

NOMINATION OF DANIEL I. WERFEL

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

OF THE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

NOMINATION OF DANIEL I. WERFEL TO BE CONTROLLER, OFFICE OF
FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND
BUDGET

SEPTEMBER 16, 2009

Available via <http://www.gpoaccess.gov/congress/index.html>

Printed for the use of the
Committee on Homeland Security and Governmental Affairs



U.S. GOVERNMENT PRINTING OFFICE

53-838 PDF

WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

JOSEPH I. LIEBERMAN, Connecticut, *Chairman*

CARL LEVIN, Michigan

DANIEL K. AKAKA, Hawaii

THOMAS R. CARPER, Delaware

MARK L. PRYOR, Arkansas

MARY L. LANDRIEU, Louisiana

CLAIRE McCASKILL, Missouri

JON TESTER, Montana

ROLAND W. BURRIS, Illinois

MICHAEL F. BENNETT, Colorado

SUSAN M. COLLINS, Maine

TOM COBURN, Oklahoma

JOHN McCain, Arizona

GEORGE V. VOINOVICH, Ohio

JOHN ENSIGN, Nevada

LINDSEY GRAHAM, South Carolina

ROBERT F. BENNETT, Utah

MICHAEL L. ALEXANDER, *Staff Director*

KRISTINE V. LAM, *Professional Staff Member*

TROY H. CRIBB, *Counsel*

JOHN P. KILVINGTON, *Staff Director, Subcommittee on Federal Financial Management,
Government Information, Federal Services, and International Security*

BRANDON L. MILHORN, *Minority Staff Director and Chief Counsel*

JENNIFER L. TARR, *Minority Counsel*

LISA M. NIEMAN, *Minority Counsel*

TRINA DRIESSNACK TYRER, *Chief Clerk*

PATRICIA R. HOGAN, *Publications Clerk and GPO Detailee*

LAURA W. KILBRIDE, *Hearing Clerk*

CONTENTS

Opening statement:	Page
Senator Carper	1
Prepared statement:	
Senator Carper	21

WITNESS

WEDNESDAY, SEPTEMBER 16, 2009

Daniel I. Werfel to be Controller, Office of Federal Financial Management, Office of Management and Budget:	
Testimony	4
Prepared statement	26
Biographical and financial information	29
Responses to pre-hearing questions	39
Letter from the Office of Government Ethics	70
Responses to post-hearing questions for the Record	71

NOMINATION OF DANIEL I. WERFEL

WEDNESDAY, SEPTEMBER 16, 2009

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:04 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Thomas R. Carper, presiding.

Present: Senator Carper.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Good morning. The Committee will come to order.

Today, we will be considering the nomination of Daniel Werfel to be Controller of the Office of Federal Financial Management at the Office of Management and Budget (OMB).

Mr. Werfel is no stranger to this Committee or to the Subcommittee that I am privileged to Chair, the Subcommittee on Federal Financial Management. During his time as Deputy Controller and Acting Controller, my staff and I have worked closely with him and his team on a number of the most pressing financial management challenges facing our Federal Government.

I am pleased that the President has sent us such a qualified candidate for this position. As I am sure Mr. Werfel will point out in his opening statement, he has extensive experience within the Office of Federal Financial Management. He has also taken the lead on a number of key issues, including some of the tough work related to the implementation of the American Recovery and Reinvestment Act, so he knows very well the challenges that lie ahead should he be confirmed. And I will touch on just a few of those challenges.

First, there is the issue of improper payments.

An improper payment occurs when Federal funds go to the wrong recipient, when a recipient receives the incorrect amount of funds, when funds are used in an inappropriate manner, or when documentation is not available to explain why a payment was made in the first place.

In fiscal year 2008—the most recent year for which data are available—agencies made an estimated \$72 billion—that is billion with a “b”—in improper payments, most of them overpayments. The actual amount of improper payments made by Federal agencies is actually probably much higher. The \$72 billion total reported does not even include estimates from the Medicare Prescrip-

tion Drug Program or several other high-risk programs at the Department of Homeland Security and elsewhere.

This is unacceptable. The kind of waste and mismanagement represented by these improper payments estimates we see each year undermines taxpayers' faith in government. Unfortunately, despite the progress that has been made over the years—and progress has been made—in highlighting improper payments and reducing error rates in some instances, too many agencies continue to make avoidable mistakes and, as a result, waste billions of dollars that could have been put to better use.

I am told that the Social Security Administration—an agency that actually makes relatively few improper payments—sent thousands of \$250 checks to ineligible recipients after the enactment of the Recovery Act. I am certain that very little of that money will help us create jobs or get our economy going again.

We need to get our arms around this problem. We need to help agencies improve transparency in this area, to prevent mistakes before they happen, and also to more aggressively recover improper payments that are made. The Improper Payments Elimination and Recovery Act, S. 1508—legislation that I introduced this summer with a number of my colleagues and that was reported out of Committee in July—would help in all three of these areas. And I know that you are familiar with this legislation, Mr. Werfel, and I am pleased to hear from my staff that you plan to make improper payments a priority of yours, if you are confirmed. That is great news.

The second area I want to touch on is property management. Not too long ago, it would have been hard for us to even know how many buildings or other structures Federal agencies owned. Tremendous progress has been made in recent years, however, in identifying Federal assets and learning more about their condition. What we have learned is that there are a great number of assets—some 20,000, I am told—that are actually classified as “excess.” This means that we no longer need them but are still paying year in and year out to maintain and secure them. In addition, tens of thousands more assets are underutilized, meaning we are not getting all that we could out of them.

Now, this seems like a relatively easy problem to address, but unfortunately, the property disposal process laid out in current law is costly, and it takes a significant amount of time. In addition, agencies looking to sell a piece of property are not even permitted to retain sale proceeds, even when preparing an asset for sale might be fairly costly.

There is probably much that agencies can do now under the current rules to improve property management and offload assets they no longer need. But I look forward to working with you if you are confirmed to make the common-sense changes necessary to build on the progress that has been made to date in this area.

Finally, I would like to touch on Federal financial reporting.

Each year, the major Federal agencies issue audited financial statements. These documents do not usually receive much attention from the press or the public at large, but those of us with responsibility for paying attention to them have noticed that they have improved in quality and timeliness over time, particularly in recent years. You and your team at OMB deserve credit for that,

Mr. Werfel. But one major challenge ahead of you, if confirmed, is getting an opinion on the Federal Government's consolidated financial statements.

Over the years, the Government Accountability Office (GAO) has never been able to render an opinion on this statement. This essentially means that our books are still such a mess that the GAO audit team just cannot make sense of them. That is troubling from a transparency perspective, and other perspectives as well. And it also shows that we have plenty of work to do in our efforts to professionalize financial management in the Federal Government. Any private sector company with annual financial statement audit results like the Federal Government's would probably not be in business for very long.

Let me just convey my thanks to you, Mr. Werfel, for the work that you have done in all of these areas over the years and for your willingness to continue that work. And when we finish swearing you in, you will have an opportunity to introduce your family. It was a special treat to have a chance to meet your parents and to see that they raised at least two sons—I don't know if there are more than you and your brother here. But we want to thank them for instilling in you the kinds of values that are demonstrated in the work that you do for the people of this country. Thank you both. And you sort of turned him over to Beth, his wife, and she has continued the training ever since, and we are just delighted that you are here today and that you are willing to share your husband with the people of our country.

And to Sean and Molly, thank you for coming, and it is nice to see you both and to meet you, and we are very glad that you could join your Dad on this special day.

To others, to Jeff Zients, who is our Chief Performance Officer and just a valuable new member of our team, an important member of this team, we are happy that you are here, along with other members of our extended OMB family.

The fact that there are not a lot of other members here is actually a good sign because if they were here, that would probably mean that this is a nomination that is in trouble. And the fact that these seats are very empty is probably a positive sign.

Mr. Werfel has filed responses to a biographical and financial questionnaire. He has also answered pre-hearing questions submitted by the Committee. In addition, his financial statements have been reviewed by the Office of Government Ethics. Without objection, this information will be made part of the record. The financial data, however, will remain on file and available for public inspection in the Committee's offices.

Committee rules require that all witnesses at nomination hearings give their testimony under oath, and, Mr. Werfel, I am going to ask you to please stand and raise your right hand at this time.

Do you swear that the testimony you will give before this Committee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. WERFEL. I do.

Senator CARPER. Please be seated.

When we start with the questions in a few minutes, I am going to ask you initially three standard questions, and I think you are

aware of that. But before we get into any questions, I would like you to go ahead and make your statement, and if you would like to introduce your family further, feel free to do so. We are delighted that you are here and grateful for your willingness to serve. Proceed.

TESTIMONY OF DANIEL I. WERFEL,¹ TO BE CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. WERFEL. Thank you. Chairman Carper, I am honored and humbled by the opportunity to come before you as President Obama's nominee for Controller of the Office of Federal Financial Management within OMB. I would like to thank OMB's Deputy Director for Management Jeff Zients for being here today. I also appreciate the support of OMB Director Peter Orszag and Deputy Director Robert Nabors. I have had the distinct privilege of working with these three great leaders over the past several months. Through their hard work, unyielding demand for results, and belief in the importance of strong analytics to support the right public policies, they have inspired me and others at OMB to reach deeper within ourselves to help deliver a higher performing government. I am grateful to each of them for supporting my nomination and thus demonstrating their faith in me as a leader and as a public servant.

I am very grateful to have my family with me this morning, supporting me today as they have through every step of my life. I would like to introduce my wife of 12 years, Beth; my two children, Sean and Molly; my parents, Fred and Barbara; and my brother, Steven. I would also like to recognize members of my family not here today: My sister, Lori, and her family, as well as my brother Steven's wife and children, who I know are all in New York right now cheering me on; also, my mother-in-law, Elaine, and my father-in-law, Dave, doing the same in Ohio. Throughout the years, I have relied on my family for strength, and I thank them for their continued support during this process.

For more than 12 years, I have had the honor of working as a public servant for the U.S. Government. Over this time, I developed both a penchant and a sustained passion for improving financial management practices across government. Fueling this passion is my firm belief that one of the government's most critical responsibilities is to serve as an effective steward of taxpayer dollars and that this responsibility can only be met if the Federal financial management community is doing its part: Tracking and accounting for taxpayer dollars; initiating internal controls that mitigate the risk of fraud and error; publicly reporting reliable information about the government's finances; and strategically integrating financial information into decisionmaking.

For the past 5 years, I have played a leadership role within OMB and in the broader financial management community advancing these efforts and have gained important perspectives on the strengths, weaknesses, challenges, and opportunities associated with these efforts.

¹ The prepared statement of Mr. Werfel appears in the Appendix on page 26.

This experience has led me to the conclusion that although important progress is being made, as you noted, a significant amount of work remains to be done. At too many Federal agencies, persistent weaknesses in basic financial management practices lead to unreliable reporting, payment errors, and other forms of government waste. Of note, the amount of remaining improper payments on the government's books is staggering and must be corrected.

Moreover, the sweeping challenges we face in the government today require our financial managers to move beyond the basics of accounting and reporting. Fortunately, the tools to overcome these challenges are either at our disposal or are otherwise obtainable. We have detailed inventories of improper payments and unneeded real estate. We have a growing number of agencies and professional staff who have successfully overcome financial management challenges and who can provide others that road map. We have technologies and processes emerging out of the private sector that can enable lower risk and cost solutions. And from Congress and the public, we have a growing demand for financial information and a growing frustration with spending improprieties that are serving as a catalyst for action and improvement in financial management shops across government.

If confirmed, I will work with Congress, OMB leaders, and the larger financial management community to leverage these tools to forge new and unprecedented results in financial management. Success will be measured along the following key areas and priorities: Eliminate inefficient government spending, such as improper payments and unneeded real estate; right-size the cost of financial management operations across government; drive improvements in grants management; effectively implement the transparency requirements of both the Federal Funding Accountability and Transparency Act and the American Recovery and Reinvestment Act; and remediate persistent weaknesses in basic financial management practices.

I am both humbled and energized by the opportunity to play a leadership role in these efforts. For as long as I can remember, I have felt the call for public service. Since arriving in the Federal Government, I have been blessed with supervisors, colleagues, staff, and other peers and mentors who have helped me grow as a professional and as a leader. In particular, the team of civil servant professionals at the Office of Federal Financial Management at OMB has been a family to me for more than 5 years, and together we have formed a team that I believe to be as productive and hard-working as any in government. I am thrilled for the opportunity to lead the Office of Federal Financial Management as we take on these new and growing challenges. Working closely with Peter Orszag, Robert Nabors, Jeff Zients, and the leadership team they are assembling, I am confident that we can advance financial management to a new and sustainable level of excellence that helps enable the government to meet that most critical of responsibilities: Serving as an effective steward of taxpayer dollars.

Mr. Chairman, I would be pleased to answer any questions you may have.

Senator CARPER. Great. Thank you very much for that statement.

As I said earlier, I am going to start by asking you three standard questions that Committee rules require that I ask.

First, is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. WERFEL. No, I do not.

Senator CARPER. All right. I am tempted to look at your brother over there to see if he has anything he could add to that response. [Laughter.]

But I will not. I think that is outside of the rules.

Do you know of anything, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Mr. WERFEL. No, I do not.

Senator CARPER. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted Committee of Congress if you are confirmed?

Mr. WERFEL. Yes.

Senator CARPER. So far, so good. I want to come back to improper payments for a little bit, if I could. I have spoken, I believe, with you before and with Mr. Zients about some work that is going on within the Department of Health and Human Services to try to go out and recover monies that have been improperly spent, I think with respect to Medicare. And as you know, we are going through a lot of debate on health care reform, trying to figure out how to provide better health care for less money. And we have learned that we have misspent, inappropriately spent a lot of money—some of it for medical equipment, but a lot of people have set up bogus companies and have billed Medicare for services never provided.

What we started doing is going out to recover some of that money. I think we started about 3 years ago, and we just were focusing on three States. And I think we used private sector firms to go out and try to do the recoveries. The first year, I am told, they did not recover much at all. The second year they recovered a little more. Then last year they recovered about \$700 million in just three States. And I believe the intent is to go out and to try to replicate that in the remaining 47 States.

Are you aware of this initiative? And could you talk about it at all?

Mr. WERFEL. Yes, Senator. I am very aware of this program. The Medicare recovery audit program is about hiring contractors on a contingency basis to go out and find the errors that are occurring in the program, and these errors typically occur when we reimburse hospitals and doctors for procedures that did not occur or for the wrong procedure or too much money. A good example of that would be our reimbursing a hospital for magnetic resonance imaging (MRI) when only an X-ray occurred. The MRI is much more expensive, so we are reimbursing them for the wrong amount.

The strength of this program is the incentive that is set up. I think you mentioned earlier that agencies made \$72 billion in improper payments across government, and one of the lessons learned, as we have studied those improper payments and tried to figure out what the root causes are and how we can do better, is that a promising strategy that can be employed is to make sure

that all the stakeholders involved, from the Federal agency down to the recipients and the States and everyone involved, have an incentive to both root out and find these improper payments and then go recover them on behalf of the taxpayer. And in this case, that incentive is very strong because the private contractors being hired are paid based on their ability to find those errors and recover those funds.

And so with that incentive structure in place, we have seen significant results, as you mentioned, close to \$1 billion in just three States, and now we are in the process of expanding that to all 50 States with a target completion of January 2010 to have it up and running throughout the United States.

We are very excited about this program. In particular, how can we use this example and this model of finding the right incentives and getting the right players involved to remediate improper payments in other programs as well?

Senator CARPER. Would you just think out loud for us and think about how we might extend these lessons learned from this demonstration in these three States to Medicaid, where both the State and the Federal Government share in the cost of expenditures?

Mr. WERFEL. Yes. The two programs obviously are both Federal programs supporting health care, and they operate somewhat differently. As you mentioned, Medicaid dollars flow through the States, and the implementers of the Medicare program are hired contractors that are processing these Medicare claims.

With Medicaid, I think the question then becomes, because of the role the States play in implementing the program, finding the right incentives for the States to understand where their risks of errors are and to be taking the steps that are necessary. Thinking out loud as you mentioned, to draw the analogy, if the private contractor is getting a financial benefit from going out and finding the error, some of it is coming back to the Medicare trust fund, but some of it is going to the contractor. We might want to think about similar incentives for States where they are rewarded financially for uncovering errors, so that all the money is not necessarily returned to the government, but a portion of the money is returned to the State to invest in other activities and priorities.

So often—and I think we will see this when we talk about real property as well—the financial incentive of going out and finding the problem and correcting it is a powerful tool, and I would think that is one example where the States might end up with a more aggressive approach and more resources being spent on these efforts than we would otherwise have seen.

Senator CARPER. And I would just hope, as we extend the three-state demonstration for Medicare cost recovery to the other 47 States, that we will begin preparing to extend the same kind of cost-recovery approach to Medicaid.

One of the approaches we use in health care reform to extend coverage to people who do not have it is to require States to provide coverage to a higher level of poverty. I think we are going to ask them to begin covering childless adults whose income is up to maybe 130 percent of poverty. And so that will be more money that the Federal taxpayers will be paying, also eventually probably some additional contribution from the States. The States are hard

pressed, as you know. Medicaid is a big cost driver for them. And we need to find ways to relieve that burden from them and also relieve the burden on the Federal taxpayers. If we can come up with \$700 million in Medicare in 1 year from three States, there has to be money out there to recover from Medicaid.

When I think of improper payments, I think of it in three steps. The first is to identify the improper payments and have reporting occur, identify and report. The second is to take steps to reduce the incidence of improper payments. And the third is to recover to the extent that we can. So it is actually four: Identify, report, reduce, and recover.

We appreciate the work that has been done. It was not that many years ago we were, frankly, doing a lousy job identifying and reporting. I think we are doing a much better job of identifying improper payments, although not all agencies are. But we have plenty of work to do. We are delighted that this is a priority for you, and we hope that the legislation that we are working on will assist not just OMB, not just the Federal agencies, but really assist the taxpayers.

Let us talk a little bit about what I call the stimulus package, but some other people call it the American Recovery and Reinvestment Act. I know you have been spending a fair amount of your time in recent months helping the Administration to implement the American Recovery and Reinvestment Act. As I mentioned in my opening statement, at least some of the improper payment problems we see in everyday Federal programs have popped up again as we try to get recovery funds out the door, and that is not a complete surprise.

How effective do you think we have been in avoiding improper payments in the Recovery Act programs? And if confirmed, what do you plan to do to make certain that the remaining Recovery Act funds, which would be over half of them, are used for job creation and activities that will grow the economy rather than adding to agencies' improper payment estimates?

Mr. WERFEL. Senator, the Recovery Act, I would like to say, has many tensions in it, and one of the more critical tensions is the need to get money out to State and local economies so it can start having its stimulative effect and to get that money out quickly. But at the same time, we all have an important interest and duty to make sure that money is spent wisely and appropriately. And often we need to take important steps before the money goes out to make sure that the funds that we are sending are the right amount, going to the right people, and for the right purpose, and that can take time.

So from the beginning of this process, going back to the day after the law was enacted on February 18, 2009, OMB issued guidance to the agencies that tried to find the right equilibrium between this tension of getting the money out quickly and being diligent in making sure the money was paid out correctly.

One of the things we did to try to achieve that balance was have every agency initiate a risk management process where they were looking for what are the potential sources of error and mistakes that could be made. And we worked with them to identify certain symptoms or issues that could be at play.

So, for example, if a program was being funded at 500 or 600 percent more than it had previously as a result of the Recovery Act, more money going out into a standard channel could create risks of mispayments because the capacity at the organization might not have been built up yet to do all those thorough reviews. So we asked them, since there is a risk, can you put in a risk mitigation plan to make sure that you are moving and realigning resources? Do not assume that if you had five people working to review prepayments of a \$100 million program, those same five people can do the job of a \$600 million program.

That was a very critical step that we took, and you asked me what progress has been made. Right now the best we understand is evaluating the steps agencies have taken to do all those prepayment controls and those activities in an accelerated way. And what we are seeing from the agencies is those agencies have taken their risk management responsibilities very seriously. The agencies have risk management plans in place. They are not collecting dust on a shelf. They are being implemented and initiated.

We recently went out to the agencies to ask them about their risk management plans, and we got a very enthusiastic response in terms of that process itself and how it is working.

The question of how we are doing I think is something about which, if confirmed, I will come back and talk to you when we start auditing these payments out in the field and figuring out what our error rates are. I know there are some early audits already going on. I am not aware of the full results of those audits, but they probably will be coming in the near future.

I think it is a very good sign that we are aggressively out there already auditing and looking for improper payments within months after the Recovery Act was passed. So that is a sign of progress. But once we figure out what the level of error is, what is going on in the field, and why these errors are being made, the most critical thing we can do is start changing our approaches around why these errors are occurring, modifying our risk management plans, and doing something that was in my written responses that I think is really critically important to manage that tension that I described, and that is, communicating early and often with the auditors about what is going on.

I think a big shame would be if an auditor goes out to the field and audits a payment and says, "Wow, I found a mistake, and this seems to be one that could be systemic, but I will wait 6 weeks before my final audit report is due before letting the agency know"—which is something that typically happens in government—we have to end that practice. We have to be in a place where, as soon as the auditor sees a problem, they are communicating earlier and collaboratively with the financial managers to make those changes. And that is one of the things that we are doing in our guidance, which is facilitating and encouraging these types of early interventions. And I am thankful that Earl Devaney at the Recovery Board, who is leading the Inspectors General on this effort, has really emphasized that in all of his interactions with the audit community as well.

It is time to roll up our sleeves and make sure we are getting the information as soon as possible.

Senator CARPER. Good. There is actually a corollary with identifying the mistakes in the area of health care. Mistakes are made every day. Even while we are having this hearing, mistakes are being made in hospitals. Sometimes they cause serious injuries. Sometimes they take someone's life. And, historically, there has not been a really good admission that someone has made a mistake because of maybe concerns about malpractice suits or there is just a reluctance, maybe it is an embarrassment. But health care providers—doctors, hospitals, nurses—are beginning to come forward and say, "Look, when we make a mistake, let us talk about it. Let us not keep it to ourselves. Let us learn from that mistake." Was it Richard Nixon who used to say that the only people who do not make mistakes are people who do not do anything? And so we all make mistakes, but the important thing is for us to, as you suggest, act on those mistakes, make sure that we do not continue to make the same mistake.

Before I turn to property management for a few minutes, let me just say again I am encouraged that most agencies are doing a much better job now identifying and reporting improper payments. And some agencies are doing a good job reducing those improper payments. We have plenty of work to do in all three of those areas, but I especially am anxious to see us really hit the road running on recovering money as much as we can.

During the last 8 years in this country, we literally incurred as much new debt as we did in, I think, the first 208 years of our Nation's history. That is pretty staggering. In 8 years we ran up as much new debt as we did in the first 208 years of our Nation's history. This year, we are on track to run up the biggest single-year deficit ever. It will be over \$1 trillion. And we are told, probably by OMB or CBO, or both, that if we leave spending and taxing revenues on autopilot, we will rack up about maybe \$9 trillion worth of debt over the next decade, none of which is acceptable. It would not leave much of a future for your kids or for mine or for any of our children. So that is not acceptable.

The work that we are doing here, this is real money. This is real money that we are talking about, not spending or not wasting. And it is just important that we get it right. I am pleased to hear about the enthusiasm that the folks in the field have as they are looking for improper payments that flow out of the stimulus package. That is great news.

Another issue that we spent some time together on is property management, and as I have noted, we have made strides in recent years with respect to, I think, identifying and categorizing the assets that we, as a Nation, own. As a result of that work, we now know that there are literally tens of thousands of buildings and other structures across our country that are owned by Federal agencies and that are either no longer needed or, in some cases, are just underutilized.

Let me just ask you to dwell on this with us for a few minutes. What do you think is the root of the problem? What steps do you hope that OMB and the Federal agencies and those of us here in Congress can take to address it? And I would say included in that list are the Inspectors General (IGs). What can they do? What can this team do together to address this concern?

Mr. WERFEL. I want to start with mentioning that where we are today with real property is a place where we have a very strong foundation of tools and inventory and information to understand what is going on and to understand what those root causes of the problems are. We have, as you mentioned in your opening statement, a comprehensive inventory of the 1.2 million separate constructed assets that the Federal Government owns.

Senator CARPER. Would you just give us a broad array of examples of the constructed assets?

Mr. WERFEL. The general categories that we place these assets in are administrative buildings, warehouses, labs, and hospitals. There are also unique assets that we have, like launch pads, and the Department of Energy owns many sites that are environmental cleanup-related and other types of research that is being done.

And then we own a lot of land and property as well—roads and, the Federal Aviation Administration (FAA) owns a lot of antennas and different types of assets that are out there. So it is not 1.2 million different buildings, but I think the important thing is just start focusing on where there are communities of assets for opportunity, like administrative buildings and warehouses, labs, hospitals, housing, etc.

When we collected this information—we did it since 2004—we did, I think, a very smart thing in collecting not just where the buildings are and what they are used for, but we also asked the Federal agencies to describe whether those buildings are mission critical or not, what their utilization rate is, what their condition is, and what their cost is. And by doing that, we have been able to tier our assets between those that are not mission critical, underutilized, operating at an unacceptably high cost, and are in poor condition. And we also know on the other side of that spectrum where the assets are mission critical, fully utilized, etc.

And so for the first time, we were able to do data culs and figure out where are the assets that need our attention. And as you mentioned, we have 20,000 assets through this process that have been currently excessed, but 65,000 additional assets that are underutilized but not excess. And that allows us to bring the agencies before us and ask: Why are your underutilized assets not yet excessed? So we can push them on that.

Why are we in this condition? Why do we have 20,000 excess assets that have been sitting on our books? And why do we have 65,000 underutilized assets that have not yet been excessed?

I think there are two key reasons for it. The first goes back to our earlier discussion on improper payments with respect to incentives and making sure that the Federal agencies involved and the facility managers around government have an incentive to report something as excess and then try to get rid of it, that we break a culture of, well, if I have it, why would I give it up, and that we break a culture of not thinking progressively and proactively about, I have an asset, it is functioning, but if I think about it differently, maybe it really is excess because maybe I do not need two buildings 10 miles from each other, both half-filled; maybe there could be consolidation efforts.

We have an army of Federal facility managers out there, and we need to incentivize them and their leaders to derive benefit from

going through this process of identifying their excess and getting rid of it.

The other root cause of why we are where we are is that we are operating under a framework from a law that was enacted in 1949 for how we get rid of our assets, and it is a very bureaucratic process. A lot of steps need to be taken. It takes a long time, and that does two things. First of all, it keeps things in the pipeline longer than necessary, but it also serves as a disincentive to those very same facility managers because not only do they have to now give up square footage that they currently have within their domain, but now they have to go through a very long and winding process to get rid of it. And the incentive structures just are not aligned.

I think what is appropriate remediation of those two situations is to structure the real property environment such that managers are getting some financial incentive for disposing of their assets and also seeing if we can streamline the disposition process so that we can move these properties more quickly.

Senator CARPER. When you say managers should receive some kind of financial incentive, would they be managers, agencies, or both?

Mr. WERFEL. Yes, it is really the agency as a whole. When I have historically worked with the senior real property officers at agencies, they present this frustration that they do not have the funds or the resources that they need to invest in their mission-critical assets and get them into a place where they are functioning better so that they are serving the employees so they can do their mission, but also functioning better so their carbon footprint, for example, is smaller.

There is an obvious connection that can be made there, and that is why we call it right-sizing the Federal inventory. If you can get rid of the assets that you do not need and get proceeds or derive economic benefit from that disposition, it enables you to make capital investments in those assets that you do retain. Overall, it has a good impact on budgetary pressure because you do not need as much money to invest in our Federal infrastructure, and you are getting a better Federal infrastructure.

One of the sayings we have in the real property community is, "You can spend \$7,000 today to repair the roof or \$7 million 3 years from now to replace it." And what we need to do is make sure that we are getting those funds at the right time and at the right place so we are avoiding these types of bad decisions where we are allowing the roofs to get to that level of disrepair.

Senator CARPER. Can you give us an example of an agency or two within the Federal Government where they actually have aligned the incentives in an appropriate way and they are able to serve as a model maybe for other agencies? Any come to mind?

Mr. WERFEL. Yes, there are several agencies that have their own authority to retain proceeds and reinvest them. The U.S. Forest Service comes to mind, as well as the U.S. Department of Veterans Affairs (VA) is another.

I will emphasize the VA's program in particular, and I do not mean to indicate that it is perfect, but the benefit, I think, of the VA's program—I know the acronym is CARES, the Capital Asset Realignment for Enhanced Services. It is a dedicated initiative

around thinking about hospital construction. In a very general sense, I have heard it argued that the veterans population is tending to move from the Northeast United States to the Southwest United States, which leaves us in a situation where you have overcapacity of hospitals in the Northeast and undercapacity in the Southwest.

And so they have built a program around thinking about how you right-size and invest smartly, and with some of the tools that they have through the CARES program to do it, there have been some successes.

Now, there have also been issues, and that is where OMB can come in and say, are you sure you need new hospital square footage in this area? That is one of the processes of working effectively when you are thinking about it strategically and when you have a second set of eyes coming in and making sure and saying you have these new authorities, but let us not overbuild, let us make sure that we acquire new square footage strategically and smartly.

Senator CARPER. Have you all given some thought and attention to another related concern, and that is with respect to agencies making decisions to lease property as opposed to purchasing it? In the short term, that appears to be the financially smart thing to do, but over the life of the property, it turns out not to be so wise.

Mr. WERFEL. And that is something that needs to be a part of a real property improvement initiative going forward. We have to do a better job of isolating where poor lease decisions arise, as I think I said, before the parameters or the ingredients of a bad leasing decision, and make sure that we are again managing risks such that we are not entering into those.

Some leasing decisions are smart. It depends on the circumstances. But, for sure, if you are about to enter a very large facility for many years and it is uniquely suited to your needs, then those are the kinds of situations where a lease makes little sense because you know you are going in and you know it is a unique building, and we should be owning those buildings if we are going to be there for the long term and not entering into non-economical lease situations.

But if we need flex space, and we are over capacity, let us say, at "Main Justice" downtown and need more space to put more people, and it is thought to be a temporary fix, that is where a lease makes sense. So it is figuring that out and doing a better job as a Federal Government.

Senator CARPER. All right. A different question, a different area. As you know, progress has been made in recent years in improving the quality and, I think, the timeliness of agencies' financial statements. Plenty of work remains to be done in this area, however, including getting an opinion on the Federal Government's consolidated financial statements.

Can you take just a few minutes to talk about the progress that has been made in agency financial reporting over the years and the benefits those improvements have brought, first of all, to individual agencies? And after that, could you give us some insight into your plans in this particular area, if confirmed?

Mr. WERFEL. Absolutely, and this is clearly in the sweet spot of the Office of Federal Financial Management and our core responsibilities under the Chief Financial Officers Act of 1990.

Most recently, we had, I think, a very important strategic push in financial management to do a better job on our financial statements. I think there were a lot of issues at play that brought that on, but, in particular, the Enron situation and the passage of the Sarbanes-Oxley Act really energized the Federal community around thinking more aggressively about getting our financial statements in order. And since that time, since Sarbanes-Oxley was passed and OMB issued OMB Circular A-123, which is the government's version of Sarbanes-Oxley, I have not done a statistical study of it, but there has been a significant improvement across government. We went from something like 62 auditor-identified material weaknesses down to 32 in a span of 3 or 4 years, and that was in large measure because there was more accountability at the agencies for achieving these efforts and more integration has started to occur, and that is something that A-123 pushes; that it is not just a Chief Financial Officer (CFO) responsibility to fix your fundamental financial management challenges; it is the responsibility of program managers and procurement officers. And so what A-123 does is it establishes these senior teams from different domain areas to go out and be accountable for and tackle financial management challenges together.

We have 21 clean opinions now out of 24 CFO Act agencies, and as I mentioned, we have seen steep declines in material weaknesses.

Another important point—and this is more to just say we have a foundation and we have proven we can do it—is we have accelerated financial statement publication from 5 months after the end of the fiscal year to 45 days. And that had so many benefits to it, but in particular, it forced agencies to be planning much earlier in the year, rather than waiting until September or October, the end of the fiscal year, to do everything and close down the books. If you are going to do it in 45 days, you need to be working throughout the year. And what happened is agencies started building disciplines around that, and that started to improve the standardization of approaches.

With financial statement audits, it is always variance that gets you in trouble. When things look different every time you do it, that is a bad thing. It should always look the same every time you do it. These are basic financial transactions, and there needs to be consistency and coherence.

What is interesting is even though we have 21 agencies who all have various complex challenges—they all face the same issues, they all have human capital issues of trying to make sure they get the right people with strong accounting skills, strong analytical skills into their shops to help tackle these problems—we still have three agencies—the Department of Homeland Security (DHS), the National Aeronautics and Space Administration (NASA), and the Department of Defense (DOD)—that have yet to cross the finish line here. They are each making progress, but not the type of progress that I think is acceptable at this point, and we should be—

Senator CARPER. How do we better ensure that they make the kind of progress that would be acceptable?

Mr. WERFEL. I think one of the things we have to do with each of those agencies is relook at their corrective action plans, and we have to try to find, I think, a moment of truth for these agencies. November 15, which is the day the financial statements are due, is a nerve-racking day for every agency in government. This is the day they find out whether they passed or they did not pass, and it is a rallying cry for those organizations. And what I have noticed with NASA, Homeland Security, and the Defense Department is sometimes they do not have that same urgency. I do not get the frantic phone calls in October about what is going on from the CFO in those agencies the way I do from the others. And that frantic phone call is important. It tells me that they are looking at the problems and doing everything they can to fix it.

And so I have talked to each of those agencies in my role as Deputy Controller about building these moments of truth. Even though they are not ready yet to produce that financial statement on November 15, can they have those financial managers feel like something has to happen that is positive, that the Secretary cares about, that the Administration cares about, and that Congress cares about to make sure that they are giving me those frantic phone calls that let me know things are happening.

Senator CARPER. Well, one of the agencies you just mentioned—and I would like to drill down on this one just a little bit—is the Department of Defense, which has a lot going on these days. I think we will all readily acknowledge that. But I think we are going to have a tough time getting the government's overall books in order as long as the Department of Defense is an outlier in this.

What do you think has been holding DOD back? What can, first of all, the Department's leadership do to make improvements? And what could you do in your new position, if confirmed, to help them?

Mr. WERFEL. The Defense Department is the longest pole in the tent here for us to get a clean opinion on the consolidated financial statements, so we really do need to tackle this problem if we are going to be successful on the consolidated financial statements.

What do I think needs to happen at the Defense Department? I have worked very closely with DOD over the past several years trying to analyze and understand the challenge, which is getting the Defense Department a clean opinion. And it is a massive challenge. It is the largest organization in the world. It is the most complex organization in the world by many different parameters.

I think if I can boil it down, I would boil it down this way: The Defense Department will get a clean audit opinion when the key program managers throughout the Defense Department believe that it is going to help them achieve their mission to get a clean audit opinion. And so what I have noticed is a practice that we need to get away from at the Defense Department: If you have your clean audit action plan and you say, step one, let us do better on our depreciation schedules on historical assets, let us really clean those up, and if the people sitting across from you who are the people implementing the programs of the Defense Department think, you do that but that does not help me, it helps you get a clean

opinion, but it does not help me do my job—then if that is your starting-off point, you are already behind in the race.

But if you say, we have 20 different things we need to fix, and I am going to start by fixing the five things that are most critical to you as a manager, and if we do not fix these things together, then you cannot do your job effectively, that is where I think the Defense Department needs to be starting. It needs to be working with their program managers to say, out of the suite of things that we need to do, where are the things that are going to be most critically helpful to you?

Just to give you an example of where I think they should be starting, it is with their cash and their money on hand. The fancy term for it is “fund balance with Treasury.” They have a material weakness with fund balance with Treasury, which means that they do not know how much money they have on hand, or cannot reconcile that, to meet emerging priorities. And I have talked extensively with the Office of the Chief Financial Officer over there in recent months, and I have said you can talk to those program managers and say without knowing what cash you have on hand, you are compromising your ability to serve your mission most effectively. That can inspire change and improvement, and that is the guiding principle, if confirmed, that I would have with the Defense Department, which is working very closely with them to be prioritizing differently around their initiatives to make sure that the things that they are doing are resonating with the larger Defense Department.

That is going to take some communication with other folks in the Defense Department and real understanding of the nature of how these financial management improvements integrate into the business of the Defense Department.

That is the type of momentum kick-start that I think is needed to start pushing this process forward because right now progress has been made, but it has been incremental. It has not been substantive, from my vantage point, and we need to start making substantive progress if we are going to tackle this issue.

Senator CARPER. Good. Well, I want you to tackle it, and I thank you. Obviously, you have given it a good deal of thought, and let us turn that thought into action.

I have two more questions I want to ask, and then we will wrap it up. As I understand it, the main part of the job of controller is to ensure that the agencies follow existing financial management policies in implementing the President’s financial management improvement priorities across government.

Considering the small size of the staff at the Office of Federal Financial Management and the various longstanding financial management problems that agencies face, this is, I would guess, a daunting challenge. What challenges has the office faced in the past? And how would you address them in the future? Is there any particular philosophy that you plan to follow in dealing with agencies?

Mr. WERFEL. Absolutely. I think we have evolved as an organization—the Office of Federal Financial Management (OFFM) was created by the CFO Act in 1990—in a way that recognized early on in the process that it was a relatively small size staff given the

enormity of the job, all the financial statements in government and all the fraud and the error and the waste, to try to implement policies to improve. And because of this reality of the size of the staff, practices have emerged in terms of collaborating with the larger community, in particular through the CFO Council.

I would like to say that when OFFM writes a policy that is going to impact the government as a whole, we do not write it with the door closed and the windows shut. We write it by bringing the agencies in through task groups or committees of the CFO Council. So often I feel like sometimes I am not just managing the 17 people who work in OFFM; I am managing, at any given time, 20 or 25 working groups that have spawned up around government to deal with these different issues.

You can look at it through different lenses and say, if you had more resources at the Office of Federal Financial Management, what else could you do? The lens through which I look at it is this practice of collaboration and creating working groups has really worked effectively. When I think back to the way we accelerated financial statements to 45 days and the way we did Sarbanes-Oxley for government, that was completely collaborative across Federal agencies. And in many ways, those folks out in the agencies doing the work were almost like OMB employees because they were shifting between their government-wide hat and their agency hat very frequently and saying this is what we need to do as a government versus here is what I need to do back at my own agency.

My philosophy going forward will be to improve on that even more. It is a partnership. If confirmed, I plan to lead the CFO Council by committee with other key CFO leaders throughout government so that we are a united front toward the things we want to get done.

I think one of the more critical philosophies that I want to embrace to build on the collaboration that we have is best practice sharing. I think that one of the areas that I want to be a focal point of the CFO Council is the premise that there are a lot of amazing things going on in government, that we have CFOs, as I mentioned in my statement, who have tackled these problems and fixed them; and we have CFOs working with others who have gone beyond just financial statements and have taken an approach to say what is the business of my agency and how do I improve that business, how do I cut costs, how do I prevent fraud and error before it occurs. They are utilizing techniques brought over from the private sector, whether it is Lean Six Sigma or others, and they are showing great results.

And I think, as Controller, my job would be to close the education gap and make sure that everybody is aware of the critical successes that are going around government so that they know about the tools that they may need to do similar things. And that is going to be an important philosophy going forward.

Senator CARPER. Good. Well, I like that philosophy.

DOD and a handful of other major agencies have, as we discussed, serious financial management problems that they need to address. Others are doing a better job.

Is there anything you want to add about how you would take what works and translate it to helping those agencies—DOD is cer-

tainly one of those—to apply the lessons learned to their specific problem? I know you have spoken to this already. Is there anything else you want to add?

Mr. WERFEL. I would just amplify my further response by saying that I think one of the things that we have to overcome in particular in financial management is the perspective that agencies sometimes share with us, which is that my problems are unique, what worked at that agency will not work at my agency. And from my experience and my perspective, that is less often the reality, in particular with financial management. Accounts payable should be accounts payable wherever you do it. Accounts receivable, the same. And although agency programs are complex and different, the challenges often come back to common themes of not having good standard practices, not documenting your procedures appropriately, and not aligning your CFO organization appropriately.

I will just finish by saying that I think benchmarking is such a critical element of these activities. One of the things that I would want to do as Controller is make sure that each CFO who is confirmed and comes in has an understanding of how the other organizations of government are aligned and where those alignments are having success. I want them to be able to say: We have 17 people doing this type of work at the Department of Energy, and the Department of Commerce has 12 people. Why can they do it with less? And that would allow some realignment of resources to other priorities.

Those types of benchmarking and communication has not happened to the degree that I think it can, and that is an area that I think we can emphasize and where we can start breeding more success.

Senator CARPER. Well, those are my questions. Is there anything else that you would just like to offer before we wrap it up?

Mr. WERFEL. Only that it has been a very distinct honor to have worked with you and your team through the years, and the opportunity, as I said in my opening statement, that the new leadership at OMB has provided me is just extremely humbling. I am extremely energized and excited about the challenges that we have and the tools that we have to take on these challenges. And I feel a sense of optimism. In particular, the Recovery Act is providing lessons learned and new partnerships. I would like to say that I have worked more with State and local governments in the last 5 months than I did in the previous 5 years combined. And similarly with GAO, we are sitting in meetings with GAO right now and hammering out what the solutions are rather than us doing the solution and then 3 months later GAO telling us how they would have done it differently.

These types of developments and financial management are extremely exciting, a lot of them brought on by the urgency of the Recovery Act and the challenge. And I think these lessons learned will serve us very well and take us to new levels.

Senator CARPER. Good. I think you mentioned you have 17 people within your own office. But there are a lot of working groups that are out there that you are spawning and sort of overseeing.

We are relatively small. We share a lot of the same interests in making sure that the taxpayer dollars that we are spending we are

spending prudently, wisely, and in a cost-effective way. Given the kind of budgetary challenges that we face, it is imperative that we do that.

Jeff Zients just had to leave, but one of the things that he and I discussed when he was going through the confirmation process a month or two ago was the need for us to collaborate, not just within the Federal Government, not just within OMB and with other Federal agencies—that is important—but also with GAO and, as you suggest, also, I think, with the IGs and certainly with this Committee and our sister committees in the House and in the Senate who really focus on trying to spend taxpayers' money cost effectively.

I very much appreciate the enthusiasm that you bring to this job. I also appreciate the experience you bring to this job. Occasionally, we have folks nominated by any administration, by any President, who may be very bright people; they may ultimately turn out to do a good job in the position for which they are nominated. But they have to go through a period of training and get their sea legs before they can actually make much of a contribution. I think we are fortunate with you in that given your experience, enthusiasm, and intellect, we will get great results in a hurry. In fact, we already are getting those results.

Again, we thank you for what you have done today in serving this country. We thank you for your willingness to continue that service in a new, expanded way. We look forward to working with you, and again, it was a real pleasure meeting your parents, your big brother, your wife and children, and a number of your colleagues.

I just want to say, as a father of two children of my own, I remember when our boys were the age of Sean and Molly, and I think they were pretty well-behaved kids, but your children win the prize today. They have just been extraordinary and should make you and Beth, I think, very proud.

With that having been said, the hearing record will be open until 12 noon tomorrow for the submission of additional questions, and the hearing is now adjourned. Thank you.

[Whereupon, at 11:06 a.m., the Committee was adjourned.]

APPENDIX

Statement of Senator Thomas R. Carper

Committee on Homeland Security and Governmental Affairs

**Nomination Hearing for Daniel I. Werfel to be Controller, Office of Federal
Financial Management, Office of Management and Budget**

September 16, 2009

Opening Statement

The committee will come to order.

Today, we'll be considering the nomination of Daniel Werfel to be Controller at the Office of Management and Budget's Office of Federal Financial Management.

Mr. Werfel is no stranger to this committee or to the subcommittee that I chair, the Subcommittee on Federal Financial Management. During his time as Deputy Controller and Acting Controller, my staff and I have worked closely with him and his team on a number of the most pressing financial management challenges facing the federal government.

I'm pleased that the President has sent us such a qualified candidate for this position. As I'm sure Mr. Werfel will point out in his opening statement, he has extensive experience within the Office of Federal Financial Management. He has also taken the lead on a number of key issues, including some of the tough work related to the implementation of the American Recovery and Reinvestment Act. So he knows very well the tough work that lies ahead should he be confirmed. I'll touch on a few of them.

First, there is the issue of improper payments.

An improper payment occurs when federal funds go to the wrong recipient, when a recipient receives the incorrect amount of funds, when funds are used in an improper manner, or when documentation is not available to explain why a payment was made in the first place.

In fiscal year 2008 – the most recent year for which data are available – agencies made an estimated \$72 billion in improper payments, most of them overpayments. The actual amount of improper payments made by federal agencies is actually probably much higher. The \$72 billion total reported does not even include any estimates from the Medicare Prescription Drug Program or several other high-risk programs at the Department of Homeland Security and elsewhere.

This is unacceptable. The kind of waste and mismanagement represented by these improper payments estimates we see each year undermines taxpayers' faith in government. Unfortunately, despite the progress that has been made over the years in highlighting improper payments and reducing error rates in some instances, agencies continue to make avoidable mistakes and, as a result, waste billions of dollars that could have been put to better use.

I'm told that the Social Security Administration – an agency that actually makes relatively few improper payments – sent thousands of \$250 checks to ineligible recipients

after the enactment of the Recovery Act. I'm certain that very little of that money will help us create jobs or get our economy going again.

We need to get our arms around this problem. We need to help agencies improve transparency in this area, to prevent mistakes before they happen, and also to more aggressively recover improper payments that are made. The Improper Payments Elimination and Recovery Act – legislation I introduced this summer with a number of my colleagues and which was reported out of committee in July – would help in all three of these areas. I know that you are familiar with that bill, Mr. Werfel, and am pleased to hear from my staff that you plan to make improper payments a priority of yours if confirmed.

The second area I want to touch on is property management. Not too long ago, it would've been hard for us to even know how many buildings or other structures federal agencies owned. Tremendous progress has been made in recent years, however, to identify federal assets and learn more about their condition. What we've learned is that there are a great number of assets – some 20,000, I'm told – that are actually classified as “excess.” This means that we no longer need them but are still paying year in and year out to maintain and secure them. In addition, tens of thousands more assets are underutilized, meaning we aren't getting all we could get out of them.

This seems like a relatively easy problem to address but, unfortunately, the property disposal process laid out in current law is costly and takes a significant amount of time. In addition, agencies looking to sell a piece of property are not even permitted to retain sale proceeds, even when preparing an asset for sale might be fairly costly.

There is probably much that agencies can do now under the current rules to improve property management and offload assets they no longer need. But I look forward to working with you if you're confirmed, Mr. Werfel, to make the common-sense changes necessary to build on the progress that has been made to date in this area.

Finally, I'd like to touch on federal financial reporting.

Each year, the major federal agencies issue audited financial statements. These documents don't usually receive much attention from the press or the public at large but those of us with responsibility for paying attention to them have noticed that they've improved in quality and timeliness over time, particularly in recent years. You and your team at OMB deserve some credit for that, Mr. Werfel. But one major challenge ahead of you if confirmed is getting an opinion on the federal government's consolidated financial statements.

Over the years, GAO has never been able to render on this statement. This essentially means that our books are such a mess that GAO's audit team just can't make sense of them at all. That is troubling from a transparency perspective. And it also shows that we have a lot of work to do in our efforts to professionalize financial management in the federal government. Any private sector company with annual financial statement audit results like the federal government's would probably not be in business any longer.

My thanks to you, Mr. Werfel for the work you've done in all of these areas over the years and for your willingness to continue that work.

Mr. Werfel has filed responses to a biographical and financial questionnaire. He has also answered pre-hearing questions submitted by the committee. In addition, his financial statements have been reviewed by the Office of Government Ethics. Without objection, this information will be made part of the hearing record. The financial data, however, will remain on file and available for public inspection in the committee offices.

Statement of Daniel I. Werfel
Nominee to Serve As
Controller, Office of Federal Financial Management
Office of Management and Budget

Committee on Homeland Security and Governmental Affairs
United States Senate
September 16, 2009

Chairman Carper, Ranking Member McCain, Members of the Committee:

I am honored and humbled by the opportunity to come before you as President Obama's nominee for Controller of the Office of Federal Financial Management (OFFM) within the Office of Management and Budget (OMB). I appreciate the support of OMB Director, Peter Orszag and Deputy Director, Robert Nabors and Deputy Director for Management Jeff Zients. I have had the distinct privilege of working with these three great leaders over the past several months. Through their hard work, unyielding demand for results, and belief in the importance of strong analytics to support the right public policies, they have inspired me and others at OMB to reach deeper within ourselves to help deliver a higher performing government. I am grateful to each of them for supporting my nomination and thus demonstrating their faith in me as a leader and a public servant.

I am very grateful to have my family with me this morning, supporting me today as they have through every step of my life. I would like to introduce my wife of 12 years, Beth, my two children, Sean and Molly, my parents, Fred and Barbara, and my brother, Steven. I would also like to recognize members of my family not here today – my sister, Lori and her family as well as my brother Steven's wife and children, who I know are all in New York right now cheering me on. Also, my mother-in-law, Elaine, and father-in-law, Dave, doing the same in Ohio. Throughout the years, I have relied on my family for strength and I thank them for their continued support during this process.

For more than 12 years, I have had the honor of working as a public servant for the United States government. Over this time, I developed both a penchant and a sustained passion for improving financial management practices across government. Fueling this passion is my firm belief that one of the government's most critical responsibilities is to serve as an effective steward of taxpayer dollars and that this can only be met if the Federal financial community is doing its part:

- Tracking and accounting for taxpayer funds through the complex array of transactions that underlie Federal programs;
- Initiating internal controls that mitigate the risk of fraud, error, and waste;
- Publicly reporting timely and reliable information about the government's finances; and
- Strategically integrating financial information into decision-making to improve the overall effectiveness and efficiency of government programs.

For the past five years, I have played a leadership role within OMB and in the broader financial management community advancing these efforts. I have acquired a strong foundation of subject matter expertise on virtually every aspect of Federal financial management, built strong

relationships with leaders and other key people in the community, and gained important perspectives on the strengths, weaknesses, challenges, and opportunities associated with the ongoing efforts to improve financial management across government.

This experience has led me to the conclusion that, although important progress is being made, a significant amount of work remains to be done until we achieve the level of financial management performance that the taxpayers rightfully demand. In terms of progress, a strong foundation of positive results has been laid in the past several years: payment errors in previously measured programs are declining; agencies are shedding unneeded assets; audit results are improving; and more financial information is publicly available. Yet, in each of these areas, we are falling short of acceptable levels of performance. At too many Federal agencies, persistent weaknesses in basic financial management practices lead to unreliable reporting, payment errors, and other forms of government waste. Of note, the amount of remaining improper payments on the government's books is staggering and must be corrected.

Closing these gaps will require Federal agencies to correct ongoing and persistent weaknesses in basic and fundamental financial management practices. Moreover, the sweeping challenges we face in the government today require our financial managers to move beyond the basics of accounting and reporting. As noted in the annual Financial Report of the United States Government, growing costs associated with entitlement programs will place significant constraints on Federal spending in the coming years. Also, new programs addressing economic recovery such as the American Recovery and Reinvestment Act (ARRA) and the Troubled Asset Relief Program, demand more detailed and timely financial reporting and more sophisticated risk management approaches to be successful. These challenges will require financial management leaders across government to use financial management strategically to improve the value of government services, control the cost of government operations, prevent fraud, waste, and error before it occurs, and provide the public with unprecedented transparency into where and how Federal dollars are spent and what taxpayers are getting for their money.

Fortunately, the tools to achieve these objectives are either at our disposal or are otherwise obtainable. We have detailed inventories of improper payments and unneeded real estate that both advance public transparency of where we are falling short and provide rich data sources to drive analytics to support smarter priority setting and decision-making. We have a growing number of agencies and professional staff who have successfully overcome financial management challenges and who can provide the roadmap to those agencies yet to overcome similar challenges. We have technologies and processes emerging out of the private sector that can enable lower risk and cost solutions for supporting transaction processing and reporting. And from Congress and the public, we have a growing demand for reliable and timely financial information and a growing frustration with spending improprieties that is serving as a catalyst for action, improvement, and reform in financial management shops across government.

If confirmed, I will work with the Congress, OMB leaders, the Chief Financial Officers Council, the Council of Inspectors General on Integrity and Efficiency, the Government Accountability Office, our partners in State and local governments, and other key stakeholders to leverage these tools to forge new and unprecedented results in financial management. Success will be measured along the following key areas and priorities:

- Eliminating inefficient government spending, including payment errors and ongoing investments in unneeded real property;
- Rightsizing the cost of financial management operations across government, including controlling the costs of modernizing financial systems;
- Driving improvements in grants management, such as simplifying and modernizing the grant application process, standardizing reporting requirements, and achieving smarter investments in technologies that support grants management activities;
- Effectively implementing the transparency requirements of the Federal Funding Accountability and Transparency Act and ARRA by making financial information available publicly as soon as it is available; and
- Remediating persistent weaknesses in basic financial management practices as measured by improved results on financial statement audits at both the agency and government-wide level.

I am both humbled and energized by the opportunity to play a leadership role in these efforts. For as long as I can remember, I have felt the call for public service. Since arriving in the Federal government, I have been blessed with supervisors, colleagues, staff and other peers and mentors that have helped me grow as a professional and as a leader. In particular, the team of civil servant professionals at OFFM have been a family to me for more than five years, and together we have formed a team that I believe to be as productive and hardworking as any in government. I am thrilled for the opportunity to lead OFFM as we take on the new and growing challenges facing financial management. Working closely with Peter Orszag, Robert Nabors, Jeff Zients and the leadership team they are assembling, I am confident we can advance financial management to a new and sustainable level of excellence that helps enable the government to meet that most critical responsibility – serving as an effective steward of taxpayer dollars.

Mr. Chairman and Members of the Committee, I would be pleased to answer any questions you may have.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. **Name:** Daniel Ivan Werfel
2. **Position to which nominated:** Controller, Office of Federal Financial Management, Office of Management and Budget
3. **Date of nomination:** August 3, 2009
4. **Address:** Home: REDACTED
Office: 725 17th Street, NW, Washington, D.C. 20503
5. **Date and place of birth:** April 24, 1971; Plainview, New York
6. **Marital status:** Married. Wife is Beth Anne Werfel. Maiden name is Pavkov.
7. **Names and ages of children:** REDACTED
8. **Education:**

University of North Carolina at Chapel Hill
August 1994 to May 1997
Juris Doctor, earned May 1997

Duke University
August 1993 to May 1994
Master of Arts in Public Policy, earned May 1997

Cornell University
August 1990 to May 1993
Bachelor of Science in Industrial and Labor Relations, earned May 1993

State University of New York at Farmingdale
June 1991 to July 1991

New York Institute of Technology
September 1989 to May 1990

Plainview JFK High School, New York
September 1985 to June 1989
High School Diploma, earned June 1989

9. **Employment record:** List all jobs held since college, and any relevant or significant jobs held prior to that time, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)

Employer: Office of Management and Budget
 Location: Washington, DC
 Title: Deputy Controller
 Dates: March 2006 to present

Employer: Office of Management and Budget
 Location: Washington, DC
 Title: Acting and Deputy Controller
 Dates: September 1, 2007 to March 31, 2008

Employer: Office of Management and Budget
 Location: Washington, DC
 Title: Chief, Financial Integrity and Analysis Branch
 Dates: February 2004 to March 2006

Employer: Office of Management and Budget
 Location: Washington, DC
 Title: Program Examiner, Education Branch
 Dates: April 2002 to February 2004

Employer: U.S. Department of Justice
 Location: Washington, DC
 Title: Trial Attorney, Civil Rights Division
 Dates: June 2000 to April 2002

Employer: Office of Management and Budget
 Location: Washington, DC
 Title: Policy Analyst, Office of Information and Regulatory Affairs
 Dates: August 1997 to June 2000

Employer: University of North Carolina, Institute of Government
 Location: Chapel Hill, North Carolina
 Title: Research Assistant
 Dates: January 1997 to May 1997

Employer: University of North Carolina, Friday Convention Center
 Location: Chapel Hill, North Carolina
 Title: Receptionist
 Dates: April 1997 to June 1997

Employer: Chapel Hill Parks and Recreation
 Location: Chapel Hill, North Carolina
 Title: Umpire
 Dates: April 1997 to June 1997

Employer: Hedrick, Batman, Gardner & Kincheloe
 Location: Charlotte, North Carolina
 Title: Law Clerk
 Dates: May 1996 to August 1996

Employer: New Hanover County District Attorneys Office
 Location: Wilmington, North Carolina
 Title: Legal Intern
 Dates: May 1995 to August 1995

Employer: Durham Public Education Network
 Location: Durham, North Carolina
 Title: Interim Project Coordinator
 Dates: May 1994 to August 1994

Employer: North Carolina Attorney General's Office
 Location: Raleigh, North Carolina
 Title: Research Assistant
 Dates: January 1994 to May 1994

Employer: Duke University Athletic Department
 Location: Durham, North Carolina
 Title: Academic Tutor
 Dates: September 1993 to December 1993

10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with federal, State, or local governments, other than those listed above.

Member, Federal Accounting Standards Advisory Board, May 2006 to present.

11. **Business relationships:** List all positions currently or formerly held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

None.

12. **Memberships:** List all memberships, affiliations, or and offices currently or formerly held in professional, business, fraternal, scholarly, civic, public, charitable or other organizations.

Member, Association of Government Accountants – 2007 - present

Member, North Carolina Bar Association (inactive status) – Membership began in 1997; inactive status as of 1998.

Member, District of Columbia Bar Association (inactive status) – Membership began in 1998; inactive status as of 2002.

13. **Political affiliations and activities:**

- (a) List all offices with a political party which you have held or any public office for which you have been a candidate.

None.

- (b) List all memberships and offices held in and services rendered to any political party or election committee during the last 10 years.

None.

- (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more during the past 5 years.

Donated from my personal checking account:

\$100 to Dan Maffei for Congress, December 2005

Donated from a joint checking account with my wife:

\$50 to the Democratic National Committee, August 2008

\$100 to Obama for President, October 2008

14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

- Recipient of Meritorious Rank Award, 2008
- Member of the Federal Government's Senior Executive Service, 2004 – Present

- Recipient of Association of Government Accountants Special Achievement Award, 2006
- Recipient of Washington D.C. Chapter Association of Government Accountants Award for Excellence, 2006
- OMB Professional Achievement Award, 2002
- Department of Justice Award for Contributions to Americans with Disabilities Act Enforcement, 2001

15. **Published writings:** Provide the Committee with two copies of any books, articles, reports, or other published materials which you have written.

- October 2007, OpEd, Federal Times

See Attachment 1

- February 2008, OpEd, Federal Times

See Attachment 2

- June 2008, Blog, Association of Government Accountants Website

See Attachment 3

16. **Speeches:**

- (d) Provide the Committee with two copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated. Provide copies of any testimony to Congress, or to any other legislative or administrative body.

Congressional Testimony:

- October 25, 2007, before Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Senate Homeland Security and Government Affairs Committee

See Attachment 4

- January 31, 2008, before Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Senate Homeland Security and Government Affairs Committee

See Attachment 5

- April 15, 2008, before Subcommittee on Government Management, Organization, and Procurement, House Committee on Oversight and Government Reform

See Attachment 6

- June 5, 2008, before Subcommittee on Government Management, Organization, and Procurement, House Committee on Oversight and Government Reform

See Attachment 7

- June 26, 2008, before Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Senate Homeland Security and Government Affairs Committee

See Attachment 8

Note: I have not given any formal speeches. I have participated in numerous training conferences related to financial management using slides to enhance the presentation. Attachments 9, 10, and 11 contain a sample of such presentations. A comprehensive list of training conferences and slides can be furnished upon request.

- (e) Provide a list of all speeches and testimony you have delivered in the past 10 years, except for those the text of which you are providing to the Committee. Please provide a short description of the speech or testimony, its date of delivery, and the audience to whom you delivered it.

None, other than those provided in response to 16(a) above.

17. Selection:

- (f) Do you know why you were chosen for this nomination by the President?

I believe that the President nominated me because of my extensive experience and demonstrated success in driving financial management improvements in the Federal government.

- (g) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

I have extensive experience and demonstrated success in all aspects of the position of OMB Controller. I have served as the principal deputy to the OMB Controller since March of 2006. During this period, I have served as the Acting Controller for extended periods of time.

In my role as both Deputy Controller and Acting Controller, I have distinguished myself as an effective leader and trusted colleague of the Federal financial community. I have specific subject matter expertise and extensive leadership experience in the following areas: financial reporting, internal controls, audit, financial systems, grants management, accounting standards, improper payments, real property, debt collection, and Federal charge cards.

B. EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?
Yes.
2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.
No.
3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization, or to start employment with any other entity?
No.
4. Has anybody made a commitment to employ your services in any capacity after you leave government service?
No.
5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?
Yes.

6. Have you ever been asked by an employer to leave a job or otherwise left a job on a non-voluntary basis? If so, please explain.

No.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Office of Management and Budget's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the OMB's designated agency ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

2. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration or execution of law or public policy, other than while in a federal government capacity.

None.

3. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contendere) by any federal, State, or other law enforcement authority for violation of any federal, State, county or municipal law, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer, director or owner ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No.

4. For responses to question 3, please identify and provide details for any proceedings or civil litigation that involve actions taken or omitted by you, or alleged to have been taken or omitted by you, while serving in your official capacity.

N/A

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

E. FINANCIAL DATA

All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

- REDACTED -

AFFIDAVIT

DANIEL IVAN WERFEL being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

[Signature]
Subscribed and sworn before me this 7th day of August, 20 09

[Signature]
Notary Public

Lorraine D. Hunt
Notary Public, District of Columbia
My Commission Expires 2/28/2011

**U.S. Senate Committee on Homeland Security and Governmental Affairs
Pre-hearing Questions for the
Nomination of Daniel Werfel to be Controller,
Office of Federal Financial Management,
Office of Management and Budget**

I. Nomination Process and Conflicts of Interest

1. Why do you believe the President nominated you to serve as Controller, Office of Federal Financial Management (OFFM) at the Office of Management and Budget (OMB)?

I believe that the President nominated me because of my extensive experience and demonstrated success in driving financial management improvements in the Federal government.

2. Were any conditions, express or implied, attached to your nomination? If so, please explain.

No.

3. What specific background and experience affirmatively qualify you to be Controller?

I have extensive experience and demonstrated success in all aspects of the position of OMB Controller. I have served as the principal deputy to the OMB Controller since March 2006. During this period, I have served as the Acting Controller for extended periods of time.

In my role as both Deputy Controller and Acting Controller, I have distinguished myself as an effective leader and trusted colleague of the Federal financial community. I have specific subject matter expertise and extensive leadership experience in the following areas: financial reporting, internal controls, audit, financial systems, grants management, accounting standards, improper payments, real property, debt collection, and Federal charge cards.

4. Have you made any commitments with respect to the policies and principles you will attempt to implement as Controller? If so, what are they and to whom have the commitments been made?

No.

5. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures you would use to carry out such a recusal or disqualification.

As stated in the ethics agreement that I have entered into with OMB's Designated Agency Ethics Official, and that has been provided to this Committee, I will not participate personally and substantially in any particular matter that has a direct and predictable effect upon my financial interests or those of any person whose interests are imputed to me, unless I first obtain a written waiver, pursuant to 18 U.S.C. § 208(b)(1), or qualify for a regulatory exemption, pursuant to 18 U.S.C. § 208(b)(2). There are no issues that I am currently aware of that would require me to recuse or disqualify myself because of a conflict of interest or the appearance of a conflict of interest. If I am confirmed, I will seek the advice of OMB's Designated Agency Ethics Official to avoid any potential conflicts of interests or the appearance of any conflicts of interest.

II. Roles and Responsibilities

6. What challenges currently face the OFFM and how would you, as Controller, address these challenges?

Although critical progress has been made in Federal financial management in recent years, significant work remains. At too many Federal agencies, persistent weaknesses in basic financial management practices lead to unreliable reporting, payment errors, and other forms of government waste. Moreover, the sweeping challenges we face in the government today require our financial managers to move beyond the basics of accounting and reporting so that financial management is used strategically to improve the value of government services, control the cost of government operations, prevent fraud, waste, and error before it occurs, and provide the public with unprecedented transparency into where and how Federal dollars are spent and what taxpayers are getting for their money.

Thus, I believe OFFM's primary challenge is to facilitate ongoing and needed improvements in basic financial management practices across government while simultaneously positioning the Federal financial management community to play a valuable role in broader issues of government performance -- controlling costs, mitigating risks of fraud and error, providing new levels of transparency into the government's finances.

7. What do you think should be the OFFM's top priorities?

If confirmed, I look forward to helping OFFM meet its responsibilities in a manner that best positions the government to strengthen the fundamentals of financial management (accounting, reporting, internal controls) and, in turn, to use those fundamentals effectively to drive better results for taxpayers in areas such as cost control, fraud and error prevention, and transparency. Specifically, if confirmed, I will:

- *Intensify actions to eliminate inefficient government spending, including reducing improper payments and removing unneeded real property assets from the government's books;*

- Lead and coordinate government-wide efforts to track, validate, reconcile and publish Federal spending data, including successful implementation of the transparency requirements of both the Federal Funding Accountability and Transparency Act and the American Recovery and Reinvestment Act;
- Drive improvements in grants management, such as simplifying and modernizing the grant application process, standardizing reporting requirements, and pursuing lower cost technology solutions to support grants management activities; and
- Work with the agencies to improve financial statement audit results and meet other statutory mandates related to financial management.

8. How do you plan to coordinate and communicate with OFFM staff to accomplish your priorities?

Coordinating and communicating OMB's financial management priorities to OFFM, throughout OMB, and to external stakeholders is critical to achieve the top priorities I outlined in the previous questions. If confirmed, I will formally communicate OMB's financial management priorities through OFFM's annual Federal Financial Management Report and work with each Federal agency to align its goals with these priorities. Further, I would continue the current practice of incorporating the government-wide priorities into OFFM staff's performance appraisals to align agency and OFFM staff goals. I also plan to meet with OFFM staff individually and collectively to share and brainstorm opportunities to innovate within and across OFFM domain areas (e.g., financial systems, grants, program integrity, real property). Over the past few years, I have found that many of the reforms that OMB is pursuing in one domain have transferability into another.

9. Please describe your views on the role of the OFFM and its relationship to the rest of OMB.

OFFM is OMB's and the executive branch's principal financial management policy office. OFFM's mission is to promote unified and effective financial management practices across the executive branch to ensure that:

- *Taxpayer dollars are appropriately tracked and accounted for;*
- *The finances of the Federal government are transparent to the public;*
- *Strong internal controls are in place to prevent fraud, error, and waste from occurring in Federal programs; and*
- *Relevant, timely, and reliable financial information is available to inform decision-making in areas such as operational efficiency and program effectiveness.*

OFFM, in support the Director and the Deputy Director for Management, works closely with the other statutory offices within OMB -- the Resource Management Offices and the Budget Review Division -- to align financial management priorities with the President's Budget and other statutory requirements. OFFM also supports OMB's larger mission by providing subject matter expertise on all financial management issues and coordinating OMB efforts on special projects, e.g., OMB's efforts to issue implementing guidance for the American Recovery and Reinvestment Act.

10. How do you see your role as Controller with respect to the CFO Council?

I believe one of the most important responsibilities of the Controller is to assist OMB's Deputy Director for Management in leading the day-to-day and longer term activities of the Chief Financial Officers Council. The Controller plays a critical role in ensuring that Council activities align to the financial management objectives of the President and the Congress and to further ensure that the Council serves as an effective mechanism for exchanging best practices among Federal agencies in areas such as human capital strategies and leveraging new technologies.

If confirmed, I will work collaboratively with members of the Council to identify, prioritize, and implement the executive branch's financial management priorities. I will also use the Council as a forum to listen to the needs and challenges of the CFOs in meeting these priorities and work with them and other key stakeholders (e.g., other Councils) to meet their goals and remove barriers that may hinder progress.

11. What, in your view, have been your major accomplishments since you became Acting Controller in 2006?

Working with other OMB leaders, the Chief Financial Officers Council, and the Council of Inspectors General on integrity and efficiency, I have played a critical leadership role in virtually all of the government-wide Federal financial management improvement efforts of the past 5 years. Notable accomplishments since 2006 include leading and coordinating government-wide efforts in the following areas:

- *Improving audit results, with the number of major agencies achieving clean audit opinions increasing to 21 (out of 24), the highest number of clean opinions in the past six years; and reducing material auditor findings to 32, an almost 25 percent reduction since FY 2006.*
- *Remediating improper payments, where Federal agencies now measure nearly all high-risk programs for payment errors and have reduced the payment error rate in the programs originally measured in FY 2004 to 3.0 percent, down from 4.3 percent.*
- *Developing a comprehensive inventory of all Federal real property inventory and disposing of excess assets with a total replacement value of \$5 billion.*

Other notable accomplishments include:

- *Partnering with the Treasury Department and the Government Accountability Office (GAO) on the production and publication of the Citizen's Guide to the U.S. Financial Report, a user-friendly document that makes the larger and more complex financial report accessible to a broader segment of the public;*
- *Launching the Performance and Accountability Report (PAR) pilot program which has led to shorter and more accessible reports, including each agency producing a two page summary version of the PAR in fiscal year 2008;*

- *Playing an important role as a member of the Federal Accounting Standards Advisory Board in improved reporting on social insurance programs and sustainability, including the first-ever production of a government-wide Statement of Social Insurance which received a clean audit opinion from GAO in both fiscal years 2007 and 2008; and*
- *Coordinating OMB's efforts to issue timely and comprehensive implementing guidance for the American Recovery and Reinvestment Act.*

III. Policy Issues

General

12. The government faces significant challenges in achieving accountability and generating reliable financial and management information on a timely basis for decision-making due to pervasive, generally longstanding financial management problems. Describe your views on the importance of financial management improvement, in general, and OMB's role in addressing these challenges.

Persistent weaknesses in basic financial management practices lead to unreliable reporting, payment errors, and other forms of government waste. These results increase the cost of government operations and programs and compromise citizens' trust in our government. Conversely, a strong foundation of sound accounting, internal controls, financial reporting, and transaction processing will minimize the risk of improprieties and enable Federal agencies to use financial information as a critical tool in improving the efficiency and effectiveness of government operations and programs.

Thus, I believe financial management improvements should be a top priority of all Federal organizations. To be successful in addressing these challenges, OMB and OFFM must:

- *Establish and maintain sound financial management policies that, when implemented effectively, provide agencies with both a foundation of strong financial management fundamentals and tools that assist Federal agencies in other critical areas of government performance;*
 - *Conduct effective oversight of Federal agency financial management efforts, where agency leaders are held accountable for financial management results and OFFM staff provide sound subject matter expertise and advice on the appropriate strategies for driving success; and*
 - *Lead government-wide efforts through the Chief Financial Officers Council that align to the financial management objectives of the President and Congress and ensure the Council serves as an effective mechanism for exchanging best practices among Federal agencies.*
13. How will you define and measure financial management success at the OMB? What do you see as impediments to financial management success?

If confirmed, I will define and measure financial management success at OMB by assessing results in the following key areas:

1. *Eliminating inefficient government spending, including payment errors and ongoing investments in unneeded real property;*
2. *Rightsizing the cost of financial management operations across government, including controlling the costs of modernizing financial systems;*
3. *Driving improvements in grants management, such as simplifying and modernizing the grant application process, standardizing reporting requirements, and achieving smarter investments in technologies that support grants management activities.*
4. *Effectively implementing the transparency requirements of the Federal Funding Accountability and Transparency Act and the American Recovery and Reinvestment Act by making financial information available publicly as soon as it is available;*
5. *Remediating persistent weaknesses in basic financial management practices as measured by improved results on financial statement audits at both the agency and government-wide level.*

Numerous strategies must be deployed by OFFM to achieve the objectives and priorities identified above, such as facilitating smart investments by Federal agencies in new technologies, emphasizing and addressing human capital needs within the financial management community, sharing best practices among agencies, fostering partnerships between Federal and state and local governments and new levels of collaboration and integration between financial managers and other professional areas in the Federal sector, and initiating an accountability framework where there is public transparency on the government's progress on key financial management success measures.

14. *Is federal financial management headed in the right direction? If not, where should it be heading? What do you propose to ensure it moves in the right direction?*

Federal financial management is headed in the right direction, but significant challenges remain. On the positive side, many of the current indicators of financial performance are trending in the right direction: payment errors in previously measured programs are declining; agencies are shedding unneeded assets; audit results are improving; and more financial information is publicly available. Yet, in each of these areas, we are falling short of acceptable levels of performance. For example, the amount of remaining improper payments on the government's books is staggering and must be corrected.

Closing these gaps will require Federal agencies both to correct any ongoing and persistent weaknesses in basic financial management practices and to move beyond the basics by addressing broader areas of government performance such as controlling the cost of government operations.

In addition to the priorities referenced in previous questions, one area worth further evaluation is whether the multitude of statutes and regulations that currently govern financial management are properly serving the interests of Congress and the taxpayer. I believe it would be beneficial to review these requirements and look for opportunities to

strengthen the rigor in areas that more directly impact the taxpayer's bottom line (e.g., payment errors, cost of operations) and to realign and streamline requirements where a positive return on investment cannot be demonstrated.

15. In your view, are the staff resources dedicated to financial management issues sufficient for OMB to monitor and evaluate agency efforts to identify and correct system problems, improve government-wide financial management practices, and implement statutory requirements such as the Chief Financial Officers (CFO) Act, the Improper Payments Information Act (IPIA), the Government Management Reform Act (GMRA), Federal Financial Management Improvement Act (FFMIA), and the Federal Managers Financial Integrity Act (FMFIA)?

I believe the current staff resources in place at OMB are sufficient to meet the various responsibilities for improving Federal financial management across government. However, as new requirements emerge and are additive to existing requirements, a risk emerges that resources can be diluted as OMB works to manage both new and previously existing requirements. If confirmed, I will monitor OMB's resource needs for financial management closely and commit to working with the Director of OMB to ensure that the President's Budget request for OMB appropriately reflects resource needs for financial management.

16. The federal government's response to the financial markets crisis and economic downturn has created new federal accountability and financial reporting challenges. What steps do you think should be taken to help ensure that (1) sufficient internal controls and transparency are established and maintained for all market stabilization and economic recovery initiatives, and (2) all related financial transactions are reported on time, accurately and completely?

The transparency and accountability requirements of the financial rescue and economic recovery programs present unique challenges and opportunities for the Federal Financial community. In particular, the public is rightly demanding increased access to detailed information on how rescue and recovery dollars are being used and the impact they are having. Moreover, because these programs are new and complex they present unique and emerging risks for spending impropriety. Several important steps have already been taken to enhance internal controls and implement new mechanisms to track and report spending.

The Treasury Department's Office of Financial Stability is utilizing a variety of sophisticated risk mitigation techniques for ensuring appropriate spending under the Troubled Asset Relief Program (TARP). In addition, Treasury publicly reports the financial transactions under TARP to facilitate timely reporting and transparency into the program. Treasury is currently preparing its annual year-end financial statements, which undergo an audit by GAO. GAO will opine on the reliability and completeness of Treasury's financial statements, including the TARP transactions.

OMB has issued several guidance documents describing actions Federal agencies should take to minimize and prevent the improper spending of stimulus funding. These include:

- *Designating Senior Accountable Officials for Recovery Act activities at agencies to oversee planning, implementation, and performance;*
- *Utilizing Senior Management Councils to identify and mitigate risk at agencies and assess the effectiveness of internal controls; and*
- *Requiring agencies to create risk mitigation plans to prevent improper payments.*

OMB has also directed agencies to perform a risk assessment on all programs receiving Recovery Act funds to determine whether they should be listed as high risk for Single Audit purposes and be subject to additional audit review. Since enactment in mid-February, Federal agencies have been reporting weekly spending data that is publicly available on Recovery.gov. Moreover, OMB and the Recovery Accountability and Transparency Board are undertaking a significant initiative to successfully launch the recipient reporting requirements beginning in October, which will also be publicly available on Recovery.gov

Additional steps will be necessary to be successful in both mitigating the risk of spending impropriety and making detailed transactions transparent to the public. Of particular note, Federal agencies must work closely with the audit community to detect payment improprieties and determine root causes. As a result of these analyses, agencies must update risk management frameworks and strengthen controls in a targeted manner that best limits risk. Moreover, Federal agencies must continue to enhance system capacity and reporting processes to ensure required data is available timely and with sufficient reliability. If confirmed as Controller, these efforts will be a top priority for me and the larger financial management community.

17. In March 2004, OMB launched the financial management line of business initiative (FMLoB) to, in part, improve government-wide financial management system modernization efforts and provide timely and accurate data for decision-making through shared service solutions.

- What, in your view, are the main challenges in implementing FMLoB? If confirmed, what additional actions would you take to ensure the success of the FMLoB initiative?

The purpose of the FMLoB is to provide Federal agencies with lower risk and cost alternatives for modernizing financial systems. Early in the initiative, the primary focus of the government's efforts was migrating agencies to a limited number of stable and high performing shared service solutions providing software support and transaction processing. Soon after the initiative was launched, the most significant challenge that emerged related to the cost and risk associated with Federal agencies following different business processes for exactly the same financial management activities and moving to shared providers that may also follow different business processes.

To address this challenge, the focus of the FMLoB initiative shifted in early 2006 to the development of government-wide financial management business standards, including a common accounting code and standard business practices on core financial activities such as accounts payable and accounts receivable. The principle is that over time, as agencies and shared service solutions adopt common business practices, the process of migrating to a shared service solution becomes more fluid, reducing both risk and cost. The deployment of standard business processes has additional benefits as well, including enabling more common solutions and strategies across Federal agencies.

With most of the financial management business standards now defined, today's most critical challenge is ensuring that Federal agencies timely adopt the defined standards. Because of the long duration of agency modernization timetables, government-wide adoption will take time. If confirmed, I will continue to explore opportunities for agencies to adopt the financial management business standards earlier and in a manner that does not increase the cost or risk of these financial system implementations.

- What is the status of efforts to develop a concept of operations for FMLoB?

As noted in response 17a above, OMB is exploring opportunities for agencies to adopt the financial management business standards earlier. To that end, OMB is reviewing the current FMLoB approach and opportunities to accelerate the adoption timetable. Once the review is complete and the adoption approach validated, a final concept of operations for FMLoB will be developed and issued.

- Of the 24 CFO Act agencies, how many have fully migrated their financial management systems to shared service providers thus far, and when are the remaining agency migrations expected to be completed?

Of the 24 CFO Act agencies, sixteen agencies have either fully migrated to or are in the process of migrating to a shared service provider; five agencies are in the process of developing their financial management system modernization plans; and three agencies had newly implemented financial systems when OMB issues the FMLoB policy and will migrate at their next modernization timetable.

18. Specific financial management and control issues often arise that call for close government-wide attention and oversight. One of these issues is the problem of improper payments in federal programs. The Improper Payments Information Act of 2002 (P.L. 107-300) requires agencies to reduce waste that occurs in the form of improper payments. Under OMB guidance to agencies covered by the Improper Payments Information Act, however, agencies only report improper payments for a program if they actually exceed \$10 million and 2.5 percent of program outlays. This high threshold undermines the original intent of Congress in drafting the Improper Payments Information Act and results in millions in payment errors going unreported each year. Additionally, although agencies have been required to report under this Act since FY2004, there are a number of

agencies that have not even tested all of their programs to determine whether they are susceptible to improper payments. In recent years, progress has been made in estimating and reducing improper payments, but more work needs to be done.

- If confirmed, what steps do you intend to take to ensure that agencies comply with the Improper Payments Information Act?

I believe it is imperative that agencies comply with the Improper Payments Information Act (IPIA). Since the IPIA was enacted in 2002, agencies have made great progress in implementing the law. For instance, in FY 2008 the Federal government measured over 97 percent, or \$1.84 trillion of all high-risk outlays, compared to 73 percent in FY 2004, the first year that agencies reporting under IPIA. Of the remaining three percent of high-risk outlays that are not yet measured, agencies may either be measuring components of the program or following a path to measure and report an error rate. By measuring their high-risk outlays, agencies are well-positioned to determine the root causes of error and to implement corrective action plans. Accordingly, we have seen that programs that have previously measured and reported improper payments have been able to lower their improper payments in subsequent years. For instance, the Medicare Fee-For-Service program, which first measured and reported an improper payment rate in FY 2004, has reduced its improper payments for five consecutive years.

If confirmed, I intend to take several steps to ensure that agencies are complying with the IPIA:

- *I will ensure that OMB continues monitoring agency risk assessments and measurement plans to ensure that they are rigorous and are appropriately capturing all significant sources of error in Federal programs;*
- *I will also ensure that OMB continues to review agency corrective action plans so that they address the root causes of improper payments and ensure that mechanisms are in place so that agencies, Federal employees, and managers are taking as many steps as possible to prevent, reduce, and eliminate improper payments; and*
- *I will work with the Chief Financial Officers' Council (CFO Council), which continuously evaluates the implementation of the IPIA, and other groups like Congress, the Government Accountability Office, and agency inspectors general, to identify potential areas that need improvement.*

If confirmed, I look forward to working with OMB's Deputy Director for Management, this Committee, and Congress, in reviewing current agencies efforts and ensuring that agencies are complying with this important law.

- Would you consider changing the OMB guidance to agencies under this Act to increase the improper payments that agencies must report?

Yes. Over the last three and a half years, I have worked closely with the Chief Financial Officers Council (CFO Council) on a number of financial management and

improvement efforts, including implementing the Improper Payment Information Act. As you know, OMB, in coordination with the CFO Council, continuously evaluates the overall implementation of the Improper Payments Information Act. This evaluation also includes reviewing OMB guidance that directs agencies on how to implement the law and assessing if and where improvements can be made to the guidance. If confirmed, I would review all existing policies and procedures, and work with stakeholders like the CFO Council, to determine where changes can be made to OMB guidance to produce better results, including more comprehensive capture of significant sources of error in Federal programs.

- If so, how would you expand the definition of 'improper payments' so the federal government can sufficiently recoup wasted taxpayer dollars?

As I mentioned earlier, if confirmed, I would work with OMB, the CFO Council, and other stakeholders, to carefully review OMB's guidance to determine if any changes are needed. This examination would consider if, among other things, the current definition of improper payments should be changed or expanded.

In addition, I am committed to ensuring that agencies are recovering improper payments whenever possible. As you know, under Section 831 of P.L. No. 107-107 (commonly called the Recovery Auditing Act), agencies with more than \$500 million in annual contract outlays must review their contract payments and identify improper payments. In FY 2008, agencies reviewed more than \$427 billion in contract payments. During these reviews, agencies identified approximately \$173.3 million in improper payments, and recovered \$132.4 million, or 76 percent, of that total. In addition, we have seen that other efforts to review program funding – such as the Medicare Recovery Audit Contractor demonstration – have also successfully recovered improper payments. Lastly, if enacted, S. 1508 – the Improper Payments Elimination and Recovery Act – would significantly expand the number and types of programs where payments could be reviewed and recovered.

The Federal government should continue using existing tools to review and recover improper payments. While I strongly believe we must prevent improper payments from occurring, I will work with the Congress to ensure agencies have the tools, resources, and statutory authority necessary to enable them to identify and recoup any wasted funds.

- What steps would you take to prevent improper payments before they occur?

I believe that Federal agencies should take as many steps as possible to implement new, and strengthen existing, internal controls to prevent improper payments from occurring. OMB and agencies should continue to try to prevent improper payments by:

- Leveraging technology;
- Reforming agency processes, such as pre-payment reviews and eligibility determinations; and

- *Training and hiring appropriate personnel.*

In addition, I would work with agencies to identify potential legislative reforms that would allow agencies to address the root causes of improper payments and prevent them from occurring.

- How else can OMB best assist agencies and the Congress in continuing to address these improper payments and ensure better use of federal monies?

While executive branch agencies have made significant progress in identifying and reducing payment errors, the amount of improper payments that remain on the government's books is unacceptably high. As a result, I believe new and more aggressive strategies will be needed to appropriately address this significant problem. There are several actions that OMB and the Congress can take that I believe will serve as a good starting point. OMB and Congress should work together to:

- *Ensure agencies have access to automated tools to verify program eligibility for programs that are not currently leveraging these resources. Tools such as the National Directory of New Hires (NDNH) and the Enterprise Income Verification System (EIVS) have proven highly effective in remediating improper payments. For instance, USDA's Rental Assistance Program is designed to reduce rent expenses for very low-income and low-income families living in USDA financed rural rental housing projects. The agency does not have access to the NDNH that could help it verify eligibility for this program and reduce improper payments for ineligible beneficiaries.*
- *Explore opportunities to deploy integrated eligibility determinations. Many Federal programs with significant improper payments are serving common populations and are collecting overlapping data to verify eligibility. If done effectively, streamlining and consolidating multiple eligibility determination processes will cut administrative costs for Federal agencies and Federal funding recipients and will foster better controls for payment accuracy; and*
- *Provide agencies with the authority and means to pilot reforms to assess, for example, whether incentives to identify and reduce payment errors are effective in state-administered benefit programs. To that end, the House and Senate appropriations bills have allocated \$40 million for the Office of Management and Budget's Partnership Fund for Program Integrity Innovation. The purpose of the Fund is to identify ways to improve service delivery, payment accuracy, and administrative efficiency for federal assistance programs that are administered by state or local agencies. OMB is encouraged by Congress' support for this program and its overall dedication to reducing payment errors.*

In addition, the Administration has put forward a comprehensive package of proposals that would strengthen the integrity of Federal programs and that are estimated to generate significant long-term savings for the taxpayer. Specifically, the Administration has requested additional funding through multi-year allocation adjustments for four program integrity initiatives: eligibility reviews at the Social

Security Administration (SSA), the Health Care Fraud Abuse Control Account (HCFAC) at the Department of Health and Human Services, Unemployment Insurance Reviews at the Department of Labor, and the enforcement base at the Internal Revenue Service (IRS). These activities have proven savings methodology that shows high returns on investment: 11:1 for SSA, 1.6:1 for HCFAC, and 4:1 for IRS. The President's FY2010 budget proposal also included several legislative proposals in the Unemployment Insurance program that would give states additional tools to prevent and recover erroneous payments.

As part of these efforts, meaningful accountability for improper payment remediation must be in place across the government. If confirmed, I am committed to exploring new ways to drive such accountability. At a minimum, I believe more can be done to disseminate information to the public on government-wide and agency progress in addressing improper payments.

19. Several examples of improper payments of The American Recovery and Reinvestment Act of 2009 (Recovery Act) (P.L. 111-5) funds have already arisen. For example, the Social Security Administration inadvertently sent thousands of \$250 stimulus checks to people who are deceased or incarcerated. What is OMB's role in addressing the issue of improper payments of Recovery Act funds?

As noted in question 16, OMB has issued several guidance documents describing actions Federal agencies should take to minimize and prevent the Federal and States agencies from improperly spending of stimulus funding. These include:

- *Designating Senior Accountable Officials for Recovery Act activities at agencies to oversee planning, implementation, and performance;*
- *Utilizing Senior Management Councils to identify and mitigate risk at agencies and assess the effectiveness of internal controls; and*
- *Requiring agencies to create risk mitigation plans to prevent improper payments.*

OMB has also directed agencies to perform a risk assessment on all programs receiving Recovery Act funds to determine whether they should be listed as high risk for Single Audit purposes and be subject to additional audit review.

- *What can be done to oversee administration of Recovery Act funds at the federal and state level to avoid significant improper payment issues arising from the disbursement of these funds?*

Under our current economic situation, it is essential that Recovery Act funds are spent properly. To date, OMB has issued several guidance documents with actions agencies should take to minimize and prevent Federal and State agencies from improperly spending stimulus funding. These include:

- *Designating Senior Accountable Officials for Recovery Act activities at agencies to oversee planning, implementation, and performance;*
- *Utilizing Senior Management Councils to identify and mitigate risk at agencies;*

- *Requiring agencies to create risk mitigation plans to, among other things, prevent improper payments.*

OMB has also directed agencies to perform a risk assessment on all programs receiving Recovery Act funds to determine whether they should be listed as high risk for Single Audit purposes and be subject to additional audit review.

As the pace of Recovery Act funds moving more from Federal agencies into local economies accelerates, OMB's focus must transition from the development of guidance to coordinating and overseeing agency efforts to implement such guidance effectively. The Recovery Accountability and Transparency Board will play an important role in these efforts by coordinating the work of Inspectors General to evaluate whether agency controls are effective in both preventing and recovering improper payments. If confirmed, remediation of improper payments, in particular with respect to the Recovery Act, will be my highest priority.

- This Committee voted favorably to report the Improper Payments Elimination and Recovery Act (S. 1508) last month to address the issue of improper payments. What is your opinion of the Improper Payments Elimination and Recovery Act of 2009?

The Improper Payments Elimination and Recovery Act of 2009 (S.1508), if enacted, would help intensify agency efforts to reduce payment errors. It does this in a manner that allows agencies to immediately focus resources on the highest risk programs and over time to expand their efforts to lower risk programs. It is my understanding that the Administration supports the objectives of S.1508, and if confirmed, I look forward to doing what I can to ensure it is implemented aggressively and effectively, if it is enacted.

20. The President has pledged to increase the transparency of government spending with regard to Recovery Act funds with Recovery.gov and more generally with USASpending.gov. Taxpayers deserve to know what the federal government is doing with their money. Many government financial managers spend much of their time creating reports but often nobody reads them. What will you do to help make federal spending more transparent with regard to Recovery Act funds as well as government spending overall?

Achieving unprecedented transparency of all Federal spending, including Recovery Act spending, is a major priority for this Administration. The financial management community plays a critical role in these efforts by using its tools and resources to track, validate, reconcile, and prepare spending data for publication. As this question notes, an important step that must be taken to facilitate these efforts is to identify opportunities to redirect resources away from any financial reports that have limited relevance or use by the public or Federal managers. If confirmed, I am committed to working with the Federal financial community to identify opportunities to realign the attention of financial managers to financial reports that have proven to be most relevant to the public and useful to Federal managers, such as those required by the Federal Funding

Accountability and Transparency Act (FFATA) and the American Recovery and Reinvestment Act (Recovery Act).

In the nearer-term, I believe OFFM must continue to play a coordinating and leadership role in the production of required financial reports under the Recovery Act. Critical next steps include the successful deployment in early October of the recipient reporting solution, FederalReporting.gov, and working aggressively to ensure that recipient data is complete and reliable. In my current role as Deputy Controller of OFFM, I have had the privilege of working directly on this important project. If confirmed, I believe this experience will be of great benefit as I work to assist the Administration achieve broader transparency objectives. In particular, the ongoing efforts to meet the transparency and reporting requirements of the Recovery Act are providing important lessons for meeting the requirements of FFATA. Such lessons include the importance of:

- *Fostering a close partnership and effective communication between Federal and State and local governments;*
- *Providing clear and comprehensive instructions on what is required of Federal agencies and Federal funding recipients;*
- *Ensuring accountable officials are in place at Federal agencies to help drive compliance with rigorous reporting requirements; and*
- *Taking an integrated approach to data management by coordinating efforts of the financial, program, procurement, and information technology communities within the Federal sphere.*

If confirmed, I am committed to taking all the necessary and appropriate steps to successfully complete the reporting efforts of the Recovery Act while simultaneously expanding these efforts to broader mandates such as FFATA.

21. The Recovery Act and the Troubled Asset Relief Program (TARP) (P.L. 110-343) present new challenges and highlight the importance of financial management systems that produce timely information needed to ensure adequate accountability and control. What opportunities or lessons learned, if any, have been identified through recent Recovery Act, TARP, and other significant federal actions that you think can be used to improve future efforts to ensure the adequacy of federal financial management systems?

Challenges associated with economic and financial market recovery have presented new opportunities for Federal financial management and highlighted areas that should be strengthened. Not only are we reporting new activities, such as the purchase of equity and Federal spending at the sub-recipient level, but we are fielding a growing number of demands for real-time information in formats outside our traditional means of collecting and maintaining data. Several important opportunities and lessons have emerged as a result of these developments:

- *The Federal financial community has greater insight today than ever before into the type of financial information that is most useful and relevant to the public. In particular, the number of "hits" on government websites that track Federal*

spending (Recovery.gov and USAspending.gov) reflects exponentially higher public readership than we have historically seen for traditional financial reports, such as those that track Federal agency assets and liabilities.

- *Successfully reporting spending data requires new disciplines and tools beyond those used for traditional financial reports, such as balance sheets. Most notably, tracking dollars as they move out of the Federal sphere requires new partnerships with Federal funding recipients to deploy more rigorous reporting requirements. In addition, the government must look beyond existing financial systems we are using for internal record keeping and identify and deploy tools capture and display the "new" financial information in a manner that is more accessible and understandable to the public.*

GAO High Risk List

22. The Government Accountability Office (GAO) has designated as high risk the financial management operations the Department of Defense and the Internal Revenue Service. How do you plan to work with these agencies to make substantive progress toward resolving these high-risk issues?

All agencies on GAO's high risk list have developed corrective action plans to mitigate risks in their financial management operations. While in OFFM, I have participated in the oversight of DoD and IRS in addressing the GAO findings. I would expect both of these agencies to continue providing regular updates to OMB on their progress in implementing corrective measures, including key milestones as measured against metrics identified in their plans. If confirmed, I will work collaboratively with these agencies and GAO to ensure that the plans in place are sufficiently aggressive, appropriately resourced, and are championed by leaders within each agency.

23. In 2003, GAO designated implementing and transforming the Department of Homeland Security ("DHS" or "the Department") as high risk. One area that GAO has highlighted in recent years is DHS's ongoing efforts to integrate the financial systems of its many components. DHS's current initiative, the Transformation and Systems Consolidation - which is intended to migrate and consolidate the financial systems of all of its components so they all operate on common platforms using commercially available software - is its second attempt at this effort. The Department previously attempted this same mission through the eMerge2 project, spending about \$52 million before cancelling the project due to a lack of adequate planning and progress.

- What steps does DHS need to take to ensure this effort does not fail?

The migration strategy that DHS is using with its Transformation and Systems Consolidation initiative is to leverage an existing system that is operational and migrate components onto that solution. Using a migration approach of leveraging an existing solution with standard business processes is a significant risk mitigation step. Further, it is the foundation of the Financial Management Line of Business (FMLoB) and has proven successful with the Federal financial Shared Services

Providers in supporting their customers. In addition to leveraging existing solutions that support best financial business practices, DHS should ensure that it has: (1) clear and visible senior leadership support (2) the right people in place who have the skills and experience to deploy complex technology projects effectively and (3) a comprehensive project plan with a clear critical path supported by a strong governance structure and decision-making process.

- How can OMB help DHS in this effort?

If confirmed, I will continue to work with the DHS CFO and CFO office to assist the Department address their financial management findings and systems needs. Notably, DHS has made significant progress by reducing material auditing findings from ten to seven since FY 2006. Having fewer material audit findings helps when performing systems migrations because agencies are starting with a stable and sound internal control environment which produces more reliable financial information from the start.

24. The last administration undertook efforts to focus agencies' attention on GAO's High Risk List by requiring that all agencies develop corrective action plans to address their challenges identified on the list.

- If confirmed, how will you continue to require agencies to tackle issues on GAO's High Risk List?

All agencies on GAO's high risk list have developed corrective action plans to mitigate risks in their financial management operations. While in OFFM, I have participated in the oversight of many GAO high risk programs and agency efforts to resolve the GAO findings. If confirmed, I will require that all agencies continue providing regular updates to OMB on their progress in implementing corrective measures, including key milestones as measured against metrics identified in their plans. I will also work with agencies to explore new strategies that can make current plans more aggressive in achieving intended results.

- What types of actions will you require agencies to take to address issues on the list?

To address issues on the list, I will require that agencies have senior leadership support involvement and visibility into agency efforts; have a comprehensive plan with a clear critical path supported by a strong decision-making process; and have metrics or measures to assess improvement in program outcomes.

- How will you ensure that agencies incorporate capacity, resource, and staff needs into the corrective action plan to ensure that it can be properly implemented?

To ensure that agencies incorporate capacity, resource, and staff needs to properly address issues on the list, I will meet with the agencies, in coordination with the OMB Resource Management Office, to clearly understand their plan and where new

resources may be needed. I will also work with the agencies to assist in prioritizing high risk issues and focus on those that provide the greatest return on investment and program benefit.

25. Since January 2003, federal real property has been on the GAO's list of programs at high risk of waste and mismanagement. In its January 2009 update of its High-Risk List, GAO found that the administration and real property-holding agencies have made progress towards strategically managing federal real property and addressing long-standing problems, however, underlying problems still exist, including excess and underutilized property, deteriorating facilities, unreliable real property data, overreliance on costly leasing, and security challenges.

- What is your opinion of the progress OMB has made in addressing the problems identified by GAO?

OMB and executive agencies have made significant progress in strategically managing federal real property by disposing of unneeded assets, developing a comprehensive government-wide database of over 1.2 million real property assets, and reducing underutilized space within the building inventory. Since fiscal year 2004, executive agencies disposed of more than \$8 billion in unneeded assets. Further, OMB and agencies continue to improve validity and use of the data for management decision making. While OMB and the Federal agencies have made progress in addressing problems identified by GAO, I believe that we can improve the Federal real property inventory by better aligning Federal agency mission requirements with the agencies' real property assets.

- What objectives would you like to achieve during your tenure as Controller in the real property area? What specific steps do you anticipate taking to meet those objectives?

The Federal government's stewardship of real property is critical to achieving agency missions and to spending taxpayer dollars effectively. If confirmed, I will make it a top priority to pursue opportunities for rightsizing the Federal real property inventory as well as ensure we are making the right property acquisition and financing decisions. I will also work with Congress to enact real property reform to allow executive agencies to recover their disposal related costs and retain any remaining net sales proceeds to invest in the repair and alternation of existing assets.

26. According to GAO, the government is still unsuccessful in attaining an audit opinion on its consolidated financial statements for the past 11 fiscal years. Although an increasing number of agencies have received unqualified opinions on their financial statements, GAO has identified three major impediments to rendering an opinion on the federal government's consolidated financial statement: (1) serious financial management problems at the Department of Defense, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the process for preparing the consolidated financial statements.

What strategies do you think would help ensure that agencies take appropriate actions to address these long-standing challenges?

The inability of the government to attain an audit opinion on its consolidated financial statements remains a long-standing challenge, but one that is certainly not insurmountable. In fact, OMB and the Treasury Department—with whom OMB shares responsibility for preparing the statements—worked with the Federal agencies to obtain an unqualified or “clean” audit opinion on the Government’s Statement of Social Insurance (SOSI). The SOSI is the first of six principal financial statements to achieve this distinction. This achievement demonstrates that the information in the SOSI can be relied upon to inform the public discourse on the long-term fiscal impact of rising Medicare and Social Security costs. Furthermore, 21 out of 24 major Federal agencies have achieved clean audit opinions, with government-wide material weaknesses on a steep decline over the past 8 years. These accomplishments serve as an important foundation for addressing the remaining challenges in achieving a clean opinion on the government-wide statements.

To address the three long-standing challenges GAO has identified, I will work with my partners at the Treasury Department and the Chief Financial Officers’ Council to develop strategies to resolve existing intra-governmental imbalances and improve the process for preparing the consolidated statements. In both these areas, I believe existing corrective action plans are yielding important progress. More concerning are the ongoing financial management challenges at the Department of Defense. If confirmed, I will intensify OMB’s efforts to oversee the DoD’s initiative to obtain a clean audit opinion. Of critical importance will be the development of an updated, credible and sustainable action plan that has buy-in from Defense Department leadership and that prioritizes financial management improvements that align most closely to mission effectiveness.

27. The CFO Act calls for OFFM to monitor “...the establishment and operation of federal government financial management systems...” GAO has reported on a number of troubled financial systems implementation projects in which tremendous amounts of taxpayer dollars are at significant risk of being wasted.

- What are your views on the best approach for carrying out this statutory responsibility?

The Federal government has historically faced significant challenges when implementing new financial management systems. In addition to adopting the financial management standards I noted in question 18, we need to focus in two other critical areas, leadership and planning. There has to be increased emphasis on getting the right people in place who have the skills and experience to deploy complex technology projects effectively. Additionally, agencies need a comprehensive project plan with a clear critical path supported by a strong governance structure and decision-making process.

- What actions do you believe are needed by OFFM to help address these system implementation problems, ensure that these projects are implemented on time and within budget, and provide the promised capabilities?

To address these system implementation problems, OFFM needs to continue reinforcing OMB's policies of using commercial off the shelf financial systems, with no customization, to support agency financial management needs. This practice, along with adopting the financial business process standards supported by shared service providers, will provide a rapid development platform for their financial system implementations and ongoing support.

28. The federal government grants awards to state and local governments and non-profit organizations totaling hundreds of billions of dollars. The auditing of these awards, as required by the Single Audit Act, is intended to be a key accountability mechanism to ensure proper use of federal funding. Both GAO and the President's Council on Integrity and Efficiency (PCIE) have made recommendations to improve the quality of these audits.

- In light of the GAO and PCIE findings, what changes do you think need to be made to the single audit process to improve its efficiency and effectiveness? What will you do to improve its efficiency and effectiveness?

The 2007 Report on National Single Audit Sampling Project found that 93 percent of the Federal grant dollars reviewed by the study are covered by "acceptable" Single Audits. However, the study also found that 51 percent of the Single Audits had deficiencies. In order to improve the efficiency and effectiveness of the single audit process, I believe the following changes should be initiated by OMB:

- *Providing clearer guidance to auditors on the requirements of Single Audits;*
- *Requiring new audit training requirements for auditors and program managers;*
- *Strengthening accountability for auditors who fail to meet minimum standards in performing single audits;*
- *Shortening the reporting of Single Audit; and*
- *Improving the agency audit resolution process.*

The Federal government can implement these changes by partnering with Single Audit constituents to propose and revise the requirements in OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Single Audit Act of 1984 (further amended in 1996, 31 U.S.C. 7501). If confirmed as Controller, I will work with the OFFM staff to initiate these improvements expeditiously.

- In its role as the agency responsible for providing single audit policy and guidance to federal agencies, grant recipients, and auditors, how does OMB plan to leverage the single audit to meet the accountability challenges posed by the Recovery Act?

In OMB guidance the Single Audit is highlighted as a major tool for agencies to prevent fraud, waste and abuse for Recovery grant programs. First, agencies were directed to perform risk assessments on all programs receiving Recovery funds to determine whether they should be listed as "high risk". Second, OMB has emphasized the review of programs using Recovery funds. Specifically, OMB requires that the auditor consider all Federal programs with Recovery Awards to be programs of higher risk, thus increasing their chance to be selected as "major programs" to be reviewed. We also stress the review of internal controls and include specific compliance requirements for Recovery programs. Finally, OMB is now working with GAO, the Recovery Accountability and Transparency Board, and other audit constituents to initiate a targeted program that would yield an expedited Single Audit review and reporting of internal controls for Recovery programs. If confirmed as Controller, I will be committed to these ongoing efforts and to seeing them through to successful completion.

29. The government faces tremendous human capital issues in many areas, including financial management. How will you work with the Office of Personnel Management and individual departments and agencies to develop a means to attract and retain high quality agency financial management staff? What are your plans for preparing, training, and reshaping the federal financial management workforce to meet changes brought about by technology and increasing demands for financial analysis?

The importance of human capital in the efforts to improve financial management cannot be overstated. A qualified and appropriately staffed Federal financial management workforce is essential to establishing effective and sustainable financial management practices. The human capital challenge becomes more acute as new demands emerge on the financial management community, such as meeting the transparency and accountability requirements of the American Recovery and Reinvestment Act. If confirmed, I will work to ensure that human capital improvements play a central role in the strategic priorities of OFFM and the CFO Council. Working with the Office of Personnel Management and the Chief Human Capital Officers, I believe a multi-faceted approach to human capital improvements is necessary, with an emphasis on recruiting, training, retention, and exploring hiring and pay flexibilities for the most critical jobs related to financial management. Given that human capital challenges are shared across the government, I look forward to working with my counterparts in procurement, information technology, and other domain areas on common strategies for improving human capital.

Government Performance

30. In his budget overview document, *A New Era of Responsibility: Renewing America's Promise*, President Obama called for reconfiguring the Program Assessment Rating Tool (PART). What is your assessment of the performance goals under PART? What do you think needs to be done to reconfigure PART to become a more useful tool to enhance federal managers' decision-making?

While the PART process advanced agency efforts in developing performance measures, GAO's surveys indicated that it did not lead to significantly increased use of performance information. A performance measurement system should focus on the quality of results that government programs achieve for the public. It should also focus on the highest priorities and give policymakers a way to view performance across programs with similar goals – and over time. Last, it is critical that policy makers find the information valuable to use as they make decisions, whether as part of the budget process or in designing new initiatives.

A reconfigured PART requires a transition to a revised performance management model. The model should focus performance improvement on the results that matter most. The model should also improve government-wide performance measurement. Finally agencies should have a voice in determining which program results merit primary focus and on the design of the government-wide performance measurement system.

31. The PART initiative focuses on individual programs, which aligns with OMB's agency-by-agency budget reviews, but has been used infrequently to address crosscutting issues or to look at broad program areas in which several programs or program types address a common goal. If confirmed, how would you see your role in helping enhance the integration of agency strategic and annual planning with OMB's budget reviews?

To improve the overall quality of agency strategic plans, annual performance plans, and performance reports, OMB should continue to work with agencies to explore ways to enhance the presentation of financial and performance information, making this information more meaningful, transparent, and useful to the reader. For example, we should encourage agencies to include their annual performance report along with their performance plan in the congressional budget justification. This allows agencies to discuss future programmatic resources directed at improving performance.

OMB recently revised the strategic plan guidance to improve its quality. Under the revised guidance, agencies will present performance goals for each of their strategic goals so readers will understand what the agency intends to accomplish; in addition, agencies will present the initiatives they plan to use to accomplish their performance goals, which will make the document, more truly, a plan.

32. OMB is required under the Government Performance and Results Act (GPRA) (P.L. 103-62) to annually develop a government-wide performance plan; this plan is expected to provide a comprehensive picture of government performance and could be used to provide a more strategic, cross-cutting focus on policy and budget decisions to address goals that cut across conventional and agency boundaries. OMB has never developed a government-wide performance plan.
 - How do you plan to comply with the requirements for a government-wide performance plan?

GPRA calls for the government-wide performance plan to reflect policy and resource allocation decisions to accomplish specific outcomes that are articulated to Congress, agencies, and citizens. To comply with this requirement, I would develop a phased-in approach for producing the plan. Throughout the development of the plan, the Administration, working with Congress, would identify the best way to communicate a comprehensive picture of government performance that has a strategic, cross-cutting focus on policy and budget decisions that cut across agency boundaries. Efforts are already underway to move towards issuing a government-wide performance plan. OMB recently revised agency strategic plan guidance in Circular A-11 to improve agency efforts to define performance goals and perform better long-term planning. OMB is working with most major agencies on the drafting their first strategic plans under the new Administration. Government-wide performance would likely be a roll-up of all the agency strategy plans and annual performance plans. When fully implemented, one possible outcome is a GPRA annual performance plan that organizes and presents the Federal budget by themes, functions, and outcomes, including national indicators.

- How can the government-wide performance plan help to focus decisions on broader issues cutting across specific agencies and their programs and reduce program overlap?

A government-wide performance plan would report decisions on broader issues cutting across specific agencies and their program to reduce program overlap. More importantly, a strong planning process that includes analysis of government program is essential. To that end, the budget and management sides of OMB are working together to address performance issues related to cross-cutting programs and elimination of unnecessary redundancy and duplication of effort as a focus of the annual budget process and analysis of each agency's high priority performance goals. If confirmed, I anticipate working closely with other OMB leaders on this effort.

- For years, GAO has recommended that OMB augment a government-wide performance plan with a long-term strategic plan for the federal government. GAO has stated that a government-wide strategic plan could provide an additional tool for government-wide reexamination of existing programs, as well as proposals for new programs and, if fully developed, provide a much needed basis for fully integrating, rather than merely coordinating, a wide array of federal activities. What are your views on this recommendation? If you do not think a government-wide strategic plan is necessary, how do you propose achieving a cohesive perspective on the long-term goals of the federal government?

A government-wide performance plan with a long-term strategic plan is just one component of a systematic process for examining the need for existing programs and proposals for new programs. Development of a systematic approach for producing a government-wide plan (i.e., using a government-wide approach that includes strategic planning, budgeting, and managing multi-agency programs and activities)

would help improve decision-making and improve both the effectiveness and the efficiency of the government as a whole. To date, much of the government's inter-agency collaboration has not been formalized. Going forward, I believe we need to put in place mechanisms to promote cross-cutting planning, management, and reporting across programs (including grants, loans, tax) with similar purposes. As mentioned previously, such an effort would need to be phased-in and synchronized with Administration initiatives related to improving program management gaining a comprehensive understanding of the relationships between all federal programs.

33. GPRA was created to involve both the executive and legislative branches in the performance planning process. One of the criticisms of PART is that it does not involve Congress in setting priorities for program performance review. Without developing an effective strategy for obtaining and acting on congressional views on what to measure, how to measure it, and how to best present this information to a congressional audience, it is more likely that performance information would largely be ignored in the authorization, appropriations, and oversight processes. How would you obtain Congress's views on these matters? What steps would you take to ensure that your agency's performance measures and reporting meet congressional, as well as executive branch, needs?

I will work with my colleagues at OMB to consult with Congress to make sure we have a clear understanding of their needs and priorities for performance-related information. We will use their input to define approaches to deliver timely and useful performance information to meet their needs. We will also continuously seek feedback on the information and how content and delivery can be improved. An approach may include a number of different means to acquire performance information that would be useful for those engaged in oversight, policymaking, authorization or appropriations. For example:

- *Collect program and agency performance data to important trends on output, outcome, and efficiency.*
- *Perform program assessments that pull together information from a variety of sources to answer fundamental questions regarding whether a program has a clear purpose/need, good planning, and management practices that lead to positive results.*
- *Evaluate program impact to answer crucial questions about whether the program or, rather, something else might be causing changes in, say, a health indicator.*

No single tool or measure presents a complete picture of a Federal program and its performance. Having these different measures of performance allows us to have a more complete picture as to whether taxpayer dollars are spent effectively and programs are intervening in ways that make a difference in people's lives.

34. What do you believe to be the appropriate relationship between a program management and performance evaluation tool, such as PART and GPRA? What role do you believe each should play in assessing program performance?

Performance assessments similar to the PART can provide valuable information by identifying performance deficiencies and impediments that drive management efforts to identify actions to that will improve performance. However, such a process only works when program managers are committed to continuous performance improvement and are actually using the performance information. More rigorous performance evaluation methods can place added force behind the GPRA annual performance report requirements by identifying program design deficiencies or explaining whether the program's intended outcomes would be achieved but for specific program activities or interventions.

35. Last year, the former administration created a Performance Improvement Council, which is comprised of Performance Improvement Officers appointed to the position by the agency head. The Performance Improvement Officers are responsible for coordinating the performance management activities of the agency and are held accountable for effectively helping the agency head perform the performance improvement responsibilities called for, whether they are program, budget, or personnel. The Performance Improvement Council has established program performance standards and evaluation criteria, facilitated information exchange among agencies, and coordinated and monitored performance assessments.

I fully support the efforts of the Performance Improvement Council and its efforts to date. If confirmed, I am committed to fostering collaboration among the CFO Council and the PIC on cross-cutting initiatives to improve management activities across the Federal government.

36. In its FY2010 budget asset-building document, "Building a High-Performing Government," OMB pledges, under the Obama Administration, to work with the Performance Improvement Council to fundamentally reconfigure how the federal government assesses program performance. As Acting Comptroller, have you been involved in this reconfiguration? If so, what steps have been taken to-date? If not, what efforts do you plan to make, if confirmed, to further this pledge?

Efforts are currently in progress to reconfigure how OMB and agencies will assess program performance. I am directly involved in issues related to strengthening financial management practices as well as increasing the availability of cost information to improve program management and performance, including improving the efficiency of program operations. One area that I have been directly involved in recently is a cross-agency initiative just underway to identify opportunities to manage the government more efficiently by lowering the cost of operations. Given the federal government fiscal situation, I am committed to these efforts in order to get the greatest effectiveness and efficiency for every taxpayer dollar spent.

37. How can OMB help improve the overall quality of agency strategic plans, annual performance plans, and performance reports?

To improve the overall quality of agency strategic plans, annual performance plans, and performance reports, I believe OMB should continue to work with agencies to explore ways to enhance the presentation of financial and performance information, making this information more meaningful, transparent, and useful to the reader. For example, we should encourage agencies to include their annual performance report along with their performance plan in the congressional budget justification. This allows agencies to discuss future programmatic resources directed at improving performance.

OMB recently revised the strategic plan guidance to improve its quality. Changes included having agencies present performance goals for each of their strategic goals so readers will understand what the agency intends to accomplish as well as present the initiatives they plan to accomplish their performance goals, which will make the document, more truly, a plan.

Grants.gov

38. There are currently over 1,000 different federal grant programs administered by more than two dozen federal agencies. The Federal Financial Assistance Management Improvement Act of 1999¹ (FFAMIA) sought to create a common system for prospective applicants for federal assistance to apply for and report on federal grants. This led to the creation of Grants.gov, which serves as the federal government's central portal for finding and applying for federal grants. As Acting and Deputy Controller, you have overseen OFFM, the office within OMB responsible for carrying out the mandates of FFAMIA, and implementing Grants.gov. Please describe your personal involvement in the management and oversight of Grants.gov and in fulfilling the other mandates under FFAMIA.

OFFM is the executive branch's principal grants management policy office. As the Deputy Controller and Acting Controller I have worked to develop and implement the policies to support superior grants management policies and practices, including issuing implementing guidance for legislation such as FFAMIA.

Over the past 3 ½ years since I became the Deputy Controller, I have partnered with the grant-making Federal agencies and the general grantee community to continuously implement changes consistent with the intent of FFAMIA. Under the direction and leadership of OMB, the Grants Policy Committee has streamlined a multitude of grant management forms and vetted these changes through the Paperwork Reduction Act process. This process allows the general grantee community to comment on the proposed changes in which we incorporate those comments in the final forms and guidance as appropriate.

The Office of E-Government & Information Technology has the principal responsibility for managing the Grant.gov effort and HHS manages the day-to-day activities of the system. OFFM works with these organizations and the Federal grants community to identify the requirements that the Grants.gov system needs to support with respect to

¹ P.L. 106-107 (31 U.S.C. § 6101 note)

OMB's grants management policies. More recently, I have been working with the E-Gov office and HHS to overcome the challenges presented by the Grants.gov system, particularly as Federal agencies began to announce additional grant opportunities as a result of the Recovery Act. To date, the system has been able to meet the demand of increased activity under the Recovery Act, but we need to continue to monitor the situation closely.

The grant management processes and Grants.gov challenges have provided me the opportunity, during my tenure as Deputy Controller and Acting Controller, to better understand the complexities of the grant-making process and enforced my desire to facilitate an easier and more user-friendly environment for the grantee community and the grant-making Federal agencies.

39. Earlier this year, the anticipated increase in the volume of federal grant applications due to the Recovery Act threatened to overwhelm Grants.gov. On March 9, 2009, the OMB Director, noting that the increased application load had "at times resulted in noticeably degraded performance," issued a government-wide memorandum instructing federal grant-making agencies to immediately identify alternative methods for accepting grant applications to alleviate the increased demand on Grants.gov. On April 8, 2009, Director Orszag issued another memorandum asking federal grant-making agencies to contribute additional funds to support urgent, short-term improvements to Grants.gov.

Although the significant additional volume of grants resulting from the Recovery Act indisputably put unprecedented strains on the system, a series of GAO reports suggest that users of Grants.gov have experienced technological and other problems throughout Grants.gov's existence, including system unresponsiveness during routine peak grant periods.² What steps, if any, had OMB taken, prior to this spring, to improve the technological operation of Grants.gov and ensure the system had adequate capacity to meet users' needs during peak grant application periods? Are there additional steps that you believe OMB should have taken?

Grants.gov has had performance issues in part due to the unforeseen demand caused by a steady rise in grants activity since inception. While the system had experienced some usability and performance problems earlier, it was not until the passage of the Recovery Act that OMB determined the system to be at serious risk. While OMB has been engaged in monitoring the Grants.gov solution via the Grants Executive Board, in retrospect, OMB should have taken a closer look at management and leadership engagement at HHS to help bring stronger executive attention to Grants.gov. In recent months, HHS has made major changes to its own internal oversight and management of Grants.gov, at all levels within the agency. If confirmed, I will ensure that OMB continues to work with HHS to maintain clear lines of accountability and to ensure an appropriate plan is in place to drive continuous improvements the system's performance.

² GAO-09-589 - Grants Management: Grants.gov Has Systemic Weaknesses that Require Attention (July 2009); GAO-06-566 - Grants Management: Grantees' Concerns with Efforts to Streamline and Simplify Processes (July 2006); GAO-05-335 - Grants Management: Additional Actions Needed to Streamline and Simplify Processes (April 2005).

40. In July 2009, GAO released a report describing a number of systemic problems faced by Grants.gov (GAO-09-589: *Grants Management: Grants.gov Has Systemic Weaknesses That Require Attention*). Among other challenges, the GAO report discusses the funding structure for Grants.gov, which relies on voluntary contributions from the 26 federal grant-making agencies. GAO notes that untimely agency contributions have adversely affected Grants.gov operations.

- In its comments on the GAO report, the Department of Health and Human Services (HHS), which serves as the managing partner agency for Grants.gov, stated that “the Grants.gov system funding model is institutionally biased against investing adequate resources in system improvements and could benefit from review.” Do you agree with HHS’s comments? Do you believe the current funding structure allows Grants.gov to be adequately maintained, longer-term planning to be undertaken, and necessary improvements to be made?

I am committed to working with HHS to explore alternate funding structures as necessary. In the interim, my priority is working with agencies to pay their contributions timely and working with HHS to make sure that smart investments are being made in the Grants.gov solution to best serve agency program objectives and applicant needs.

- What changes, if any, would you recommend be made to the funding structure for Grants.gov?

Potential changes to the funding structure for Grants.gov will need to be explored with HHS and vetted with the contributing agencies. The priority now is to make sure that agencies pay their contributions timely and that they get a commensurate value for their contribution.

41. GAO’s July 2009 report also identified the lack of clearly defined roles and responsibilities for the oversight of Grants.gov as a weakness. The FFAMIA gives the OMB Director the responsibility for directing, coordinating and assisting federal agencies in establishing a common application and reporting system for federal assistance, although it permits the OMB Director to designate a lead agency and use interagency working groups to assist him in carrying out his responsibilities. Please describe your view of the role of OMB in overseeing Grants.gov. Do you believe that the OMB Director has overall responsibility for ensuring the effective operation of Grants.gov?

OMB has the responsibility for setting grants policy, apportioning resources, providing direction to agencies and intervening when operations are at risk to the point where an agency mission is jeopardized. Day to day operational responsibilities, including IT investment management for Grants.gov, fall under HHS as the managing agency, with the assistance of the Grants Executive Board, an interagency body. OMB has a responsibility to step in when mission critical systems are at risk of failure, as was the case with Grants.gov earlier this year. However, such intervention should be considered

to be the exception rather than the rule. Ultimately, I believe that the effective operation of Grants.gov is a shared responsibility of OMB and HHS and that we each should be held jointly accountable for ensuring that it functions properly and achieves intended performance results.

42. GAO reports that, in oral comments on GAO's July 2009 report, OMB staff indicated that, in light of where Grants.gov was in its useful life cycle, they "do not foresee any system changes beyond those needed to keep the system stable and operational, and that Grants.gov should be in an operations and maintenance mode until requirements for a new system are developed."

- When do you anticipate that requirements for a new Grants.gov system will be complete? What work, if any, has already been done to define such requirements?

I expect that high-level requirements for a new Grants.gov will be completed over the next few months. Because the focus has been on shoring up current systems capabilities, we have only recently begun the process.

- If confirmed, what steps will you take to incorporate input from the numerous stakeholders, including the grantee community, in defining the requirements for a new Grants.gov system?

One area in which we clearly need to improve moving forward is doing a better job coordinating with the stakeholders. Given the size and variety of the stakeholder community, this is a significant responsibility. However, we must focus on getting things correct for the next generation of Grants.gov to succeed. We need to develop a communications strategy that enables communications between OMB, the Federal agencies, and the grantee community.

- Please describe your vision of a next-generation Grants.gov system.

Requirements for the next generation of Grants.gov must be developed in coordination with both the agencies and user community. The next generation of Grants.gov needs to provide the grantee community easy and quick access to grant opportunities. I envision a system that is architected in a more flexible manner than the current Grants.gov, concentrating on driving data standardization and employing state of the art technologies that weren't available when the current system was developed. The end result would be a system that meets customer needs, is less expensive to deploy, is more flexible and expandable, and significantly more user-friendly.

43. FFAMIA required the development of a common system for both grant applications and reporting. Yet, ten years after the enactment of FFAMIA and six years after the Grants.gov website was deployed, Grants.gov includes only "find" and "apply" functions and does not including any reporting mechanisms.

- What actions, if any, has OMB taken to date to develop reporting tools on Grants.gov? If confirmed, what additional actions will you take to expand Grants.gov to include reporting functions?

We have set a strong foundation for a common system reporting solution. We are continuously standardizing grant management forms and have begun other system standardization efforts to support end-to-end grants management activities that promote citizen access, customer service, and agency financial and technical stewardship. The next steps will be to bring these efforts together, along with lessons learned from the Recovery Act, when we modernize Grants.gov and explore reporting as a key feature of the new solution.

- Recipients of Recovery Act grant funds are subject to reporting requirements under the Act. How do you expect to incorporate lessons from the Recovery Act experience to inform development of reporting mechanisms on Grants.gov? What steps, if any, has OMB taken to ensure that systems developed to allow for online reporting under the Recovery Act can, where appropriate, be adapted or built on to enable reporting for grants more generally?

The implementation of the Recovery Act has taught us many things that we need to consider when developing the next generation of Grants.gov. For example;

- *Standardizing and clearly defining terminology and data elements,*
- *Reconciliation of different reporting timeframes,*
- *Challenges of varying technical expertise,*
- *Challenges with monitoring activity of recipients, and*
- *The grantee community's need for information, such as capabilities for recipients to search, query, sort, download, or upload information.*

If confirmed, I will work closely with the Federal agencies and grantee community to leverage, as appropriate, the Recovery Act solution and lessons learned when defining common reporting solutions for grants more broadly.

44. S. 303, the Federal Financial Assistance Management Improvement Act of 2009, would reauthorize and update the original FFAMIA. This legislation passed the Senate by unanimous consent on March 18, 2009 and is currently being reviewed in the House of Representatives by the Committee on Oversight and Government Reform. What are your views on S. 303? Do you believe that the original FFAMIA should be reauthorized? If so, what changes, if any, do you believe should be made to the original FFAMIA? If not, why not?

In concert with other OMB leaders, I am supportive of S. 303 and look forward to working with the Committee on this important legislation. Improving grants management will be a top priority for me, if confirmed. I agree with the intent of the law to simplify grants management and create more integrity and transparency in the grant-making processes. The reauthorization of the Federal Financial Assistance Management

Improvement Act of 1999 would enable us to achieve, process improvements that lower costs and reduce burden on government agencies and Federal funding recipients.

IV. Relations with Congress

45. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Yes.

46. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Yes.

V. Assistance

47. Are these answers your own? Have you consulted with the OFFM, OMB or any interested parties? If so, please indicate which entities.

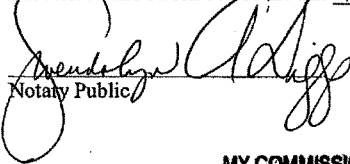
These answers are my own. I consulted with staff from OMB in developing them.

AFFIDAVIT

I, Daniel Werfel, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.



Subscribed and sworn before me this 4th day of September, 2009.


Notary Public

**MY COMMISSION EXPIRES
JANUARY 1, 2012**



United States
Office of Government Ethics
 1201 New York Avenue, NW., Suite 500
 Washington, DC 20005-3917

August 11, 2009

The Honorable Joseph I. Lieberman
 Chairman
 Committee on Homeland Security
 and Governmental Affairs
 United States Senate
 Washington, DC 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Daniel I. Werfel, who has been nominated by President Obama for the position of Controller of the Office of Federal Financial Management, Office of Management and Budget.

We have reviewed the report and have also obtained advice from the agency concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is an ethics agreement outlining the actions that the nominee will undertake to avoid conflicts of interest. Unless a date for compliance is indicated in the ethics agreement, the nominee must fully comply within three months of confirmation with any action specified in the ethics agreement.

Based thereon, we believe that this nominee is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert I. Cusick".

Robert I. Cusick
 Director

Enclosures - REDACTED

Senator George V. Voinovich
Additional Questions for the Record
Nomination Hearing of Daniel Werfel
Senate Homeland Security and Governmental Affairs Committee
September 16, 2009

1. Mr. Werfel, your work at the Office of Management and Budget (OMB) has involved overseeing implementation of the Federal Financial Assistance Management Improvement Act of 1999, legislation Chairman Lieberman and I enacted to streamline and simplify federal grant application and reporting requirements. That law sunset in 2007, but the Government Accountability Office (GAO) has suggested Congress consider reauthorizing the law. Earlier this year, Senators Lieberman, Carper and I introduced a bill to do just that. What are your personal thoughts on that bill, the Federal Financial Assistance Management Improvement Act of 2009 (S. 303)?

If confirmed, I look forward to working with you, Chairman Lieberman, and Senator Carper on this important legislation. In concert with other OMB leaders, I am supportive of S. 303. I agree with the intent of S. 303 to streamline and simplify federal grant application and reporting requirements. Consistent with the issues OMB has discussed with the committee staff, I believe S.303 would provide both flexibility for defining and implementing optimal solutions and accountability for bottom-line results that will drive improvements in the grant application and reporting processes.

2. Does OMB have a position on S. 303?

Based on discussions with the Committee, OMB believes the reauthorization of the Federal Financial Assistance Management Improvement Act of 1999 would enable process improvements that lower costs and reduce burden on government agencies and Federal funding recipients. Improving grants management is a priority and we must work together to simplify the grant-making process and bring greater integrity and transparency to the process. Consistent with prior statements from OMB officials, the Administration supports S. 303 to the extent it can achieve these goals by complementing existing legislation, such as the Federal Funding Accountability and Transparency Act and the American Recovery and Reinvestment Act of 2009.

3. Will you commit to providing me with any technical comments OMB might have on S. 303 no later than October 15, 2009?

Yes, I will commit to providing you and your staff with technical comments on S. 303 no later than October 15, 2009.

4. On March 9 of this year, Director Orszag issued a Memorandum for the Heads of Departments and Agencies regarding "Recovery Act Implementation – Improving Grants.gov and Other Critical Systems" that discussed risks to Grants.gov that are associated with the American Recovery and Reinvestment Act of 2009. On April 8, he issued a second Memorandum for the Heads of Departments and Agencies regarding

“Improving Grants.gov.” On April 29, GAO made two recommendations in response to these memoranda and OMB’s efforts to address Grants.gov issues associated with the Recovery Act. What steps has OMB taken in response to those recommendations, and what additional steps do you believe are needed to address Grants.gov issues associated with the Recovery Act?

GAO’s two recommendations in response to OMB’s memoranda addressing Grants.gov issues made on April 29, 2009 were that the Director of OMB: 1) ensure that agency alternate submission methods are posted in a prominent location on any federal website or document where instructions are presented for applying for grants under the American Recovery and Reinvestment Act (ARRA) ; and 2) implement and prominently post government-wide policies for all applications submitted during the peak filing period for grants under the ARRA.

OMB addressed the first recommendation by posting a prominent notice on Grants.gov that alerted potential grant recipients of the specific Federal departments and agencies that would be utilizing alternate submission methods beyond Grants.gov. Grants.gov is still the central website in which potential grant recipients would search for grant opportunities and therefore we are confident that a prominent notice on this website will reach those most impacted. In addition, we provided a link to Grants.gov on the Recovery.gov website and instructed Federal agencies to do the same for their respective websites.

The second recommendation was addressed by several actions. The Grants.gov system sends an electronic confirmation, via email, to the applicants during several phases of the application process: 1) upon successful submission; 2) upon validation of a submitted application package; and 3) when the grantor agency has received the application. In addition, OMB has begun communicating with Federal agencies about initiating more flexible policies with respect to applications submitted late due to system challenges applicants were facing with Grants.gov. OMB is working with the Grants Policy Committee in developing a government-wide policy addressing late submissions.

As we begin modernizing Grants.gov, we must improve coordination with the stakeholders. Given the size and variety of the stakeholder community, this is a significant responsibility. HHS, in coordination with the Grants Executive Board, has already begun developing a stakeholder involvement strategy to improve communications between OMB, the Federal agencies, and the grantee community, to build upon processes currently in place. Feedback collected using these new processes will be used to inform the design of the next generation of Grants.gov.

5. I understand that you have been actively involved in OMB’s efforts to comply with the security clearance reforms mandated in the *Intelligence Reform and Terrorism Prevention Act*. What has your specific role in those activities entailed?

I have served as the Vice Chair of the Security and Suitability Performance and Accountability Council (PAC) since October 2008. In that capacity, I support the

Deputy Director for Management at OMB, who is the Chair of the PAC, in leading the day-to-day and longer-term activities of the PAC.

6. I want to make sure that security clearance reform gets the appropriate attention from OMB. Due to the significant responsibilities of the Controller of OFFM, has there been any discussion as to how your role regarding security clearance reform efforts might change or evolve if you are confirmed?

My understanding is that, if confirmed as OMB's Controller, I will continue in my role as Vice Chair of the PAC. The security clearance reform initiative is a top priority for OMB and, if confirmed, it will be a critical initiative within my area of responsibilities moving forward.

7. Do you currently have the people, policies and tools in place to move forward with the security clearance reform effort?

Yes. There are multiple offices within OMB that are supporting security clearance reform activities. Specifically, in addition to the Office of Federal Financial Management, staff from OMB's Office of Performance and Personnel Management, the Office of Information and Regulatory Affairs, the National Security Division, and the Office of General Counsel work together to address emerging issues and opportunities within the initiative. This partnership extends to the broader Joint Reform Team, which includes the Office of Personnel Management, the Department of Defense, and the Office of the Director of National Intelligence. Taken as a whole, I believe the people, policies, and tools are in place to drive success in this critically important area.

