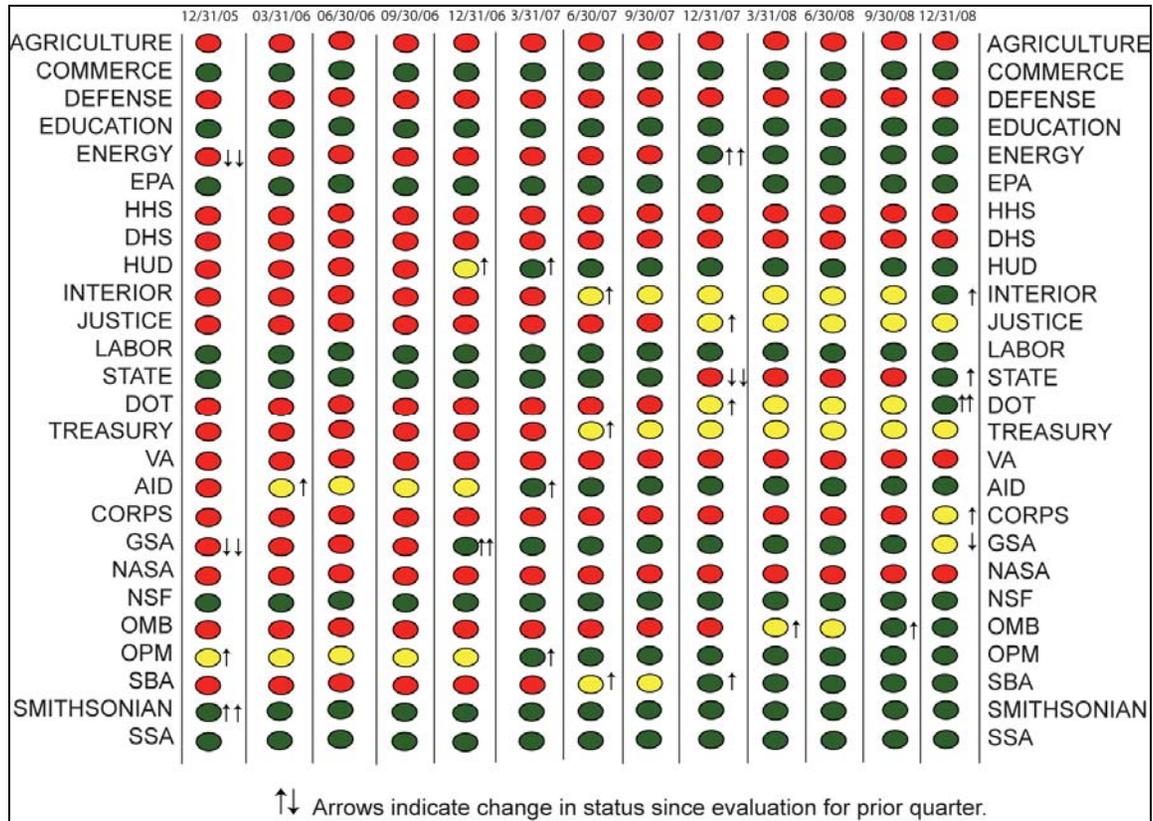
²¹ *Ibid.*, p. 1.

²² The four other government-wide initiatives included strategic management of human capital, competitive sourcing, expanded electronic government, and performance improvement (originally referred to as budget and performance integration).

Figure I. Improving Financial Management Initiative's Scorecard for Current Status, 2001-2008



Improving Financial Management Initiative's Scorecard for Current Status, 2001-2008 (continued)



Source: Office of Management and Budget

As indicated in **Figure 1**, the baseline scorecard grades for the improved financial performance initiative indicated that in 2001, the only grade of green went to the National Science Foundation (NSF), whereas 21 of the 26 agencies²³ included in the scorecard received a red score, due to having one of the fatal flaws for the financial management initiative:

- financial management systems fail to meet federal financial management system requirements and applicable federal accounting and transaction standards as reported by the agency head;
- chronic or significant Antideficiency Act violations;²⁴
- agency head unable to provide unqualified assurance statement as to systems of management, accounting, and administrative controls;
- auditors cite material non-compliance with laws and regulations, or repeat material internal control weaknesses; or are unable to express an opinion on the annual financial statements.²⁵

No other agencies besides the NSF earned a green grade until June 2003, when the Environmental Protection Agency (EPA) and the Social Security Administration (SSA) joined the green group.

By the close of 2008, 16 of the 26 agencies, or nearly 62%, were able to “get to green” with respect to the improved financial performance initiative. In earning the grade of green, these agencies met all of the initiative’s core criteria.²⁶ It is interesting to see that OMB itself remained at red through 2007, moving up to yellow in the first quarter of 2008 and not reaching green in the quarter ending September 30, 2008.

The up and down arrows in **Figure 1** indicate a change in grade from the previous quarter. During the 27 quarters included, there were 45 instances where an agency’s grade changed from one quarter to the next. The majority of the changes (35) reflect an improvement in rating, with the Department of Education being the first to jump from red to green (hence the double arrows) in December 2003. The most common progression, not surprisingly, was from red to yellow to

²³ Included were 23 of the 24 CFO Act agencies (FEMA subsequently replaced by Department of Homeland Security, but absent the Nuclear Regulatory Agency). Other non-CFO Act agencies featured in the scorecard were the Army Corps of Engineers, the Office of Management and Budget, and the Smithsonian Institution.

²⁴ The Antideficiency Act actually consists of a series of provisions and revisions appearing in appropriations laws, dating back to the 19th century and intended to prevent expenditures in excess of appropriations. The initial portion, enacted in 1870 as Section 7 of the General Appropriations Act for Fiscal Year 1871 (16 Stat. 251) provided “that it shall not be lawful for any department of the government to expend in any one fiscal year any sum in excess of appropriations made by Congress for that fiscal year, or to involve the government in any contract for the future payment of money in excess of such appropriations.” For more background, see CRS Report RL30795, *General Management Laws: A Compendium*, by Clinton T. Brass et al.

²⁵ OMB, *Performance and Management Assessments* (Washington: GPO, 2003), p. 5. This volume was part of the President’s budget submission for FY2004.

²⁶ To get to green, an agency had to be in compliance with the three FFMIA requirements; produce accurate and timely financial information; receive an unqualified opinion on the annual financial statements; be free of any chronic or significant Antideficiency Act violations; and eliminate internal control weaknesses and any non-compliance with laws and regulations. Two other criteria subsequently were added in order to get to green. One required the agency to demonstrate that financial information was available to agency managers and was used in operations and decision-making. The second entailed implementation of a plan to expand the scope of the agency’s data used by management in additional areas of operations. See GAO, *President’s Management Agenda: Review of OMB’s Improved Financial Performance Scorecard Process*, GAO-07-95, Nov. 2006, p. 10.

green. There were eight instances when an agency's grade was lowered from one quarter to the next, and three of these declines reflected a drop from green to red. The Department of Energy dropped from green to red at the end of 2005, but then jumped back up from red to green at the end of 2007. The General Services Administration arguably reflects the most changes in grade from one quarter to the next, going from yellow to red to yellow to green, then down to red, up to green, and ending with a grade of yellow.

At the end of 2008, four agencies received a yellow grade, while six remained at red throughout the period depicted in **Figure 1**. Five of the six remaining at red were Cabinet-level departments, including Agriculture, Defense, Health and Human Services, Homeland Security, Treasury, and Veterans Affairs, with the other consistently red-graded agency being NASA. Fully one-third, or 33% (five of 15), of the cabinet departments remained in the red group. Looked at another way, the red group comprised four of the five top-ranking federal agencies with respect to total outlays in 2008 (estimated, in order)—Health and Human Services, Defense, Agriculture, and Veterans Affairs; among the top five, only the Department of the Treasury had progressed from red to yellow by the end of 2008.²⁷ Over 52% of federal outlays in 2008 were administered by agencies receiving red grades on the improved financial performance initiative from 2002-2008.²⁸ In short, further examination of the data in **Figure 1** discloses a more complicated, arguably less rosy, picture of improved federal financial performance during the period than that reflected by simple tallies comparing before and after distributions of the respective red-yellow-green grades from the scorecards.

In 2006, GAO issued a report evaluating OMB's process and criteria for awarding a green score on the improved financial performance initiative. The report concluded that OMB had "established reasonable scoring criteria and helpful guidance describing what agencies must do to achieve 'green scores,'" and that the "scorecard process has clearly been a catalyst to improve financial management and to encourage agency managers to use financial data to enhance decision making as envisioned under the CFO Act." GAO went on to suggest, "Better documenting the key decisions [about determining grades on the scorecard] would help strengthen what is already a useful management tool by helping insure consistency and continuity in the process and would enhance the value of the process to external users." In written comments, OMB responded that they generally concurred with this recommendation, and outlined steps to be taken in response to it.²⁹

Achievements and Continuing Issues

The discussion in this section focuses on the improvement efforts conducted under the original rubric of the *Agenda's* financial management initiative from 2001-2008. Under the initiative, agency CFOs were responsible for establishing a sound foundation for financial management, exemplifying these standards:

- having in place a financial system in compliance with FFMIA requirements;
- meeting financial reporting deadlines;

²⁷ OMB, *Budget of the U.S. Government Fiscal Year 2009, Historical Tables* (Washington: GPO, 2008), p. 79

²⁸ *Ibid.*, p. 85.

²⁹ *President's Management Agenda*, GAO-07-95, pp. 3, 22, "Highlights."

- achieving a “clean” audit;
- strengthening internal controls and resolving material weaknesses in a timely manner.³⁰

Examination of these four standards serves to highlight both achievements and continuing challenges.

Compliance with Financial Management Systems Requirements

These criteria reflect an agency’s progress in meeting the standards established by the FFMIA in 1996. As noted above, the FFMIA established a general requirement for CFO agencies to “implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level.” Each year both the head of an agency and the independent auditor are to assess and then make public a determination of the agency’s FFMIA compliance; agency heads are to correct any deficiencies within certain time periods.³¹ The 1996 law also requires the OMB Director and the Comptroller General in GAO to report annually to Congress on FFMIA compliance.

For FY2001, the independent auditors (agency IGs or their selected external auditors) reported that 20 of the 24 CFO Act agencies did not substantially comply with one or more of the FFMIA requirements.³² The significance of having only four agencies in FFMIA compliance was explained in GAO testimony, “If agencies continue year after year to rely on significant costly and time-intensive manual efforts to achieve or maintain unqualified opinions [on their annual financial statements], it can mislead the public about the true status of the agencies’ financial management capabilities.”³³

By FY2004, eight of the CFO Act agency heads and their auditors concurred in reporting overall compliance with FFMIA. While the number of FFMIA compliant agencies thus doubled from FY2001 to FY2004, OMB noted that many agencies continued “to use financial management systems that are not integrated and produce data that is not standard or timely.”³⁴

Since FY2006, OMB has included an appendix to the annual federal financial management report depicting FFMIA compliance by agency. **Table 1** presents the data for the last three years. Results for FY2006 showed that 12 of the 24 CFO Act agency heads determined that their agencies were in compliance, while 7 of the auditors reached the same determination. In FY2007, 14 of the 24

³⁰ See, e.g., *Federal Financial Management Report 2007*, p. 7. The two components of the improved financial management initiative that were added later — improving real asset management and eliminating improper payments — are not covered in this report.

³¹ Agency heads also report noncompliances in their accounting systems with respect to the principles, standards, and related requirements prescribed by the Comptroller General pursuant to FFMIA, Section 4, in their PARs, and OMB includes a table depicting the status of those noncompliances as an appendix in the annual financial management reports.

³² Sally E. Thompson, *Financial Management: Effective Implementation of FFMIA is Key to Providing Reliable, Useful, and Timely Data*, testimony before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, House Committee on Government Reform, June 6, 2002, GAO-02-791T, p. 3.

³³ *Ibid.*, p. 2.

³⁴ OMB, *Federal Financial Management Report 2005*, p. 10.

CFO Act agency heads determined that their agencies were in compliance, while 11 of the auditors reached the same determination. By FY2008, 15 agency heads determined compliance, whereas 10 auditors concurred in that assessment.

As indicated by the data in **Table 1**, five agencies received consistent affirmatives (“yeses”) for FFMIA compliance from both agency head and auditor over the three years — Commerce, AID, NSF, OPM, and SSA. Eight agencies received consistent negatives (“nos”) — Agriculture, Defense, HHS, DHS, Treasury, VA, NASA, and NRC. In five cases, agency heads and auditors concurred on annual compliance status, but the assessments were not the same every year — Energy, Justice, EPA, GSA, and SBA.

Data in **Table 1** further show that while there was a steady increase over the three years in the number of agencies in compliance with the FFMIA as assessed by both the agency heads and auditors, for each year more agency heads than auditors reported compliance. In three instances — Education, HUD, and State — agency heads consistently reported yes, while the auditors consistently found noncompliance. For the final three agencies — Interior, Labor, and DOT— agency head and auditor were in agreement in one or two years. OMB has attributed the success in reducing the instances of agencies’ noncompliance with the FFMIA requirements to the improved financial performance initiative of the PMA, noting in part: “By monitoring an agency’s progress toward FFMIA compliance on a quarterly basis, at the status meetings, each agency has been more focused on actively resolving non-compliances.”³⁵

Table 1. FFMIA Compliance as Determined by Agency Head and Auditor, FY2006-FY2008

Agency	FY2006		FY2007		FY2008	
	Agency Head	Auditor	Agency Head	Auditor	Agency Head	Auditor
Agriculture	no	no	no	no	no	no
Commerce	yes	yes	yes	yes	yes	yes
Defense	no	no	no	no	no	no
Education	yes	no	yes	no	yes	no
Energy	no	no	yes	yes	yes	yes
HHS	no	no	no	no	no	no
Homeland	no	no	no	no	no	no
HUD	yes	no	yes	no	yes	no
Interior	yes	no	yes	yes	yes	no
Justice	no	no	yes	yes	yes	yes
Labor	yes	no	yes	yes	yes	yes
State	yes	no	yes	no	yes	no
DOT	no	no	no	no	yes	no
Treasury	no	no	no	no	no	no

³⁵OMB, *Federal Financial Management Report 2008*, p. 22.

Agency	FY2006		FY2007		FY2008	
	Agency Head	Auditor	Agency Head	Auditor	Agency Head	Auditor
VA	no	no	no	no	no	no
AID	yes	yes	yes	yes	yes	yes
EPA	yes	yes	no	no	yes	yes
GSA	yes	yes	yes	yes	no	no
NASA	no	no	no	no	no	no
NSF	yes	yes	yes	yes	yes	yes
NRC	no	no	no	no	no	no
OPM	yes	yes	yes	yes	yes	yes
SBA	no	no	yes	yes	yes	yes
SSA	yes	yes	yes	yes	yes	yes
TOTAL	12	7	14	11	15	10

Source: OMB, (annual) *Federal Financial Management Reports, 2007-2009*.

With respect to the relationship between **Figure 1** and **Table 1**,³⁶ compliance with the FFMIA was one of the criteria to “get to green” on the scorecard. One would expect any agency receiving all “nos” would likewise receive all red scores, while an agency receiving all green scores would receive all “yeses.” The two displays are not always consistent. Six agencies that received all nos likewise received all red grades: Department of Agriculture, DOD, HHS, DHS, VA, and NASA. Six agencies also received all green scores, but only three of these received all yeses: Commerce, NSF, and SSA. The most striking discrepancy was the Department of Education, with all green scores, all “yeses” from the agency head for FFMIA compliance, but all nos from the auditor. The Department of Labor had straight green scores, with but one no from the auditor, while EPA displayed all green grades, with the agency head and auditor in accord for the negative mark in FY2007. One might recall that three different evaluations were involved in the marks received by the agencies. OMB played the major role in the scorecard grades, while the auditors and agency heads, respectively, determined the compliance assessments portrayed in the table.

The FFMIA also requires GAO to report annually on agency compliance. In a report released in September 2008, GAO, after reviewing the FY2007 audit reports for the 13 agencies found by auditors to have systems not in substantial compliance with one or more of the FFMIA requirements, concluded that noncompliance with the financial management systems component was the criteria most frequently cited by the auditors.³⁷

In an effort to ascertain particular problems for agencies in meeting the federal financial management systems requirement, GAO divided the requirement into four subcomponents, which, along with the other two FFMIA requirements, resulted in six categories for analysis of FY2007 noncompliance. Of the 13 agencies found not to be in substantial compliance with

³⁶ The 24 CFO agencies are included in the table. The scorecard has 26 agencies including 23 of the CFO agencies (NRC excluded), plus OMB, Corps, and Smithsonian.

³⁷ U.S. Government Accountability Office, *Financial Management: Persistent Financial Management Systems Issues Remain for Many CFO Act Agencies*, GAO-08-1018, Sept. 2008, p. 14.

FFMIA requirements in FY2007, the four subcomponents for financial management systems were featured as follows:

- Lack of accurate and timely recording - 11 agencies
- Weak security over information systems - 11 agencies
- Inadequate reconciliation procedures - 10 agencies
- Nonintegrated financial management systems - 8 agencies

With respect to the other two FFMIA requirements, seven agencies displayed lack of adherence to federal accounting standards, and five were in noncompliance with the Standard General Ledger.³⁸

GAO has expressed concern that the criteria for “substantial compliance” are “not well defined or consistently implemented across the 24 CFO [Act] agencies.” According to GAO, it appears that agencies and auditors may conclude that absent any material weaknesses an agency is in substantial compliance with FFMIA. In addition, the number of agencies in noncompliance may be greater than reported, in GAO’s view, since for FY2007 all but one of the auditors provided a negative assurance. With a negative assurance, the auditor indicates that the work “performed did not identify any instances of noncompliance.” A negative assurance does not mean that the auditor “determined the systems to be substantially compliant” with FFMIA; the auditor may not have identified all instances of noncompliance.³⁹

In January 2009, OMB issued an updated version of “Implementation Guidelines” for the FFMIA.⁴⁰ The revised instructions reflect the updated version of OMB Circular A-127, *Financial Management Systems*, which “introduces a simplified approach to determine FFMIA substantial compliance by targeting the most significant agency financial statement audit risks.”⁴¹ The updated guidance lists critical indicators, grouped into three categories of risk levels — nominal, moderate, and significant — that auditors and agency heads are to consider when determining substantial compliance. For example, if an agency meets the seven criteria for the nominal risk category, substantial compliance may be determined without additional supporting information. The updated guidance is effective on October 1, 2009, and must be used for FY2010 financial reports and audits.⁴² It seems probable that there may be less disagreement between agency heads and their external auditors regarding agencies’ FFMIA compliance in FY2010 and thereafter.

In addition to overseeing agency efforts to achieve FFMIA compliance, in 2006 OMB launched the Financial Management Lines of Business (FMLOB) initiative “to address the Federal Government’s long-term need to improve financial management and assist agencies in substantially complying with FFMIA.”⁴³ The intent of the FMLOB is to improve the cost, quality,

³⁸ *Ibid.*, p. 15. This GAO report contained a table titled “Six Problem Areas and the Potential Effect on Agency Financial Management,” which projected possible implications of agency noncompliance with the respective FFMIA requirements (financial management with its subcomponents counted as four problem areas). See p. 16.

³⁹ *Ibid.*, pp. 13-14.

⁴⁰ See *Implementation Guidance for the Federal Financial Management Improvement Act*, Memorandum for the Heads of Executive Departments and Establishments, Chief Financial Officers and Inspectors General, from Clay Johnson III, OMB Deputy Director for Management, Jan. 9, 2009.

⁴¹ *Ibid.*

⁴² Revised Circular A-127 is available electronically at http://www.whitehouse.gov/omb/circulars_a127/.

⁴³ OMB, *Federal Financial Management Report 2008*, p. 22.

and performance of federal financial management systems by combining agency core systems (such as accounting) at a limited number of shared service providers (SSPs) and by devising uniform government-wide business standards and processes.⁴⁴ According to OMB, the FMLOB aligned with the standards for success in the improved financial performance initiative in the *Agenda*, since an “overarching objective” of the FMLOB — to ensure that federal managers have accurate and timely financial information to aid in decision-making — also constituted one of the prerequisites for an agency to “get to green” on the initiative.⁴⁵

Timely Financial Reporting

Agencies have achieved progress in producing timely financial information and audit opinions and in meeting OMB’s accelerated reporting deadlines. In September 2001 the OMB Director issued Bulletin No. 01-09, pertaining to financial statements prepared by the 24 CFO Act agencies.⁴⁶ This was followed in December 2002 by a memorandum directed to the newly covered ATDA agencies, noting that they too were to be subject to Bulletin No. 01-09, beginning with FY2003.⁴⁷ The bulletin required agencies to consolidate their audited financial statements and other financial and performance reports into combined Performance and Accountability Reports and accelerated the deadlines for submission. Previously CFO agencies had the deadline of 150 days after the end of the fiscal year (i.e., early March) to submit the reports, but the due date for the combined FY2002 reports was moved up to February 1, 2003. The next year the reports covering FY2003 were due by January 30, 2004. Beginning with FY2004, the reports have been due by November 15, just six weeks after the close of the fiscal year.⁴⁸

All CFO Act agencies met the reporting deadline for FY2005 by issuing their financial statements within 45 days of the close of the fiscal year, and continued to do so in the next three fiscal years.⁴⁹ As noted above, the ATDA agencies were to comply with the accelerated reporting deadline beginning with FY2003, but figures on their records are not available in OMB’s annual financial management reports. From the tables included in the appendix on audit opinions received by the ATDA agencies, however, it is clear that some of these agencies have not meet the November 15th reporting deadline, since their opinions are entered as “not received.”⁵⁰

In May 2007, OMB announced a pilot program for alternative approaches to performance and accountability reporting.⁵¹ The goal of the pilot was “to allow agencies to explore different

⁴⁴ For further discussion of the FMLOB initiative, see CRS Report RL33765, *OMB’s Financial Management Line of Business Initiative: Background, Issues, and Observations*, by Garrett Hatch.

⁴⁵ Testimony of OMB Controller Linda Combs, in U.S. Congress, House Committee on Government Reform, Subcommittee on Government Management, Finance, and Accountability, *OMB’s Financial Management Line of Business Initiative: Too Much Too Soon?*, hearings, 109th Cong., 2nd sess., Mar. 15, 2006, p. 7, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_house_hearings&docid=f:29332.pdf.

⁴⁶ OMB, *Form and Content of Agency Financial Statements*, Bulletin No. 01-09, Sept. 25, 2001, http://www.whitehouse.gov/omb/bulletins_b01-09.

⁴⁷ OMB, “Requirements of the Accountability of Tax Dollars Act of 2002,” Memorandum for Heads of Selected Executive Agencies from Mitchell E. Daniels, Jr., Dec. 6, 2002. The *Federal Financial Management Report 2008* listed 72 ATDA agencies (Appendix D, pp. 39-42).

⁴⁸ OMB, *Financial Reporting Requirements*, OMB Circular A-136, revised June 3, 2008, superseded the prior OMB memoranda and bulletins relating to the subject.

⁴⁹ OMB, “Federal Agencies Achieve Historic Milestones in Financial Reporting,” press release, Nov. 19, 2008.

⁵⁰ The audit opinions received by the ATDA agencies are further discussed below, with reference to **Table 4**.

⁵¹ OMB Memorandum from Clay Johnson III, Deputy Director for Management, “FY2007 Pilot Program for (continued...)”

formats to enhance the presentation of financial and performance information and make this information more meaningful and transparent to the public.” In contrast to the existing PAR format, the 11 pilot agencies received greater flexibility “to tailor financial and performance reporting to their constituencies, while complying with all statutory requirements.” The Agency Financial Report, due by November 15th, contained the financial statements, audit opinions, and other required information. The Annual Performance Report was submitted with the agency’s congressional budget justifications. A new “Highlights” document contained budget, performance and financial information in a brief, user-friendly format was to be posted on the agency’s website prior to the transmittal of the President’s budget in early February.

OMB continued this pilot program for FY2008, with some modifications. The name of the former “Highlights” volume has changed to “Citizen’s Report: FY20XX,” is now due by January 15, and must be no longer than 25 pages. A new two-page summary is now required, to provide the reader with a quick snapshot of agency results. Agencies not participating in the pilot will continue to submit PARs by November 15. In addition, all CFO Act agencies are to prepare the two-page summary.⁵² A subsequent memorandum provided more details and clarified the schedule for submission of FY2008 reports. Agencies were to submit the final version of their “Budget, Performance and Financial Snapshot” (formerly known as the “Summary”), to OMB by December 15, 2008. The PARs for the non-pilot agencies and the AFRs for pilot agencies were due by November 17, 2008. The pilot agencies were to finalize their “Citizens” reports and APRs by January 15, 2009.⁵³

Government-Wide Statements and Audit Opinions

The deadline for submission of the government-wide consolidated financial statements likewise was accelerated from the statutory date of March 31. For the last five years, OMB has required the Secretary of the Treasury to issue the report containing the statements on December 15 (or the first business day thereafter), “to provide financial information early enough to be useful in the budget process.”⁵⁴ The most recent set was released by the Treasury Department, in coordination with OMB, on December 15, 2008.⁵⁵

For FY2008, as in the 11 previous years, GAO issued a disclaimer, indicating it was unable to give an opinion on the statements, because of: “(1) serious financial management problems at DOD, (2) the federal government’s inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the federal government’s inability to properly prepare the consolidated financial statements.”⁵⁶

(...continued)

Alternative Approaches to Performance and Accountability Reporting,” May 17, 2007.

⁵² OMB, Memorandum from Clay Johnson III, Deputy Director for Management. “Continuing the Pilot Program for Alternative Approaches to Performance and Accountability Reporting in FY2008,” June 5, 2008.

⁵³ See OMB, Memorandum from Robert Shea, Associate Director for OMB Administration and Government Performance, and Danny Werfel, Deputy Controller, “Guidance for Completing FY2008 Financial and Performance Reports,” Aug. 29, 2008. The revised guidelines reflected changes in the revised OMB Circular No. A-136, issued June 3, 2008.

⁵⁴ OMB, *Federal Financial Management Report 2008*, p.18.

⁵⁵ See U.S. Department of the Treasury, *Fiscal Year 2008 U.S. Government Financial Statements*, available electronically at <http://www.fms.treas.gov/fr/index.html>.

⁵⁶ *Ibid.*, “Statement of the Controller General,” p. 26.



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Audits of Agencies' Financial Statements

As noted above, the CFO Act, as amended, requires the annual submission of audited financial statements to OMB. An agency's statements may be audited by its Inspector General (IG), or by an independent external auditor, as determined by the IG.⁵⁷ In the financial section of the PARs (or the AFR for agencies participating in the pilot program), the independent auditor provides a letter describing the scope and nature of the audit and attesting that the audit was conducted in accordance with generally accepted government auditing standards. The letter from the auditor also expresses an opinion on the fairness of the financial statements.

Types of Audit Opinions

There are four types of audit opinions: unqualified, qualified, disclaimer, and adverse. The goal is to receive an "unqualified" or "clean" opinion, whereby the auditors find the financial statements to be fair in all material respects and in conformity with generally accepted accounting standards. Auditors typically use "material" to mean that "the omission or incorrect statement of the item would make a difference to the financial decisions made by the users of the financial statements."⁵⁸

The Department of Health and Human Services furnishes an example of an agency receiving an unqualified audit opinion for its FY2008 financial statements. Excerpts from the report of Ernst & Young, independent external auditors, follow:

We conducted our audit in accordance with auditing standards generally accepted in the United States. The standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.... In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of DHHS as of September 30, 2008, and its net cost, changes in net position, and budgetary resources for the year then ended, and the financial condition of its social insurance program as of January 1, 2008 in conformity with accounting principles generally accepted in the United States.⁵⁹

On the other hand, the independent auditor may render a qualified opinion on the financial statements, and identify the material item or items in question. Qualified opinions were seen more frequently in the initial years following implementation of the expanded financial statements requirements. None of the CFO Act agencies received a qualified opinion for FY2008, but the auditor's report on the Department of Agriculture's FY2007 statements provides an example of

⁵⁷ More than half of the CFO Act agency IGs typically have come to use independent external auditors. For example, a previous compilation by the author from FY2006 PARs indicated that seven audits for the CFO Act agencies were done by the respective IGs, while 17 agencies contracted with eight different external auditing firms. Of the 17 external audits, four were performed by an accounting firm doing a single agency, two were done by Ernst and Young, three by available PriceWaterhouseCoopers, and eight by KPMG.

⁵⁸ John H. Engstrom, "Understanding and Using Government Financial Statements," in *Handbook of Government Budgeting*, ed. Roy T. Meyers (San Francisco: Jossey-Bass, 1999), pp. 123-124.

⁵⁹ U.S. Department of Health and Human Services, *FY2008 Agency Financial Report*, Nov. 17, 2008, 2009.p. II-7, <http://www.hhs.gov/afr/2008sectionii-fs.pdf>.

this type of opinion. The Inspector General conducted the audit of the financial statements and reported, in part, the following:

During fiscal year 2007, Rural Development, a reporting component of USDA, made significant revisions to its credit reform processes related to the Single Family Housing Program cash flow model and subsidy reestimates. We were unable to obtain sufficient, appropriate evidence to support USDA's financial statement amounts as of September 30, 2007, for estimated allowances for subsidy costs associated with Direct Loans and Loan guarantees, Net; Other Liabilities, Intragovernmental; and Cumulative Results of Operations reflected on the balance sheet and related note disclosures by alternate auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to assess the reasonableness of the consolidated balance sheet, statement of net cost, and statement of changes in net position, and all impacted financial statement line items and related note disclosures referred to in the preceding paragraph, the consolidated financial statements ... present fairly, in all material respects the financial position of USDA as of September 30, 2007 and 2006; and its net costs, changes in new position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.⁶⁰

A disclaimer of opinion for an agency's financial statements from the external auditor also was more common in past years. With a disclaimer, the auditor attests that it was not possible to render an opinion due to stipulated shortcomings in the financial statements which precluded completion of an audit. As noted above, to date GAO has always issued disclaimers on the annual consolidated government-wide financial statements.

As an example of an agency, the Department of Homeland Security received a disclaimer on its FY2008 statements from the independent external auditing firm known as KPMG. The report noted specific problems relating to the Coast Guard, the Transportation Security Administration, FEMA, and other components in DHS, and then continued:

In addition, we were unable to obtain certain representations from DHS management regarding the matters described above, including representations as to compliance with U.S. generally accepted accounting principles, with respect to the accompanying DHS balance sheets and related statements of custodial activity as of and for the years ending September 30, 2008 and 2007, and were unable to determine the lack of such representations on the FY2008 and 2007 DHS financial statements.

It was impractical to extend our procedures sufficiently to determine the extent, if any, to which the DHS balance sheets as of September 30, 2008 and 2007, and the related statements of custodial activity for the years then ended, may have been affected by the matters discussed [previously] ... Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion of these financial statements.⁶¹

An adverse audit opinion, which is sometimes issued in the private sector, arguably constitutes the least desirable outcome from the perspective of the entity being audited. With an adverse

⁶⁰ U.S. Department of Agriculture, *FY2007 Performance and Accountability Report*, USDA/OIG-A/50401-62-FM, Nov. 2007, pp. 1-2, <http://www.usda.gov/oig/webdocs/50401-62-FM.pdf>.

⁶¹ U.S. Department of Homeland Security, *Department of Homeland Security 2008 Annual Financial Report*, Nov. 2008, p. 41, http://www.dhs.gov/xlibrary/assets/cfo_afry2008.pdf.

opinion, the auditor is signifying that the financial statements do not present fairly.⁶² No CFO Act or ATDA agency has received an adverse audit opinion on its financial statements.

Review of CFO Act Agency Audit Opinions

Table 2 provides consolidated data on the types of audit opinions received by the 24 CFO Act agencies for the first statements covering FY1996 through those covering FY2008, while **Table 3** breaks down the audit opinions by agency and fiscal year.

When one notes the totals for the respective types of audit opinions received by the CFO agencies, the data in **Table 2** suggest considerable improvement between FY1996 and FY2008. In FY2008 there were 21 unqualified opinions compared with six in FY1996; five qualified opinions at the outset, while there were none in FY2008; and during the period covered in the table, audits receiving disclaimers declined from 13 to three. Looking more closely, however, one sees that in FY2002 there were 21 unqualified, 1 qualified, and two disclaimers of opinion, a record marginally weaker than that for FY2008. According to the aggregate figures, arguably there was little progress toward reaching the goal of clean audits for all CFO Act agencies since FY2002.

A more detailed picture of the record is provided in **Table 3**, which displays the audit opinions received by the 24 CFO agencies on their financial statements for FY2001 through FY2008. Twelve (50%) of the agencies received unqualified opinions throughout the period, and six more (33%) received unqualified opinions in all but one of the years. The clear majority of qualified or disclaimer decisions (22 out of 37, or 59%) were concentrated in three agencies — the Departments of Defense and of Homeland Security and NASA.

Table 2. Type of Audit Opinions Received by CFO Agencies, FY1996-FY2008

Fiscal Year	Unqualified	Qualified	Disclaimer
FY1996	6	5	13
FY1997	11	5	8
FY1998	12	4	8
FY1999	15	4	5
FY2000	18	3	3
FY2001	18	2	4
FY2002	21	1	2
FY2003	20	0	4
FY2004	18	1	5
FY2005	19	0	5
FY2006	19	1	4
FY2007	19	1	4
FY2008	21	0	3

Source: OMB, (annual) *Federal Financial Management Reports*, 1997-2009.

⁶² Engstrom, p. 124.

The Defense Department was the only CFO Act agency to receive disclaimers of opinion every year covered in **Table 3**. This could be expected, since, as discussed previously, GAO has consistently cited the continuation of serious financial management problems at the Department of Defense as one of the major impediments leading to an audit disclaimer on some of the financial statements included in the annual consolidated financial report of the U.S. Government. Among the material weaknesses contributing to the disclaimer of opinion on the FY2008 statements, GAO cited the federal government's inability to "satisfactorily determine that property, plant, and equipment and inventories and related property, primarily held by DOD, were properly reported in the accrual basis consolidated financial statements," or "to support significant portions of the total net cost of operations, most notably related to DOD."⁶³ GAO's 2009 High Risk list included DOD's approach to business transformation with respect to financial management (along with other areas), as well as weaknesses in contract management by the department.⁶⁴

The Department of Homeland Security has likewise received disclaimers of opinion since its creation in 2003, although FEMA, a component agency folded into the new department, received a qualified opinion for FY2001 and an unqualified opinion for FY2002. FEMA was one of the 22 diverse agencies consolidated into DHS. Upon its establishment, DHS inherited many redundant financial systems and faced the challenge of developing an integrated financial management system. DHS also inherited 30 reportable internal control weaknesses identified in prior financial audits of components; 18 of the weaknesses were so serious as to be considered material weaknesses.⁶⁵ Implementing and transforming DHS remains on GAO's 2009 High-Risk List.⁶⁶

NASA regularly received disclaimers of opinion during the period depicted on **Table 3** except for FY2002, when it received an unqualified opinion. According to GAO analysis, the clean audit opinions NASA received from 1996-2000 (and again in 2002), masked serious financial management problems.⁶⁷ In a letter accompanying the report of the independent auditor on NASA's 2008 financial statements, the IG stated, in part,

The disclaimer [from Ernst and Young] resulted from continued significant weaknesses in NASA's financial management processes and systems, including issues related to internal controls for property accounting.... These material weaknesses have been reported for several years.... NASA made progress in improving its internal controls during FY2008.... However, NASA management and E&Y continued to identify weaknesses in Agency-wide internal controls that impair NASA's ability to report accurate financial information on a timely basis.⁶⁸

⁶³ *FY2008 Financial Report of the United States*, p. 169.

⁶⁴ U.S. Government Accountability Office, *High Risk Series: An Update*, GAO-09-271, Jan. 2009, "Highlights."

⁶⁵ U.S. GAO, *Financial Management: Department of Homeland Security Faces Significant Financial Management Challenges*, GAO-04-774, July 19, 2004.

⁶⁶ U.S. GAO, *Department of Homeland Security: Progress Made in Implementation of Management Functions, but More Work Remains*, GAO-08-646T, Apr. 9, 2008.

⁶⁷ GAO testified in 2002 that NASA, after receiving unqualified opinions for fiscal years 1996 through 2000 from its previous auditor (Arthur Andersen), received a disclaimer for its FY2001 financial statements from a new independent auditor (PricewaterhouseCoopers) due to significant internal control weaknesses. See *National Aeronautics and Space Administration: Leadership and Systems Needed to Effect Financial Management Improvements*, GAO-02-551T, Mar. 20, 2002. pp. 1-2.

⁶⁸ *NASA FY2008 Performance and Accountability Report*, pp. 155-156, <http://www.nasa.gov/news/budget/index.html>.

The audit opinions received by the CFO Act agencies and reflected in **Table 3** appear consistent with the scorecard grades in **Figure 1**. For consistency in this relationship, all green grades should be accompanied by unqualified opinions. Here the six CFO Act agencies earning all green marks also consistently received unqualified audit opinions from FY2005-FY2008 (period covered in the scorecard). On the other hand, many agencies had unqualified audit opinions while not getting to green on the scorecard.

Table 3. Audit Opinions Received by the CFO Act Agencies, FY2001-FY2008

CFO Agencies	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Agriculture	Disclaimer	Unqualified.	Unqualified	Unqualified	Unqualified	Unqualified	Qualified	Unqualified
Commerce	Unqualified							
Defense	Disclaimer							
Education	Qualified	Unqualified						
Energy	Unqualified	Unqualified	Unqualified	Unqualified	Disclaimer	Disclaimer	Unqualified	Unqualified
HHS	Unqualified							
DHS/FEMA	Qualified	Unqualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
HUD	Unqualified	Unqualified	Unqualified	Disclaimer	Unqualified	Unqualified	Unqualified	Unqualified
Interior	Unqualified							
Labor	Unqualified							
Justice	Unqualified	Unqualified	Unqualified	Disclaimer	Unqualified	Unqualified	Unqualified	Unqualified
State	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Disclaimer	Unqualified
Transportation	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Qualified	Unqualified	Unqualified
Treasury	Unqualified							
Veterans Affairs	Unqualified							
AIDe	Disclaimer	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
EPA	Unqualified							
General Services Administration	Unqualified	Unqualified	Unqualified	Unqualified	Disclaimer	Unqualified	Unqualified	Unqualified
NASA	Disclaimer	Unqualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
National Science Foundation	Unqualified							
Nuclear Regulatory Commission	Unqualified							
Office of Personnel	Unqualified							

CFO Agencies	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Management								
Small Business Administration	Unqualified	Disclaimer	Disclaimer	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
Social Security Administration	Unqualified							

Source: OMB, (annual) *Federal Financial Management Reports*, 2002-2009.

Review of Audit Opinions for ATDA Agencies

As noted previously, the number of agencies required to submit audited financial statements increased considerably with implementation of the ATDA. **Table 4** provides aggregate totals for the types of opinions received by the ADTA agencies from FY2003-FY2008. The “not received” category comprises agencies whose audited statements were not received by OMB in time for inclusion in the federal financial management report for the year (usually a date in December or January) but definitely after the November 15 deadline for submission of the audited financial statements. OMB’s data do not distinguish between “later” arrivals and “never received” materials. The number of agencies receiving unqualified opinions more than doubled from FY2003-FY2007, then dropped a bit for FY2008. The “not received” increased by a third from FY2007 to FY2008, perhaps accounting at least in part for the decline in unqualified opinions.

Table 4. Audit Opinions Received by ATDA Agencies, FY2003-FY2008

Type of Opinion	FY2003 (n=75)	FY2004 (n=73)	FY2005 (n=72)	FY2006 (n=73)	FY2007 (n=72)	FY2008 (n=72)
Unqualified	24	23	42	44	52	45
Qualified	2	4	3	3	2	1
Disclaimer	4	4	4	2	2	2
Not Received	21	24	18	23	16	24
Extension	7	5	5	0	0	0
Waiver	17	13	0	0	0	0

Source: OMB, (annual) *Federal Financial Management Reports*, 2004-2009.

The ATDA allowed the OMB Director to waive the audited financial statements requirement during the initial transition period, allowing agencies not having prepared financial statement in the past to have an exemption for FY2002. Section 2 of the law also gave the Director authority to waive the requirement for a given fiscal year if an agency had a budget of \$25 million or less and it was determined that the audited financial statements were not necessary for reasons stipulated in the law. In such cases, the OMB Director was annually to notify designated congressional committees of the exemptions and their justifications. **Table 4** indicates that such waivers were granted in FY2003 and FY2004, as well as less formal deadline extensions. No formal waivers have been reported since FY2004, but some agencies who were granted waivers for the first two years have subsequently remained in the “not received” category.

Strengthening Internal Controls and Reducing Material Weaknesses

As a part of the improved financial performance initiative, OMB has pressed for a reduction in material weaknesses accompanied by the strengthening of an agency’s internal control. Internal control involves mechanisms in management systems, including but not limited to financial systems, intended to prevent or uncover errors in transactions and to reduce the risk of fraud, waste, and abuse. The FMFIA requires that the Comptroller General prescribe standards for internal control in federal agencies. According to the definition provided by GAO, internal control constitutes

An integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.⁶⁹

With respect to fundamental concepts, internal control involves a continuous built-in component of operations, is effected by people, and provides reasonable, but not absolute, assurance.⁷⁰

As noted above, FMFIA requires management evaluation and assessment of an agency's internal control and annual reporting on internal control effectiveness and any identified material weaknesses in those controls.⁷¹ A material weakness, as explained by OMB, is

a significant deficiency, or combination of significant deficiencies, in internal controls that increases the odds that a material misstatement of the financial statements will go undetected or not be prevented. The existence of material weaknesses does not necessarily mean the financial statements are unreliable. However, they are indicators and their existence suggests the likelihood that the financial statements include material misstatements has increased.⁷²

OMB has provided assessment guidance for the departments and agencies regarding internal control pursuant to the FMFIA in Circular No. A-123, first prepared in 1982. The most recent revision of Circular A-123, now titled *Management's Responsibility for Internal Control*, was issued December 21, 2004.⁷³ The 2004 revision of Circular A-123 emphasizes an integrated approach, coordinating internal control assessments with other activities related to internal controls. It also provides specific new requirements for conducting management's assessment of the effectiveness of internal control and for reporting on internal control over financial reporting.⁷⁴ A new appendix to Circular A-123, "Appendix A: Internal Control Over Financial Reporting," covers the scope, process, documentation, assurance statement, and procedures for correcting material weaknesses. In the introductory section of Appendix A, this definition, based on the GAO/PCIE *Financial Audit Manual*, is featured: "Effective internal control over financial reporting provides reasonable assurance that misstatements, losses, or noncompliance with

⁶⁹ Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO report AIMD-00-21.3.1, Nov. 1999, p. 4.

⁷⁰ *Ibid.*, p. 5.

⁷¹ Reports on any material weaknesses relating to agency programmatic operations (pursuant to Section 2 of FMFIA) and nonconformances with government-wide accounting systems requirements (Section 4 of FMFIA) are contained in the agency PARs (or pilot project documentation). OMB consolidates agency reports in FMFIA tables included in the annual federal financial management reports.

⁷² OMB, *Federal Financial Management Report 2009*, p. 32.

⁷³ OMB Circular A-123, *Management's Responsibility for Internal Control*, Dec.21, 2004 rev., http://www.whitehouse.gov/omb/assets/omb/circulars/a123/a123_rev.pdf. Previous revisions of A-123 had occurred in 1986 and 1995.

⁷⁴ In December 2003 the OMB Controller initiated a joint committee comprised of representatives from the Chief Financial Officers Council and from the President's Council on Integrity and Efficiency (consisting of Inspectors General appointed by the President and confirmed by the Senate), to undertake a review of existing internal control requirements for federal agencies in light of the new requirements for publicly-traded companies. According to OMB, policy recommendations developed by this committee were reflected in the 2004 revision of Circular A-123.



A Practical Guide to Preparing and Delivering
Testimony Before Congress and Congressional
Hearings for Agencies, Associations, Corporations,
Military, NGOs, and State and Local Officials

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Testifying Before Congress

applicable laws and regulations, material in relation to financial reports, would be prevented or detected.”⁷⁵

Reporting of material weaknesses under the FMFIA Section 2 requirement had included a consolidated total, reflecting internal control over programmatic operations and compliance with applicable laws and regulations, along with internal control over financial reporting, and any associated material weaknesses. Since the implementation of the 2004 revision of Circular A-123 (effective October 1, 2005), agencies have reported specifically on internal controls over financial reporting, with a management assurance statement included in each agency’s PAR. Starting with 2007 Federal Financial Management Report, OMB has included a separate table featuring internal control over financial reporting.

OMB guidance also requires the independent auditors to disclose any material weaknesses in internal control over financial reporting found during the annual process for auditing of agency financial statements. Such auditor-reported material weaknesses entail “those instances identified during a financial statement audit in which the internal control of an organization does not properly mitigate the risk of material misstatement on the financial statements.” In contrast, management, namely the agency head rather than an independent auditor, identifies material weaknesses pursuant to FMFIA, by reporting on instances where an agency’s internal controls are not achieving their intended objectives.

Table 5 presents auditor-reported material weaknesses by agency, and shows that twice as many agencies were free of auditor-reported material weaknesses in FY2008 as in FY2001 (from 7 to 14). In FY2008 nearly 60% of the auditor-reported material weaknesses were found in two agencies — Departments of Defense and of Homeland Security.

Table 6 provides data on material weaknesses, as respectively reported, for the CFO Act agencies as a group from FY2001-FY2008. Material weaknesses reported by the auditors of agency financial statements were reduced by nearly 50% from FY2001 to FY2008. The decreases in the numbers of material weaknesses, however, were not entirely continual, since there was an increase of five from FY2001 to FY2002; and two more were reported in FY2004 than in FY2003, while the number for FY2005 returned to the FY2003 level. In the *2009 Federal Financial Management Report*, OMB provided this update on the strengthening of internal controls as a facet of improved financial performance:

Auditor-identified material weaknesses among the 24 major [CFO Act] agencies have declined for five consecutive years , with an 18% reduction achieved from FY2007 to FY2008. The goal for FY2009 and beyond is to achieve a 10% reduction in material weaknesses annually.⁷⁶

⁷⁵ OMB Circular A-123, p. 20.

⁷⁶ OMB, *Federal Financial Management Report 2009*, p. 11.

Table 5. Auditor Reported Material Weaknesses for CFO Act Agencies, FY2001- FY2008 (as of 9/30 each year)

Agency	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Agriculture	7	6	3	2	2	2	2	2
Commerce	1	1	0	0	0	0	0	0
Defense	15	15	11	11	11	12	13	13
Education	1	1	0	0	0	0	0	0
Energy	0	0	0	0	1	1	0	0
HHS	2	2	2	2	2	2	4	2
DHS/FEMA	6	6	7	10	10	10	7	6
HUD	5	3	2	3	2	0	2	0
Interior	6	6	4	4	2	1	0	1
Justice	3	2	1	2	2	1	0	0
Labor	0	0	0	0	0	0	0	0
State	1	1	0	0	2	0	2	0
DOT	2	5	4	4	3	2	1	0
Treasury	2	4	2	1	1	1	1	1
VA	6	2	2	2	3	3	4	3
AID	3	7	3	1	1	1	0	1
EPA	0	0	0	0	0	0	0	0
GSA	0	0	1	0	1	0	0	1
NASA	1	2	4	4	3	2	2	2
NSF	0	0	0	0	0	0	0	0
NRC	2	1	0	1	1	2	1	0
OPM	0	0	9	1	0	0	0	0
SBA	1	5	2	2	1	1	0	0
SSA	0	0	9	0	0	0	0	0
Total	64	69	48	50	48	41	39	32

Source: OMB, (annual) Federal Financial Management Reports, 2001-2009.

Table 6. Total Materials Weaknesses for CFO Act Agencies by Types, FY2001-FY2008

Fiscal Year as of 9/30	Auditor Reported Material Weaknesses	Per FMFIA Section 2, Consolidated	Per FMFIA Section 2, Financial Reporting
FY2001	64	231	NA
FY2002	69	146	NA
FY2003	48	89	NA
FY2004	50	83	NA
FY2005	48	68	NA
FY2006	41	80	31
FY2007	39	65	29
FY2008	32	52	27

Source: OMB, (annual) *Federal Financial Management Reports*, 2001-2009.

With respect to management-reported material weaknesses pursuant to the FMFIA, the decline in the total number of instances from 231 to 52 constitutes more than a 77% reduction from FY2001 to FY2008. The one-year jump in reported material weaknesses from 68 in FY2005 to 80 in FY2006 coincided with the first year of implementation for the revised Circular A-123, which possibly resulted in identification of some pre-existing but previously unrecognized weaknesses. Comparing the total consolidated number of material weaknesses reported in the last three fiscal years depicted in **Table 5**, with the figures for those years in the separate financial reporting column, furnishes an interesting perspective.

There has been an increase during the final three years covered in **Table 6** with respect to the proportion of the consolidated total of material weaknesses that have been contributed by weaknesses in internal control over financial reporting. In FY2006 39%, of the total FMFIA Section 2 weaknesses came from financial reporting, in FY2007, 45%, and in FY2008 over half of the total (52%), of management-reported material weaknesses were attributed to internal controls in financial reporting operations. This suggests that the remaining material weaknesses associated with financial reporting constitute a growing share of all the material weaknesses reported by agency managers.

Audit Opinions on Internal Control over Financial Reporting

In 2002 the Sarbanes-Oxley Act, arguably the most far-reaching securities legislation in nearly 70 years, became law.⁷⁷ Two requirements in the law with special implications for government included provisions for management evaluation and assessment of and reporting on internal control effectiveness, and an opinion from the external auditor on internal control and management's assessment.

⁷⁷ P.L. 107-204, 116 Stat. 745. Among its provisions, the act established a new Public Company Accounting Oversight Board, standards for auditor independence, audit committees with defined responsibilities, CEO and CFO certification of financial reports, and a code of ethics for senior financial officers.

As mentioned above, in 2004 the Department of Homeland Security (DHS) Financial Accountability Act was signed into law.⁷⁸ During the consideration of this legislation there was discussion about applying the requirements of Sarbanes-Oxley to the federal government. Among its other provisions, the 2004 measure required DHS management to provide an assertion on the internal control over financial reporting for FY2005 and to obtain an auditor's opinion on the department's internal control over financial reporting in FY2006. The law also required a joint study by the CFOC and the PCIE, of the costs and benefits of having all CFO agencies obtain audit opinions of their internal controls.

The final report from that study, "Estimating the Costs and Benefits of Rendering an Opinion on Internal Control over Financial Reporting," was issued on September 27, 2005.⁷⁹ The conclusion suggested widespread consensus that obtaining an opinion on internal control over financial reporting incurs "significant incremental costs," along with general agreement about the difficulty in determining "the incremental benefits that might be gained from the additional work." Given these considerations, the report recommended a "wait and see" approach before requiring further audits of internal controls in federal agencies:

The critical question which needs to be addressed in assessing the benefits of obtaining an audit opinion on internal controls is whether the benefits derived significantly exceed the results of agencies' implementation of the revised A-123. Before incurring these additional costs, it would be prudent to see how Federal managers implement the revised A-123 and evaluate the private sector's implementation of Sarbanes-Oxley when additional information becomes available.⁸⁰

The report further concluded that even when more data became available on the implementation of Circular A-123 and Sarbanes-Oxley, inherent differences between agencies suggest a case-by-case implementation of internal control audits:

The decision on whether to obtain an [audit] opinion needs to be decided by each agency, and other knowledgeable parties, depending on the condition of its financial management program. Agencies that already have problems obtaining a clean opinion on their financial statements do not need to obtain an opinion on internal controls to tell them they have material weaknesses. On the other hand, agencies that believe they are leading organizations may want the added assurance that can be achieved by obtaining an opinion on internal control.⁸¹

The DHS Financial Accountability Act also directed GAO to analyze the information contained in the joint report and to provide any findings to the House Committee on Government Reform and the Senate Committee on Homeland Security and Governmental Affairs.⁸² GAO provided a critique of the joint report and suggested that the study "did not identify all relevant costs and benefits," which might limit its usefulness. GAO noted that a majority of the IGs and CFOs, as reported by the joint study, thought benefits would be derived from audits of internal controls

⁷⁸ For further discussion of this law, see CRS Report RL32550, *Homeland Security Financial Accountability Act: History and Recent Developments*, by Virginia A. McMurtry.

⁷⁹ Joint Study by the Chief Financial Officers' Council and the President's Council on Integrity and Efficiency, <http://www.ignet.gov/pande/audit/kgdoc.pdf>, site visited Jan. 2006.

⁸⁰ *Ibid.*, p. 14.

⁸¹ *Ibid.*, pp. 14-15.

⁸² GAO, *Cost and Benefit Review of Internal Control Opinions*, GAO-06-255R, Sept. 6, 2006. The committee in the House is now named the Committee on Oversight and Government Reform.

over financial reporting, a position with which GAO agreed. According to the study, the overriding benefit of the auditor's opinion on internal control "is the added independent assurance it provides that management's assessment of its internal control is reliable."⁸³

GAO reported that they agreed in part with the study's general conclusion, namely, that "federal agencies should first be given the opportunity to implement revised Circular No. A-123 before there is an across-the-board requirement to obtain an audit opinion on internal control over financial reporting." That having been said, GAO then endorsed a position that "having set criteria as to when an agency should initially be required to obtain an opinion, instead of agency or OMB discretion, would be useful." GAO also called for establishment of criteria "to achieve a balance between value, risk, and cost," so that once an agency demonstrates an effective system of internal control over financial reporting, subsequent audits of internal control could move from an annual to a multiyear cycle.⁸⁴

Outlook

This final section reviews the status of federal financial management reform — both past efforts and possible directions for the future.

Accomplishments and Continuing Challenges

From 2001 through 2008 the improved financial performance initiative of the *President's Management Agenda* provided a framework for efforts to improve implementation of the Chief Financial Officers Act, as amended, and other financial management reform laws. Progress towards improvement in federal financial management is evident.⁸⁵ Taken as a whole, federal agencies have achieved more timely financial reporting and more unqualified audit opinions. The number of agencies in compliance with the requirements of the FFMIA has increased, and the number of auditor-reported material weaknesses has declined.

With the substantial revision of OMB Circular A-123 in 2004, the requirements for internal control in federal agencies have been strengthened, particularly regarding management's responsibility for assessment of internal control over financial reporting. One might view effective internal control over financial reporting as the cornerstone for financial management reform. Such heightened internal control is necessary for an agency to attain and sustain clean audit opinions. Moreover, reliable and readily available financial information is crucial for key decisions being made by federal managers on a daily basis, "ranging from routine decisions such as purchasing office supplies to more mission-related decisions such as building satellites."⁸⁶

Yet notable federal financial management challenges remain unresolved and may be of oversight interest in the 111th Congress. Two departments, Defense and Homeland Security, have yet to earn

⁸³ *Ibid.*, p. 4.

⁸⁴ *Ibid.*, p. 5. For any year in which an internal control audit was not scheduled, agency management would still have to comply with the requirements in OMB Circular A-123.

⁸⁵ This assessment arguably remains appropriate despite some inconsistencies between scorecard grades and other measures of improvement, such as unqualified audit opinions and FFMIA compliance.

⁸⁶ *Ibid.*

clean audit opinions. As another example, for 12 straight years, the financial report of the U.S. government, containing government-wide consolidated financial statements issued by the Treasury Department and OMB, have received disclaimed audit opinions from GAO. Another concern regards what is being done to overcome problem areas repeatedly identified by GAO as major contributors to these disclaimers, including the financial management challenges in DOD, problems with accounting for intragovernmental transactions, and the ineffective process for preparing the consolidated financial statements.

In addition, GAO reported in 2008 that the federal government failed to maintain “effective internal control over financial reporting (including safeguarding assets) and compliance with significant laws and regulations as of September 30, 2008.”⁸⁷ This assessment by GAO raises queries about what actions are necessary to remedy the situation. As discussed above, the question of when and whether to require audits of internal control over financial reporting in federal agencies has not been definitively settled.

With respect to federal financial management in the future, one might keep in mind the duties of OMB’s Office of Federal Financial Management. The OFFM has a continuing statutory mandate, reflected in its mission statement, “To promote and support first class financial management in the executive branch of the Federal Government.” This entails responsibilities such as establishing government-wide financial management policies of executive agencies, and carrying out the financial management functions of the CFO Act, as amended, as well as implementing the financial management improvement priorities of the President.⁸⁸ Examining the role of OFFM — both in establishing and implementing federal financial management policies — may also furnish a suitable oversight topic.

Management Agenda of the Obama Administration

On January 20, 2009, Barack Obama became President. His campaign platform in 2008, *The Change We Need in Washington*, did not address federal financial management improvement directly, although under the subheading of “Streamline Government Procurement,” it stated “Barack Obama will implement GAO’s recommendations to reduce erroneous federal payments, reduce procurement costs with purchase cards, and implement better management of surplus federal property.” The platform elsewhere discussed at some length the commitment of an Obama Administration to “Fix Government Contracting” by various means, such as reducing federal spending on contractors and strengthening federal management and oversight capacity.⁸⁹

After the 2008 election, some observers suggested that of the various initiatives in the President’s Management Agenda, the financial reform, electronic government, and human capital initiatives had “the best chance of surviving intact, because of their relative success as much as their lack of political controversy.”⁹⁰

⁸⁷ *Fiscal Year 2008 U.S. Government Financial Statements*, p. 25.

⁸⁸ OMB, “Office of Federal Financial Management,” http://www.whitehouse.gov/omb/financial_default/.

⁸⁹ See Obama and Biden, *The Change We Need in Washington*, http://obama.3cdn.net/0080cc578614b42284_2a0mvyxpz.pdf.

⁹⁰ Robert Brodsky, “Some Aspects of Bush Management Agenda Could Endure,” *Government Executive*, Nov. 7, 2008, http://www.govexec.com/story_page_pf.cfm?articleid=41353&printerfriendlyvers=1.

OMB Director Peter Orszag at his confirmation hearing before the Senate Committee on Homeland Security and Governmental Affairs in January 2009, mentioned at the outset of his oral statement a focus on government performance, and observed, “Significant improvements to the existing performance management system are both possible and necessary.”⁹¹ Dr. Orszag identified four “key topics” to be addressed in the Obama administration, including financial management, especially the identification, prevention, and recovery of improper payments and better management of real property assets held by the federal government.⁹²

The *Analytical Perspectives* volume of the President’s FY2010 budget submission, released on May 11, 2009, contained a chapter titled “Building a High-Performing Government,” in which the Administration announced work on a new “management and performance agenda developed around six themes, including the following:

- Putting Performance First: Replacing PART with a New Performance Improvement and Analysis Framework
- Ensuring Responsible Spending of Recovery Act Funds
- Transforming the Federal Workforce
- Managing Across Sectors
- Reforming Federal Contracting and Acquisition
- Transparency, Technology, and Participatory Democracy⁹³

While improving federal financial management, as delineated in the *President’s Management Agenda* of the previous Administration, is arguably relevant to most of these themes, it appears especially apropos to the second.

Ensuring Responsible Spending of Recovery Act Funds

The American Recovery and Reinvestment Act of 2009 (know as ARRA or the Recovery Act) , was signed into law on February 17, 2009 (P.L. 111-5, 123 Stat. 115-521). AARA provides \$787 billion in stimulus money for discretionary and mandatory spending, along with tax provisions. Appropriations are designated for “existing and some new programs in the 15 Cabinet-level departments and 11 independent agencies. Some of the funds are distributed to states, localities, other entities, and individuals through a combination of formula and competitive grants and direct assistance.”⁹⁴

⁹¹ Transcript of the hearing available electronically at <http://www.cq.com/display.do?dockey=/cqonline/prod/data/docs/html/transcripts/congressional/111/congressionaltranscripts111-000003010329.html@committees&pub=congressionaltranscripts&print=true>.

⁹² As noted above, improved performance in financial management, the federal workforce, and electronic government, were viewed as *Agenda* initiatives most likely to be continued in the Obama Administration. Contracting was also an *Agenda* initiative, but with the emphasis on competitive sourcing for activities being performed by federal workers that arguably might be commercial in nature, whereas the focus under OMB Director Orszag has turned to greater transparency in the procurement process, more open competition among those vying for federal contracts, and overall better management and oversight.

⁹³ Office of Management and Budget, *Analytical Perspectives: Budget of the U.S. Government Fiscal Year 2010*, Washington, DC, May 7, 2009, pp. 9-12.

⁹⁴ CRS Report R40537, *American Recovery and Reinvestment Act of 2009 (P.L. 111-5): Summary and Legislative* (continued...)

The Recovery Act contains some general oversight provisions, as well as many applicable to a single program, agency, or account. There are numerous and diverse reporting requirements.⁹⁵ “In implementing the Recovery Act,” President Obama noted in a memorandum to heads of executive agencies, “we have undertaken unprecedented efforts to ensure the responsible distribution of funds for the Act’s purposes and to provide public transparency and accountability of expenditures.”⁹⁶

OMB provided initial guidance to the agencies regarding implementation of the Recovery Act on February 18, 2009.⁹⁷ The OMB guidance instructs agencies “to take steps beyond standard practice, including reporting, information collection, budget execution, risk management, and specific actions related to award type.”⁹⁸ For example, OMB requires agencies to ensure differentiation of ARRA funds from non-ARRA monies in all agency financial systems, business systems (i.e., grant and contract writing systems), and reporting systems.”⁹⁹ OMB issued updated implementing guidance on April 3, 2009.¹⁰⁰

Edward DeSeve, personally selected by Vice President Joe Biden in March 2009 to serve as special adviser on implementation of the Recovery Act, or stimulus czar, has had a diverse career, including considerable experience in federal financial management. Mr. DeSeve previously served as Chief Financial Officer at HUD, and as Controller and Deputy Director for Management at OMB. He has identified speed, accountability, and transparency as his major concerns surrounding implementation of the stimulus.¹⁰¹ In an interview in May 2009, Mr. DeSeve observed, “Implementing the Recovery Act involves balancing the desire for speed with the need to ensure funds are spent wisely and efficiently.” Turning to an automobile analogy, he noted the need for both a brake and accelerator: “We try to judiciously apply the accelerator, but we know the brake is there when we need it.”¹⁰²

In conclusion, accomplishing the purpose of ensuring responsible spending of Recovery Act funds ties in with past initiatives and ongoing efforts to improve federal financial management. Agencies may anticipate continued prodding from OMB, and perhaps Mr. DeSeve as well, to focus on their financial management systems and to bring them into compliance with FFMIA requirements. Achieving and maintaining clean audit opinions may heighten public confidence in the accuracy of agency-prepared financial data. Strengthening internal control over financial

(...continued)

History, by Clinton T. Brass et al., p. 6.

⁹⁵Ibid., p. 46.

⁹⁶ Presidential Documents, Administration of Barack Obama, “Responsible Spending of Funds” (Memorandum of March 20, 2009) 74 *Federal Register* 12531, March 25, 2009.

⁹⁷ OMB, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, memorandum for heads of departments and agencies from Peter R. Orszag, Director, M-09-10, February 19, 2009.

⁹⁸ OMB, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, memorandum for heads of departments and agencies from Peter R. Orszag, Director, M-09-10, February 19, 2009.

⁹⁹ Ibid., p. 4.

¹⁰⁰ U.S. Executive Office of the President, Office of Management and Budget, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, memorandum for heads of departments and agencies from Peter R. Orszag, Director, M-09-15, April 3, 2009.

¹⁰¹ Robert Brodsky, “Stimulus Czar is Well-Prepared for New Role,” *Government Executive*, March 25, 2009, http://www.govexec.com/story_page.cfm?filepath=/dailyfed/0309/032509rb1.htm&oref=search.

¹⁰² Robert Brodsky, “Recovery Act Coordinator Sees Signs of Progress,” *Government Executive*, May 20, 2009, http://www.govexec.com/story_page.cfm?filepath=/dailyfed/0509/052009rb2.htm&oref=search.

reporting also advances accountability vis-a-vis spending of federal funds. Ensuring responsible spending of Recovery Act funds will depend upon the capacity of executive branch agencies to produce the requisite data quickly and accurately in order to fulfill reporting and transparency requirements in the law itself, as well as in OMB's implementing guidance.

List of Abbreviations

AID	Agency for International Development
ATDA	Accountability of Tax Dollars Act
CFO	Chief Financial Officers
CFOC	Chief Financial Officers Council
CORPS	Army Corps of Engineers
DHS	Department of Homeland Security
DOD	Department of Defense
DOT	Department of Transportation
EPA	Environmental Protection Agency
FEMA	Federal Emergency Management Agency
FFATA	Federal Funding Accountability and Transparency Act
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAO	Government Accountability Office
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IPIA	Improper Payments Information Act
NASA	National Aeronautics and Space Administration
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
OFFM	Office of Federal Financial Management
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCIE	President's Council on Integrity and Efficiency
PMA	President's Management Agenda
SBA	Small Business Administration
SSA	Social Security Administration
VA	Department of Veterans Affairs
USDA	United States Department of Agriculture

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