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MAKING THE FEDERAL GOVERNMENT ACCOUNTABLE: ENFORCING THE MANDATE FOR EFFECTIVE FINANCIAL MANAGEMENT

FIFTH REPORT

BY THE

COMMITTEE ON GOVERNMENT REFORM

together with

MINORITY VIEWS

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JULY 27, 2000.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, DC, July 27, 2000.

Hon. J. DENNIS HASTERT,
Speaker of the House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: By direction of the Committee on Government Reform, I submit herewith the committee's fifth report to the 106th Congress. The committee's report is based on a study conducted by its Subcommittee on Government Management, Information, and Technology.

DAN BURTON,
Chairman.

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APPENDIXES

VIEWS

ABBREVIATIONS

CFO	Chief Financial Officer
DOD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IG	Inspector General
IRS	Internal Revenue Service
OMB	Office of Management and Budget
USDA	Department of Agriculture

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106TH CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPORT 106–802

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JULY 27, 2000.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. BURTON, from the Committee on Government Reform submitted the following

FIFTH REPORT

On June 29, 2000, the Committee on Government Reform approved and adopted a report entitled, "Making the Federal Government Accountable: Enforcing the Mandate for Effective Financial Management." The chairman was directed to transmit a copy to the Speaker of the House.

I. SUMMARY OF OVERSIGHT FINDINGS AND RECOMMENDATIONS

A. INTRODUCTION

The Committee on Government Reform (the "committee") has primary legislative and oversight jurisdiction with respect to "Government management and accounting measures generally," as well as "overall economy, efficiency, and management of Government operations and activities, including Federal procurement."[1] The committee also has the responsibility:

> [T]o determine whether laws and programs addressing subjects within the jurisdiction of [the] committee are being implemented and carried out in accordance with the intent of Congress and whether they should be continued, curtailed, or eliminated, each standing committee (other than the Committee on Appropriations) shall review and study on a continuing basis the application, administration, execution, and effectiveness of laws and programs addressing subjects within its jurisdiction. [The committee

[1] Clause 1(h) (4) and (6) rule X of the Rules of the House of Repesentatives, 106th Congress.

shall review and study] any conditions or circumstances that may indicate the necessity or desirability of enacting new or additional legislation addressing subjects within its jurisdiction.[2]

Pursuant to this authority, the Committee on Government Reform's Subcommittee on Government Management, Information, and Technology (the "subcommittee") convened eight oversight hearings to explore:

- the implementation of laws related to Federal financial management in executive departments and agencies and, in particular, the third year of full implementation of the Chief Financial Officers Act of 1990 [CFO Act], as expanded by the Government Management Reform Act of 1994 [GMRA] and as amended by the Federal Financial Management Improvement Act of 1996 [FFMIA];
- the extent to which Federal executive departments and agencies have successfully complied with the requirements of these laws;
- the need for congressional action to improve financial management in the Federal Government; and
- options for congressional actions that would effectively bring about such improvement.

Billions of taxpayer-provided dollars are being lost each year to fraud, waste, misuse, and mismanagement in hundreds of programs within the Federal Government. Audits continue to show that most agencies have significant weaknesses in controls and systems. As a result of these weaknesses, Federal decisionmakers do not have reliable and timely performance and financial information to ensure adequate accountability, manage for results, and make timely and well-informed decisions.

In the late 1980's, Congress recognized that one of the root causes of this loss was the Federal Government's disarray of financial management policies, systems, and practices and lack of leadership. Financial systems and practices were obsolete and ineffective. They failed to provide complete, consistent, reliable, and timely information to congressional decisionmakers or agency management.

In response, Congress passed a series of laws designed to improve financial management practices and to ensure that tax dollars would be spent for the purposes that Congress intended. These laws included the Chief Financial Officers Act of 1990, Public Law 101–576, the Government Management Reform Act of 1994, Public Law 103–356, and the Federal Financial Management Improvement Act of 1996, Public Law 104–208. Each executive agency covered by the Chief Financial Officers Act—or specified by the Office of Management and Budget [OMB]—is required to prepare and have audited a financial statement covering all accounts and associated activities of each office, bureau, and activity within the agency.[3] Furthermore, consolidated governmentwide financial state-

[2] Ibid., Clause 2(b)(1) (A) and (C).

[3] The 24 Federal agencies covered by the requirements of the CFO Act are the following 14 Cabinet Departments: Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, Treasury, and Veterans Affairs; and the following 10 independent agencies: Environmental Protection, National Aeronautics and Space, International Development, Federal Emergency Man-

ments must be prepared and audited annually. In addition, Federal agencies are required to conform to promulgated Federal Government accounting and systems standards, and to use the Federal standard general ledger.

Implementation of the financial management reforms established by these laws is still underway. It is imperative that these reforms are successfully achieved. Agencies must produce reliable, useful and timely financial information. This information is essential for financial management purposes as well as measuring program performance under the Government Performance and Results Act of 1993 [GPRA], Public Law 103–62. Thus at a minimum, strong congressional oversight is needed to achieve the primary goal of all these laws: a Federal Government that is accountable to the American taxpayers.

B. FINDINGS

The fiscal year 1999 annual audit reports for the 24 Federal departments and agencies ("agencies"), required under the CFO Act as expanded by GMRA, were due to be filed with the Office of Management and Budget on March 1, 2000. On March 31, 2000, the U.S. General Accounting Office [GAO] issued its third annual audit report on the financial statements of the Federal Government. Based on the investigation and oversight hearings conducted by the subcommittee, and the results of agency and governmentwide fiscal year 1999 financial statements audits, the committee finds as follows:

1. Agencies continue to miss the statutory reporting deadline for audited financial statements

The Government Management Reform Act of 1994 required that the head of each of the 24 CFO Act agencies submit audited financial statements to the Director of the OMB by March 1st of each year. The OMB reported that the timeliness of financial reports improved this year, increasing from 6 agencies that met the statutory deadline in 1997 to 19 agencies in 2000. Of the five agencies that failed to meet this deadline, the Department of the Interior failed to file its report until May—nearly 8 months after the end of the fiscal year. The Department of State had not produced its audited financial statements by the time of this report's publication. Failure to meet a statutory deadline is of serious concern to the committee. The Congress mandates deadlines with the intent that such deadlines will be met.

2. Progress is being made, but obtaining "clean" audit opinions is not the "end game"

The OMB reported that the quality of agency financial statements has improved and that agencies continue to make steady progress in this area. For fiscal year 1996, only 6, or 25 percent, of the agencies received unqualified or "clean" audit opinions on their fiscal year 1996 financial statements compared to 14, or 58 percent, for fiscal year 1999, according to the OMB. The GAO also

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agement, General Services, National Science, Nuclear Regulatory Commission, Personnel Management, Small Business, and Social Security.

noted that the number of agencies receiving "clean" audit opinions has steadily increased.

"Clean" audit opinions are an important milestone. However, the Comptroller General again emphasized that obtaining a "clean" audit opinion is not the "end game." Such an opinion does not guarantee that agencies have systems in place that produce reliable, useful, and timely financial information to support ongoing management and accountability. The Comptroller General further noted that some agencies had obtained "clean" audit opinions only through "heroic efforts," which included using consultants, statistical sampling, and other *ad hoc* procedures to obtain reliable numbers for one particular date—the end of the fiscal year.

Also emphasizing the need for greater focus on improving day-to-day financial management practices, the Inspector General for the Department of Housing and Urban Development stated, "Virtually any entity, given enough time and resources, can get an unqualified opinion on its financial statements."

3. Material deficiencies in the Federal Government's financial information continue

Similar to the previous 2 years, the GAO was unable to render an opinion on the reliability of the fiscal year 1999 financial statements of the Federal Government. The GAO report [4] identified the broad array of financial management problems faced by the Federal Government, which impair its ability to adequately safeguard assets, properly record transactions, and comply with selected provisions of laws and regulations related to financial reporting. According to the GAO, these problems affect the reliability of the financial statements of the U.S. Government as well as the related underlying financial information. More important, GAO noted that these problems ". . . also affect the Government's ability to accurately measure the full cost and financial performance of certain programs and effectively manage related operations."

4. Inconsistent reporting of certain Social Security and Medicare (Part A) projections

For the second year, the Comptroller General reported that certain information concerning the Social Security and Medicare (Part A) trust funds reported in the Federal Government's financial report was immediately outdated and, therefore, inconsistent with the information reported by the Social Security and Medicare Boards of Trustees. This information included projected contributions and expenditures, dates when expenditures were expected to exceed contributions, and dates when such funds were expected to be exhausted.

The Comptroller General stated that the Social Security and Medicare Boards of Trustees issue their annual report on the status of the Social Security and Medicare Programs, which includes updated information on these Federal programs, one day after the Government issues its financial report. As a result, the two documents, issued within one day of each other, have reported signifi-

[4] "Financial Audit: 1999 Financial Report of the United States Government," GAO AIMD–00–131, Mar. 31, 2000.

cantly different projections for the last 2 years, and may cause confusion for Congress and the public.

The Comptroller General stated that given the importance of this information, "steps should be taken in future years to assure that the Government's financial report contains up-to-date information as of no earlier than the end of the most recent fiscal year in these important Federal programs." The Comptroller General noted that while the Social Security and Medicare Boards of Trustees have a statutory responsibility to report by April 1st, theoretically they could provide this information earlier so that it could be included in the Government's financial report. Further, he suggested that serious consideration should be given to auditing this information.

5. Material control weaknesses continue to exist

Auditors continued to identify material weaknesses in internal controls throughout the CFO Act agencies. As of the date of publication, only 5 of the 23 CFO Act agencies that filed audit reports for fiscal year 1999 were found to have no material weaknesses.[5] Material weaknesses contribute to an agency's inability to ensure that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are executed in accordance with the laws governing the use of budget authority and with other laws and regulations that could have a direct and material affect on the financial statements.

In addition, the GAO noted that deficiencies related to the major problems affecting the reliability of the Federal Government's financial statements identified above, also constitute material weaknesses in internal controls. Other related problems reported as a result of inadequate internal controls, include the Federal Government's inability to develop strategies to reduce billions of dollars in improper payments and to efficiently and effectively collect and account for tax revenues. Of additional alarm, virtually every agency was reported as having computer security weaknesses. As a result, the Federal Government's financial and other sensitive information is susceptible to inappropriate disclosure, destruction, modification, and fraud.

6. Noncompliance with laws and regulations continue to exist

Noncompliance with selected provisions of laws and regulations related to financial reporting continues to be a pervasive problem among the 24 CFO Act agencies. Based on the fiscal year 1999 audit reports of 23 agencies that had filed reports as of publication of this report, only 3 were reported as having no instances of material noncompliance. Specifically, 20 of the agencies were not compliant with the requirements of the Federal Financial Management Improvement Act of 1996—a key financial management law en-

[5] A material weakness, as defined by the American Institute of Certified Public Accountants in its *Statements of Auditing Standards* and in the Comptroller General's *Government Auditing Standards,* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

acted to ensure that agencies' financial management systems produce timely and accurate financial information.

The GAO stated, ". . . continuing widespread noncompliance with FFMIA is indicative of the overall long-standing poor condition of agency financial systems." And for many agencies, ". . . the preparation of financial statements requires considerable reliance on ad hoc programming and analysis of data produced by inadequate financial systems that are not integrated, reconciled, and often require significant adjustments." [6]

C. RECOMMENDATIONS

Based on the foregoing findings, the committee recommends the following:

1. Continuation of regular congressional and Presidential oversight

Strong oversight is one of Congress's most effective tools in the effort to ensure that executive departments and agencies implement necessary reforms. To build upon this, Congress needs to mandate formal oversight hearings to review the status of agencies' progress toward financial accountability, including planned actions to resolve related problems.

Each department and agency should provide a detailed, annual status report on its financial management operations. When appropriate, each department or agency should be regularly reviewed by its relevant oversight, authorization, and appropriations subcommittees regarding its progress in reforming its financial management systems and processes. These hearings should be held annually, semiannually, or quarterly, depending on the severity of the financial problems within the department or agency. This would assist Congress in effectively monitoring agency actions and taking corrective actions as necessary.

2. Require top management attention to agencies' financial management systems remediation plans

The year 2000 computing problem was successful due to various factors, including the priority placed on the issue by Congress, the administration, and top management at each of the agencies. Such attention facilitated ongoing progress and monitoring performance. The establishment of governmentwide and agency-level plans, with milestones for addressing major weaknesses, was a significant factor in achieving success.

As previously recommended, agency financial management systems remediation plans must provide a detailed description of planned actions with clear and reasonable milestones, including the names of staff members responsible for resolving particular issues. To ensure top management attention, the plan should be approved by the agency head and relevant agency officials, such as the Chief Financial Officer, Chief Information Officer, and Inspector General. A draft of the approved plan should be sent to the Comptroller General who would coordinate the agency's actions and related milestones in the remediation effort. These parties

[6] "Auditing the Nation's Finances: Fiscal Year 1999 Results Continue to Highlight Major Issues Needing Resolution." GAO/T–AIMD–00–137, Mar. 31, 2000.

must meet regularly to monitor the agency's progress in meeting the objectives of the plan.

A draft of the plan should also be available to relevant congressional committees. In addition, the congressional oversight hearings recommended above should include a discussion of the agency's plan and the progress being made toward resolving outstanding financial management systems issues. This would assist Congress in effectively monitoring agency actions and taking corrective actions as necessary.

3. Provide incentives for implementing effective financial management

It is clear that congressional oversight alone cannot effect the necessary change in financial management practices at all departments and agencies. The committee again notes that incentives are needed to prompt agencies to resolve their outstanding financial management problems. If an agency is unable or unwilling to effect these crucial changes, Congress has the authority to provide incentives for change. These incentives include: (1) redirecting a percentage of the agency's appropriated program or administrative funding toward correcting financial management problems; (2) restricting a percentage of the agency's appropriated funds until the problems are corrected; or (3) reducing various amounts of appropriated funds until the agency has completed its correction efforts. Further, reducing appropriated funds should be considered for all agencies failing to comply with the March 1st statutory reporting deadline.

These actions are intended to encourage an agency to resolve its financial management problems expeditiously while meeting the March 1st statutory deadline.

4. Ensuring that the Federal Government's financial report contains current information related to Social Security and Medicare (Part A) trust funds

In light of the importance of future funding projections related to Social Security and Medicare (Part A) trust funds and the Comptroller General's recommendation that steps be taken to ensure that the Government's annual financial report contains up-to-date information, the subcommittee should request the GAO to conduct a study on the feasibility of the Social Security and Medicare Boards of Trustees releasing updated projections in a timeframe that will allow them to be included in the Government's annual financial report. Such a study should consider whether the Social Security and Medicare Boards of Trustees' statutory reporting deadline of April 1st should be changed to coordinate with the Government's financial report. Further, Congress should consider the need for requiring that such information be independently verified. If determined to be necessary, such a requirement should be legislatively mandated.

5. Strengthen the ability of Inspectors General to carry out their financial management oversight responsibilities

Inspectors General are responsible for conducting audits of agency and department programs and operations. Their audit function in the executive branch is crucial. Agency audits provide information to executive branch managers and Congress that is necessary to uncover and resolve problems that impede effective financial management. To ensure that Inspectors General can provide quality audit services, it is imperative that Congress takes steps to ensure that Inspectors General are highly qualified and have the necessary resources to oversee agency financial management.

The Office of the Inspector General must ensure that all candidates for Inspector General positions are qualified to perform financial statement audits or specific segments of audits requiring specific expertise. These qualifications should be determined through a review by an external party and may be incorporated into the peer-review process.

As the committee suggested last year, when appointments for the Inspector General office are being considered, a board, which includes representatives of the President's Council on Integrity and Efficiency, should review the qualifications of the Inspector General candidate before the nomination is forwarded to the Senate for confirmation.

6. Strengthen the President's role as Chief Executive Officer of the executive branch by establishing an Office of Management

Management of the executive branch of the Federal Government should be a Presidential priority. Among the President's many roles is the responsibility to serve as Chief Executive Officer of the Federal Government. Many broad objectives—including effectively managing Federal Government finances—are intended to make the Federal Government work better, but they depend on the commitment of the President and his staff in the Executive Office of the President. By approaching the Federal Government almost exclusively from a budgetary or policy perspective, Presidents limit their capacity to reform management within the Federal Government.

If the financial management function is to be strengthened, the President needs management experts. That is also true of various other management functions. In the past, the Subcommittee on Government Management, Information, and Technology has recommended legislation that would form an Office of Management, separate and distinct from the Office of the Budget. It continues to recommend such an office. This office could help the President and his Cabinet to focus on the critical management challenges facing the Federal Government.

Cabinet officers are not always nominated for their managerial skills. They need assistance. Congress has provided some of that assistance by mandating the roles of Chief Financial Officer and Chief Information Officer. However, in a number of departments and agencies, these dual roles have been assigned to one person. That is not what Congress intended. The financial and information management functions are so complex that each position requires the full-time attention of a senior management official.

II. Report on the Committee's Oversight Review

A. BACKGROUND

> I think it an object of great importance . . . to simplify our system of finance, and bring it within the comprehension of every member of Congress . . . the whole system [has been] involved in an impenetrable fog. There is a point

> . . . on which I should wish to keep my eye . . . a simplification of the form of accounts . . . so as to bring everything to a single centre[;] we might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them.[7] *—Thomas Jefferson, April 1, 1802.*

1. The need for effective Federal financial management

Nearly 200 years ago, President Thomas Jefferson recognized the need for effective financial management in the Federal Government. President Jefferson's insight on this subject is equally relevant today.

Federal financial management continues in a state of disarray. Billions of taxpayers' dollars are being lost each year to fraud, waste, abuse, and mismanagement in hundreds of Federal programs. Financial systems and practices are obsolete and ineffective, and do not provide complete, consistent, reliable, and timely information to congressional decisionmakers and agency management. The source of these losses could be identified and significantly reduced by improved financial management practices.

2. Federal financial management legislation

In response to this problem, Congress passed a series of laws designed to ensure that agency management problems would be fixed. The Chief Financial Officers Act, as expanded by the Government Management Reform Act of 1994 and amended by the Federal Financial Management Improvement Act of 1996, represents the most comprehensive financial management reform legislation in the last 40 years. Other significant legislation affecting Federal financial management includes: the Budget and Accounting Procedures Act of 1950; the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988; the Federal Managers' Financial Integrity Act of 1982; the Debt Collection Act of 1982, as amended, and the Debt Collection Improvement Act of 1996. The key financial management provisions of each of these laws are described in detail in Appendix A of this report.

Audited financial statements

The Chief Financial Officers Act as amended by the Government Management Reform Act, is intended to provide a more effective, efficient, and responsive Government. To that end, it specifically requires that each executive department and agency prepare and have audited a financial statement covering all accounts and associated activities of each office, bureau, and activity within the agency. These audited statements are to be sent to the Director of the OMB no later than March 1st of the year following the fiscal year for which the statements are prepared. In addition, GMRA also required that a set of consolidated governmentwide financial statements be prepared by the Secretary of the Treasury in coordination with the Director of the OMB. These financial statements of the

[7] Thomas Jefferson, in a letter to Secretary of the Treasury Albert Gallatin, Apr. 1, 1802, *The Writings of Thomas Jefferson,* edited by Andrew A. Lipscomb (Washington, DC, 1905) vol. 10, pps. 306–309.

Federal Government are to be audited by the Comptroller General of the United States and forwarded to Congress by March 31st of each year.

Federal accounting standards

The passage of the CFO Act in 1990 and its requirement for audited financial statements focused attention on the accounting standards to which Federal agencies were to be held. The Comptroller General of the United States, along with the Director of the Office of Management and Budget and the Secretary of the Treasury, agreed to establish an independent board that would recommend accounting principles. This board, known as the Federal Accounting Standards Advisory Board, was established in October 1990 as a deliberative body to consider and recommend accounting standards and principles, referred to as Statements of Federal Financial Accounting Standards for the Federal Government.

The approved standards, as adopted by the board's principals, are then issued by the Comptroller General and the Director of OMB as Statements of Federal Financial Accounting Standards. These statements comprise the body of standards that constitutes generally accepted accounting principles for the Federal Government. In October 1999, the American Institute of Certified Public Accountants recognized Federal accounting standards as a generally accepted basis of accounting. This recognition was deemed a major milestone in improving public confidence in the reliability and credibility of Federal financial information. Appendix B lists the Statements of Federal Financial Accounting Standards and the Statements of Federal Financial Accounting Concepts issued to date.

The Director of the Office of Management and Budget is responsible for setting the form and content of the financial statements against which the auditor must measure an agency's financial statements. The guidance provided by the OMB incorporates the standards recommended by the Federal Accounting Standards Advisory Board.

3. The importance of effective internal control

Federal financial management legislation—the Federal Managers' Financial Integrity and Federal Financial Management Improvement Acts, in particular—placed great emphasis on the importance of effective internal controls. Their importance cannot be overstated, especially in the large, complex operating environment of the executive branch of the Federal Government. Effective internal controls are the first line of defense against fraud, waste, misuse, and mismanagement of agency budgets, and help ensure that an entity's mission is achieved in the most effective and efficient manner. The subject of internal controls generally surfaces—as has been the case in subcommittee hearings—after improprieties or inefficiencies are found. However, good managers continually seek new ways to improve their operations through effective internal controls.

Internal controls can be simply defined as the methods by which an organization governs its activities to accomplish its mission effectively and efficiently. More specifically, internal controls are concerned with stewardship and accountability for the resources consumed in the process of accomplishing an entity's mission with effective results.

Internal controls should not be looked upon as separate, specialized systems within an agency. Rather, they should be recognized as an integral part of each system that management uses to regulate and guide its operations. Internal controls are synonymous with management controls in that their broad objectives cover all aspects of agency operations. Although ultimate responsibility for good internal controls rests with management, all employees have a role in the effective operation of internal controls set by management.

The committee again stresses that it is important to recognize that internal controls can be designed to provide reasonable, not absolute, assurance that an organization's activities are being accomplished in accordance with its objectives. The full cost of fraud, waste, misuse, and mismanagement cannot always be known or measured. If improper activities are allowed to continue, public confidence is eroded in the Government's ability to manage its programs effectively or honestly. Such erosion cannot be measured in terms of dollars. The trust of the citizenry in its Government is a priceless relationship.

B. RESULTS OF THE FISCAL YEAR 1999 GOVERNMENTWIDE FINANCIAL STATEMENTS AUDIT AND RELATED AGENCY AUDITS

1. Oversight hearings held by the subcommittee

U.S. Governmentwide audit

At the subcommittee's hearing on March 31, 2000, the Comptroller General of the United States released the results of the fiscal year 1999 audit of the financial statements of the Federal Government. For the third consecutive year, the Comptroller General reported that ". . . because of serious deficiencies in the Government's systems, record-keeping, documentation, financial reporting, and controls, amounts reported in the U.S. Government's financial statements and related notes may not provide a reliable source of information for decisionmaking by the Government or the public."[8]

Specifically, the GAO was unable to form an opinion on the reliability of the governmentwide financial statements because of the Federal Government's inability to:

- properly account for and report on billions of dollars worth of property, equipment, materials, supplies and certain stewardship assets, primarily at the Department of Defense;
- properly estimate the cost of certain major Federal credit programs and related loans receivable, and loan guarantee liabilities, primarily at the Department of Agriculture;
- estimate and reliably report material amounts of environmental and disposal liabilities, and their related costs, primarily at the Department of Defense;
- determine the proper amount of various reported liabilities, including post-retirement health benefits for military employees, and accounts payable and other liabilities for certain agencies;

[8] "Auditing the Nation's Finances: Fiscal Year 1999 Results Continue to Highlight Major Issues Needing Resolution," GAO/T–AIMD–00–137, Mar. 31, 2000.

- accurately report major portions of the net costs of Government operations;
- ensure that all disbursements are properly recorded; and
- properly prepare the Federal Government's financial statements, including balancing statements, accounting for substantial amounts of transactions between governmental entities, properly and consistently compiling the information in the financial statements, and reconciling the results of operations to budget results.

The Comptroller General further noted that as of March 31, 2000, 19 of 22 major agencies' financial systems did not comply with the requirements of the Federal Financial Management Improvement Act of 1996[9] and that agency financial systems overall are in poor condition and cannot provide reliable financial information necessary for managing day-to-day Government operations.

The Office of Management and Budget recognized that necessary financial management improvements are difficult and require a great effort. That modernizing financial management and reporting throughout the Federal Government is a long-term process that will take years not months to correct. However, the OMB reported that steady progress is being made—that the timeliness of financial reports has improved and the number of agencies receiving "clean" audit opinions has risen. Nonetheless, the Comptroller General cautioned that although clean audit opinions are essential to providing an annual public scorecard, the audits do not guarantee that agencies have the financial systems needed to produce reliable financial information. Modern financial management systems and good controls are essential to reaching the goal of providing reliable financial information necessary for managing Government operations on a day-to-day basis.

For the second year, the Comptroller General brought to the subcommittee's attention the fact that certain information in the Federal Government's financial report concerning the Social Security and Medicare (Part A) trust funds is outdated. This information includes projected contributions and expenditures, dates when expenditures are expected to exceed contributions, and dates when such funds are expected to be exhausted.

The Comptroller General noted that the day after the Federal Government's financial report is issued, the Social Security and Medicare Boards of Trustees report more current information. "The Government's issuance of dated information in this financial report at about the same time that it issues more current information may cause confusion to the Congress and the public. . . . This can serve to reduce confidence in and the credibility of the Government's annual financial report." The Comptroller General further said, "I think, frankly, it makes Government look foolish." Given the importance and magnitude of these numbers, he said that serious consideration should be given to whether the information published by the Boards of Trustees should be audited.

[9] The Department of the Interior and the Department of State had not yet issued audited financial statements.

Internal Revenue Service [IRS]

The subcommittee held two hearings on the IRS. The first hearing on February 29, 2000, focused on the financial management challenges facing the IRS. This hearing highlighted the need for continued involvement and commitment by IRS senior management to ensure that the IRS successfully addresses its serious financial management problems.

The IRS is responsible for collecting taxes, processing tax returns, pursuing collection of amounts owed, and enforcing tax laws. In fiscal year 1999, the IRS collected $1.9 trillion in Federal tax revenues, disbursed $185 billion in tax refunds, and reported $21 billion in net taxes owed to the Federal Government.

The IRS prepares financial statements on its custodial operations—revenues collected, refunds paid, and related taxes receivable and payable—and its administrative activities associated with over $8 billion of appropriated funds. During the fiscal year 1999 audit, the GAO found that "the agency continues to experience pervasive material weaknesses in the design and operation of its automated financial management and related operational systems, accounting procedures, documentation, record-keeping, and internal controls, including computer security controls." [10]

Such problems prevented the IRS from reliably reporting on the results of its fiscal year 1999 administrative activities. However, for the third consecutive year, the IRS was able to reliably report on its financial activity covering the collection and refunds of taxes for fiscal year 1999. As in previous years, this achievement was accomplished through extensive, costly, and time-consuming *ad hoc* procedures needed to overcome pervasive internal control and systems weaknesses. Major problems identified during the hearing included deficiencies in controls over unpaid tax assessments and tax refunds. Such a lack of controls could result in both an increased burden on taxpayers and the potential loss of billions of dollars in revenue and improper refunds.

The second hearing held on April 10, 2000, focused on the progress and challenges the IRS faces in re-engineering its business practices and technology to meet the requirements of the IRS Restructuring and Reform Act of 1998. As noted by the GAO, the "IRS has taken important steps over the last year; however, some of its most important and difficult work lies ahead." [11]

The IRS has been the subject of many studies and much criticism. The studies have identified a long list of problems, including inadequate technology and the failure of technology modernization programs, poor service to taxpayers, and violations of taxpayer rights. On July 22, 1998, the IRS Restructuring and Reform Act of 1998 was signed into law.[12]

This law included many provisions to enhance taxpayer rights and to deal with specific organizational aspects of the IRS. The Commissioner of the IRS noted that as a result of the act, "the IRS continues to plan and implement the most significant changes to its organization, technology, and the way it serves taxpayers in al-

[10] "Internal Revenue Service: Results of Fiscal Year 1999 Financial Statement Audit," GAO/T–AIMD–00–104, Feb. 29, 2000.

[11] "IRS Modernization: Business Practice, Performance Management, and Information Technology Challenges," GAO/T–GGD/AIMD–00–144, Apr. 10, 2000.

[12] Public Law 105–206, July 22, 1998.

most a half-century."[13] According to the Commissioner, progress is being made on both the agency's short- and long-term goals and mandates set forth by the Restructuring and Reform Act. And with Congress's continued support, the IRS will be able to make the changes the American taxpayers expect and deserve.

The GAO warned, however, ". . . the magnitude of this modernization effort makes it a high-risk venture that will take years to fully implement."[14]

At both IRS hearings, witnesses testified that the ability of the IRS to collect taxes in an effective and efficient manner continues to be hindered by significant long-standing financial management and operational problems. These problems will take years to correct and will require continuous commitment from senior management.

Health Care Financing Administration [HCFA]

The Health Care Financing Administration accounts for nearly 18 percent of all Federal outlays and pays for one-third of the health care costs throughout the United States. It is the largest single purchaser of health care in the world.

The subcommittee's hearing on March 15, 2000, focused on actions HCFA is taking to resolve its financial management problems as well as the financial management challenges associated with administering the Medicare program. The Inspector General reported that she was ". . . encouraged by HCFA's sustained success in reducing Medicare payment errors and by the important progress made in resolving prior years' financial reporting problems." However, the Inspector General said, "We remain concerned . . . that inadequate internal controls over accounts receivable leave the Medicare program vulnerable to potential loss or misstatement. As HCFA begins a lengthy process to integrate its accounting system with the Medicare contractor systems, internal controls must be strengthened to ensure that debt is accurately recorded, an adequate debt-collection process is in place, and information is properly reflected on the financial statements."[15] The GAO further noted that "shortcomings in HCFA's financial operations mean that it could not adequately ensure the reliability of data that the agency and Congress use to track the cost of the Medicare program and to help make informed decisions about future funding."[16]

In fiscal year 1999, $200 billion in Medicare benefit claims were administered by more than 50 Medicare contractors, and $110 billion in Medicaid benefit payments were administered by 57 States and territories. HCFA finances more than 860 million Medicare benefits claims annually to nearly 40 million seniors and disabled Americans and provides States with matching funds for Medicaid health care services for approximately 33 million low-income individuals.

[13] Testimony of Commissioner of Internal Revenue Charles O. Rossotti before the House Committee on Government Reform's Subcommittee on Government Management, Information, and Technology hearing on "IRS Filing Season, IRS Restructuring Act and Budget," Apr. 10, 2000.

[14] "IRS Modernization: Business Practice, Performance Management, and Information Technology Challenges," GAO/T–GGD/AIMD–00–144, Apr. 10, 2000.

[15] HCFA: Fiscal Year 1999 Financial Statement Audit, testimony of June Gibbs Brown, Inspector General, U.S. Department of Health and Human Services before the House Committee on Government Reform's Subcommittee on Government Management, Information, and Technology, Mar. 15, 2000.

[16] "Medicare Financial Management: Further Improvements Needed to Establish Adequate Financial Control and Accountability," GAO/T–AIMD–00–118, Mar. 15, 2000.

For fiscal year 1999, the Department of Health and Human Services Inspector General issued the first unqualified audit opinion on HCFA's financial statements. However, HCFA continues to have internal control weaknesses that hamper its ability to safeguard the fiscal integrity of the Medicare and Medicaid programs. As of September 30, 1999, HCFA estimated that its improper payments in Medicare fee-for-service claims totaled approximately $13.5 billion, or 8 percent, of the $169.5 billion fee-for-service program. Auditors reported that no methodology exists for estimating the range of improper Medicaid payments on a national level and that since Medicaid is a grant program, any estimating methodology would need to be done in conjunction with the States.

HCFA is currently working with the States to apply a common methodology of calculating error rates in the Medicaid program.

HCFA reported that several initiatives are underway to bring the Medicare claims payment error rate down, and that it is aggressively addressing financial management issues. Top management's continued support of these initiatives and sustained actions will be key to HCFA's success in resolving its financial management problems.

Department of Agriculture [USDA]

The Department of Agriculture's mission has evolved beyond agricultural programs to include programs in such diverse areas as economic development; food assistance; food safety; international trade and marketing; and land management. Today the Department of Agriculture is responsible for major programs that boost farm production and exports; promote small community and rural development; ensure a safe food supply for the Nation; manage natural resources; and improve the nutrition of families and individuals with low incomes. Its vast resources include more than $118 billion in assets.

At the subcommittee's hearing on March 21, 2000, the Inspector General reported that "Financial information in USDA is, on the whole, not reliable." And because of serious internal control weaknesses, ". . . managers of the programs and operations may be relying on highly questionable information."[17] USDA's Chief Financial Officer acknowledged the problems facing the department, its progress made to date, and the various initiatives underway to resolve them. However, the GAO concluded that many of the department's problems are deeply rooted and will take time, substantial resources, and sustained commitment from top management to correct.

Since fiscal year 1992, the department's financial statements have been unauditable, and the department continues to have serious financial management problems. One of the more significant problems preventing the department from reporting reliable information is its inability to reasonably estimate its cost of extending or guaranteeing $93 billion of credit. As the largest direct lender in the Federal Government, the department's inability to account properly for the costs of its loan programs continues to impact the reliability of the U.S. Government's financial statements. In addi-

[17] Testimony of Roger C. Viadero, Inspector General, U.S. Department of Agriculture, Mar. 21, 2000.

tion, this lack of reliable cost estimates prevents Congress from making decisions about whether to scale back or increase the loan programs.

Department of Housing and Urban Development [HUD]

The Department of Housing and Urban Development was established to promote adequate and affordable housing, economic opportunity, and a suitable living environment, free from discrimination. Its major functions include insuring mortgages for single-family and multifamily dwellings; channeling funds from investors into the mortgage industry; making direct loans for construction or rehabilitation of housing projects for the elderly and handicapped; providing Federal housing subsidies for low- and moderate-income families; providing grants to States and communities for community development activities; and promoting and enforcing fair housing and equal housing opportunity.

At the subcommittee's hearing on March 22, 2000, HUD's Inspector General noted that the same material weaknesses and reportable conditions that have been reported in previous years were essentially unchanged. However, the Inspector General stated that the department "has recognized its areas of systemic weakness to a degree that it never did before, and that in each of these areas it has plans in place and activities underway to address the problems."

For fiscal year 1999, the Inspector General was unable to express an opinion on HUD's financial statements in time to meet the statutory deadline of March 1, 2000, because of problems related to HUD's conversion to a new accounting system. The Inspector General's report stated ". . . material internal control weaknesses with HUD's core financial management system and the U.S. Government Standard General Ledger adversely affected HUD's ability to prepare auditable financial statements and related disclosures in a timely manner." [18]

In addressing its financial management problems, the Deputy Secretary stated that HUD has ". . . dedicated resources to address each and every material weakness and reportable condition cited in the audit." [19] He further stated that HUD's goal is to obtain unqualified opinions year after year and that with the final implementation of HUD's 2020 Management Reform Plan, each remaining material concern will be addressed.

Although achieving an unqualified opinion is important, the department must continue to strive to achieve the goal of the financial management legislation passed by Congress: to ensure that agencies maintain financial systems that allow them to produce accurate, reliable financial information on a day-to-day basis.

Department of Defense [DOD]

The subcommittee's hearing on May 9, 2000, focused on the status of financial management at the Department of Defense and the importance of reliable financial information to the Army, Air Force, and Navy's logistical operations.

[18] OIG Report, "U.S. Department of Housing and Urban Development Attempt to Audit the Fiscal Year 1999 Financial Statements," 00–FO–177–0003, Mar. 1, 2000.

[19] Testimony of Deputy Secretary Saul N. Ramirez, Jr., "HUD's Financial Management Systems," Mar. 22, 2000.

The Department of Defense is the largest of the 14 Cabinet-level departments. Fiscal year 1999 represented the fourth year that the Department of Defense had prepared audited, agencywide financial statements. For fiscal year 1999, the department reported total assets of $599 billion and total net cost of operations of $378 billion.

Once again, the Department of Defense Inspector General disclaimed an opinion on the department's financial statements, citing ongoing internal control weaknesses, compilation problems, and financial management system deficiencies. The audit report noted that the department's internal controls did not ensure that accounting entries impacting financial data were fully supported and that assets, liabilities, costs, and budget resources were properly accounted for and reported. The report also identified noncompliance issues related to the Federal Financial Management Improvement Act of 1996, the Chief Financial Officers Act of 1990, and the Government Performance and Results Act of 1993.

According to the Assistant Inspector General for Auditing, "Despite commendable progress, the DOD remains far from CFO Act compliance and aggressive measures will be needed over the next few years to achieve success. . . . Sustained involvement by senior managers and the Congress are vital ingredients for progress." [20]

The GAO also stated, "DOD continues to make incremental improvements to its financial management systems and operations. At the same time, the department has a long way to go to address the remaining problems. Overhauling DOD's financial systems, processes, and controls and ensuring that personnel throughout the department share the common goal of improving DOD financial management, will require sustained commitment from the highest levels of DOD leadership—a commitment that must extend to the next administration." [21]

One panel of witnesses at this hearing discussed how the department's financial management affects military logistics. Representing the U.S. Air Force, Army, and Navy, two generals and one vice admiral stressed the importance of having reliable financial information to assist them in making accurate and timely decisions to ensure the military readiness of our Nation.

Federal Financial Management Improvement Act of 1996 [FFMIA]

Historically, Federal agencies have struggled with reporting complete, reliable, and useful financial information. The lack of such information has hindered managers from efficiently handling their operations on a day-to-day basis. It has also prevented Congress from making fully informed decisions in allocating limited resources. Recognizing the important role that financial management systems play in providing timely and reliable financial information, Congress passed the Federal Financial Management Improvement Act of 1996 (Public Law 104–208).

On June 6, 2000, the subcommittee held its first oversight hearing on the status of the 24 CFO Act agencies in implementing the

[20] Statement by Robert J. Lieberman, Assistant Inspector General for Auditing, Department of Defense before the Subcommittee on Government Management, Information, and Technology, House Committee on Government Reform on "Department of Defense Financial Management," May 9, 2000.

[21] "Department of Defense: Progress in Financial Management Reform," GAO/T–AIMD/NSIAD–00–163, May 9, 2000.

FFMIA. The hearing focused on the progress agencies have made in complying with the law as well as the significant challenges that are preventing many agencies from having management systems that provide reliable financial information on a day-to-day basis.

Hearing witnesses from both the OMB and the GAO noted that many agencies continue to struggle with complying with FFMIA because of the overall, long-standing poor condition of agency financial systems. These systems were designed to track cash outlays under budget appropriations law, not accrual-based financial accounting. Specifically, the GAO noted five primary reasons that agencies are not complying with the law. (1) Agency financial management systems are not integrated; (2) agencies have inadequate reconciliation procedures; (3) agency financial systems are not compliant with the Federal Government Standard General Ledger; (4) agencies do not adhere to Federal accounting standards, and (5) agencies have weak security over their information systems.

The GAO noted one especially significant fact. Even though more agencies received unqualified or "clean" audit opinions, their ongoing noncompliance with FFMIA's requirements prevent these same agencies from meeting the intent of the financial management reform legislation: to report complete, reliable, and useful financial information. As of publication of this report, 20 of 23 CFO Act agencies did not have financial management systems that comply with FFMIA, even though 14 of the 23 agencies received "clean" audit opinions. According to the GAO, these "clean" audit opinions are attained only by using costly, heroic efforts that go outside of the agencies' financial systems.

Meeting the requirements of FFMIA presents long-standing significant challenges that will be attained only through time, investment, and sustained emphasis. The subcommittee learned at this hearing that, similar to the Government's year 2000 conversion efforts, success in complying with FFMIA is dependent on strong commitment from top agency management. As noted by the GAO, "consistent and persistent top management attention is essential to solving any intractable problem." [22] That type of management commitment must be clearly demonstrated if the goals of FFMIA are to be met.

2. Federal department and agency financial management grades

On March 31, 2000, the subcommittee released its third annual report card measuring the effectiveness of financial management in the 24 CFO Act agencies required to produce audited financial statements. The grades were based on the results of the audit reports prepared by the agencies' Inspectors General, independent public accountants, and the U.S. General Accounting Office.

The report card is a gauge for Congress to see where attention is needed to prod agencies toward getting their financial affairs in order. Again, this year, the grades are dominated by "D's" and "F's." This year, for the first time, the subcommittee determined that the Federal Government as a whole earned a "D plus."

The report card that follows is updated to reflect audit reports received as of June 29, 2000.

[22] "Financial Management: Agencies Face Many Challenges in Meeting the Goals of the Federal Financial Management Improvement Act," GAO/T–AIMD–00–178, June 6, 2000.

The National Aeronautics and Space Administration and the National Science Foundation again demonstrated they could effectively manage their finances. Both agencies received "A's."

The Social Security Administration, General Services Administration, Department of Labor, and the Department of Energy all earned commendable "B's."

Six agencies—the Agency for International Development, the Department of Agriculture, the Department of Defense, Department of Housing and Urban Development, Department of State, and the Office of Personnel Management—could not pass muster. Each earned a failing grade of "F." At publication of this report, the Department of State had not yet issued its audit report.

Although 14 agencies received "clean" audit opinions, significant financial management problems continue to prevent these agencies from achieving the ultimate goal of maintaining financial systems that allow them to produce accurate, reliable financial information on a day-to-day basis.

Five of the 24 agencies failed to meet the March 1st deadline for filing their financial statements. Two agencies, the Department of the Interior and the Department of State, still had not filed their reports when the subcommittee held its March 31st hearing—1 month after the statutory deadline and 6 months after the close of the Government's fiscal year. The Department of the Interior submitted its financial statements in May 2000—8 months after the end of the fiscal year. At publication of this report, the Department of State had not submitted its audited financial statements.

GMRA Financial Management Status Report

FEDERAL DEPARTMENTS AND AGENCIES	RELIABLE FINANCIAL INFORMATION (yes/qualified/no)	EFFECTIVE INTERNAL CONTROLS (yes/no)	COMPLIANCE WITH LAWS AND REGULATIONS (yes/no)	GRADE FY 96	GRADE FY 97	GRADE FY 98	GRADE FY 99
NASA National Aeronautics and Space Administration	YES	YES	YES	A	A	A	A
NSF National Science Foundation	YES	YES	YES	D	B+	A	A
SSA Social Security Administration	YES	YES	NO	A	B-	B-	B-
GSA General Services Administration	YES	YES	NO	D+	B-	B-	B-
Labor Department of Labor	YES	YES	NO	D	B-	B-	B-
DOE Department of Energy	YES	NO	YES	A	A	C	B-
Commerce Department of Commerce	YES	NO	NO	F	F	F	D+
DOT Department of Transportation	YES	NO	NO	F	F	F	D+
FEMA Federal Emergency Management Agency	YES	NO	NO	F	D-	D+	D+
HHS Health and Human Services	YES	NO	NO	F	D-	D-	D+
Interior Department of the Interior	YES	NO	NO	D+	B-	D+	D+
NRC Nuclear Regulatory Commission	YES	NO	NO	A	B-	D+	D+
SBA Small Business Administration	YES	NO	NO	B-	D+	D+	D+
VA Department of Veterans Affairs	YES	NO	NO	F	D-	D-	D+
Education Department of Education	Qualified	NO	NO	D+	D+	F	D-
EPA Environmental Protection Agency	Qualified	NO	NO	C	D+	D+	D-
Justice Department of Justice	Qualified	NO	NO	F	F	F	D-
Treasury Department of the Treasury	Qualified	NO	NO	F	D-	D-	D-
AID Agency for International Development	NO	NO	NO	F	F	F	F
Agriculture Department of Agriculture	NO	NO	NO	F	F	F	F
DOD Department of Defense	NO	NO	NO	F	F	F	F
OPM Office of Personnel Management	NO	NO	NO	F	F	F	F
HUD Department of Housing and Urban Development	NO	NO	NO	D-	D-	D+	F
State Department of State	No Report	No Report	No Report	D-	D-	D+	F
FEDERAL GOVERNMENT							D+

NOTE:
Agency grades are based on the audited financial statements prepared pursuant to the Government Management Reform Act of 1994 for three categories: RELIABLE FINANCIAL INFORMATION, EFFECTIVE INTERNAL CONTROLS, and COMPLIANCE WITH LAWS AND REGULATIONS.

Prepared for Subcommittee Chairman Stephen Horn June 2000
Subcommittee on Government Management, Information, and Technology
Internet: http://www.house.gov/reform/gmit
SEE APPENDIX C FOR GRADING CRITERIA

III. Conclusions

Poor financial management has been a long-recognized problem within the Federal Government. Congress has developed a strong legislative framework that if properly implemented, would significantly improve the Government's financial management. This, in turn, would lead to more efficient and effective Government operations, and more informed decisionmaking. Despite these efforts, however, many executive branch departments and agencies continue to struggle with improving long-standing financial management problems.

Although steady progress continues to be made in financial accountability and meeting related legislative objectives, much remains to be done. Most Federal agencies still cannot account for billions of dollars in Federal spending in an accurate and timely manner.

Subcommittee hearings held over the last 5 months and the fiscal year 1999 financial statements audit reports continue to raise serious questions about the soundness of the Government's financial information. To make informed decisions, Congress, the President, and the President's Cabinet must have reliable data on a timely basis. Without such information, both the quality of Government services and the fiscal health of this Nation are at risk.

The Federal Government must continue to work at getting its financial house in order. To ensure that this occurs, the President needs the appropriate staff to focus on management problems within the executive branch of the Government. An Office of Management whose Director reports to the President would enable the President, his Cabinet officers, and agency administrators to focus on improved financial management, as well as improved general management and information management.

Without such a governmentwide management structure, departments and agencies will not learn from past management failures, such as the computer debacles of the early 1990's. The Federal Aviation Administration's $4 billion was matched by a similar failure when the Internal Revenue Service sought to improve its information systems. Together, these programs cost taxpayers nearly $8 billion before they were stopped.

Congress and the President must ensure that Federal departments and agencies place adequate attention to their financial management. The framework is in place for these Federal departments and agencies to step up to their fundamental responsibility: to be financially accountable to the American taxpayer.

APPENDIX A—MAJOR FEDERAL FINANCIAL MANAGEMENT LEGISLATION

Public Law	Key Financial Management Provisions [1]
Budget and Accounting Procedures Act of 1950 (Chapter 946, 64 Stat. 832)	• The Budget and Accounting Procedures Act of 1950 provided that the maintenance of accounting systems and producing of financial reports with respect to the operations of executive agencies be the responsibility of the executive branch and that the auditing for the Government be conducted by the Comptroller General to determine the extent to which accounting and related financial reporting fulfill the purposes specified, financial transactions have been consummated in accordance with laws, regulations, or other requirements, and adequate internal financial control over operations is exercised. • The Comptroller General was given the responsibility of prescribing accounting and auditing principles and standards to be followed in the preparation of financial reports by executive agencies and by the GAO in the audit of the financial transactions of each executive, legislative, and judicial agency.
Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988 (Public Laws 95–452 and 100–504)	• The Inspector General Act (IG Act) requires that Inspectors General perform audits in accordance with generally accepted government auditing standards. • The Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act, and amended by the Federal Financial Management Improvement Act, has demanded shifts in the focus of the Inspectors' General work.

Public Law	Key Financial Management Provisions [1]
Federal Managers' Financial Integrity Act of 1982 (Public Law 97–255)	• The Federal Managers' Financial Integrity Act of 1982 [FMFIA] required that internal accounting and administrative controls of each executive agency be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurance that: obligations and costs are in compliance with applicable law; assets are safeguarded from waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for. • The head of each agency is required to report to the President and Congress whether the agency's systems of internal accounting and administrative control fully comply with the Comptroller General's requirements. For all material weaknesses, the agency head must describe in the report the plan and schedule for correcting any such weaknesses.
Debt Collection Act of 1982, as amended, and Debt Collection Improvement Act of 1996 (Public Laws 97–365 and 104–134, sec. 31001)	• The Debt Collection Act, as amended, provides greater powers to Federal agencies in collecting debts owed to the Federal Government including: reporting a delinquent debtor to a consumer reporting agency; offsetting the salary of Federal employees who are delinquent in the payment of debts; disclosing to a Federal lending agency that an applicant has a tax delinquency and deny such individual credit; disclosing a taxpayer's address to an agency to use for purposes of collecting delinquent debt; administratively offsetting all Federal payments, including tax refunds; garnishing wages; and charging of interest and penalties on any debt. • Agencies are required to report to the Director of the Office of Management and Budget and the Secretary of the Treasury at least once a year information regarding its debt collection activities. Further, the Secretary of the Treasury must report that information to Congress annually and provide a one-time report, not later than April 1999, to Congress on the collection services provided by it and other entities collecting on behalf of Federal agencies.

Public Law	Key Financial Management Provisions [1]
	• Agencies are required to make Federal payments to individuals by electronic fund transfer, except for tax refunds. • Agencies, except for the IRS, can contract with a collection service to pursue outstanding debts of the agency or to sell debt over 90 days delinquent. • Agencies are required to collect the taxpayer identification number of any individual or entity doing business with the Government.
Chief Financial Officers Act of 1990 (Public Law 101–576)	• The Chief Financial Officers Act of 1990 (CFO Act) creates a new leadership structure for Federal financial management, including the creation of a Deputy Director of Management, a Controller who advises the Deputy Director, and an Office of Federal Financial Management within the Office of Management and Budget. The Deputy Director is responsible for providing financial management leadership including the establishment and oversight of Federal financial policies and practices. • The Office of Management and Budget is required by the CFO Act to prepare and submit to Congress a governmentwide 5-year financial management plan. The plan describes the planned activities of OMB and agency's CFO over the next 5 years to improve financial management. • The CFO Act also requires that 24 agencies have Chief Financial Officers and Deputy Chief Financial Officers and lays out their authorities and functions. It also stipulates the qualifications and responsibilities for each of the positions.
Government Management Reform Act of 1994 (Public Law 103–356) [2]	• The Government Management Reform Act of 1994 [GMRA] expands requirements for executive branch agencies contained in section 303(a) of the CFO Act. • GMRA requires all 24 agencies covered under the CFO Act to have agencywide audited financial statements, beginning with fiscal year 1996. Those statements, due March 1, 1997, and each year thereafter, must cover all accounts and associated activities.

Public Law	Key Financial Management Provisions [1]
	• GMRA provides that, for each audited financial statement required from the agency, the auditor (the Inspector General, independent public accountant, or the GAO) must submit a report on the audit to the head of the agency. This report is to be prepared in accordance with generally accepted Government auditing standards. • GMRA requires that a consolidated financial statement for all accounts and associated activities of the executive branch be prepared by the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, for fiscal year 1997 and each year thereafter. Such statements are to be audited by the Comptroller General. The audited financial statements must be submitted to the President and Congress by March 31, 1998.
Federal Financial Management Improvement Act of 1996 (Title VIII of Public Law 104–208)	• The Federal Financial Management Improvement Act of 1996 [FFMIA] requires that agencies conform to promulgated Federal Government accounting and systems standards, and use the U.S. Government Standard General Ledger. • FFMIA requires auditors performing financial audits to report whether agencies' financial management systems comply substantially with Federal accounting standards, financial systems requirements, and the Government's Standard General Ledger at the transaction level. • For agencies that are not in material compliance with the standards described above, the head of the agency, in consultation with the Director of the Office of Management and Budget, must prepare a remediation plan that addresses the problems. This plan shall include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance. The remediation plan shall bring the agency's financial management systems into substantial compliance within 3 years after the date a determination is made by the auditors that the agency is not in compliance.

Public Law	Key Financial Management Provisions [1]
	• The Director of the Office of Management and Budget is required to report to Congress, not later than March 31 of each year, regarding implementation of FFMIA. • The Comptroller General is required to report to Congress, no later than October 1 of each year, concerning compliance with the requirements of FFMIA and the adequacy of applicable accounting standards of the Federal Government.

[1] These laws, except FFMIA, are compiled in Laws Related to Federal Financial Management, House Report 104–745. FFMIA is included in Appendix D to this report.

[2] The section of GMRA that deals with financial management is also referred to as the ''Federal Financial Management Act of 1994.''

APPENDIX B—FEDERAL ACCOUNTING CONCEPTS AND STANDARDS

Title of Document	Date of Issuance
SFFAC 1: Objectives of Federal Financial Reporting	September 2, 1993
SFFAC 2: Entity and Display	June 6, 1995
SFFAC 3: Management's Discussion and Analysis	April 1999
SFFAS 1: Accounting for Selected Assets and Liabilities	March 30, 1993
SFFAS 2: Accounting for Direct Loans and Loan Guarantees	August 23, 1993
SFFAS 3: Accounting for Inventory and Related Property	October 27, 1993
SFFAS 4: Managerial Cost Accounting Concepts and Standards	July 31, 1995
SFFAS 5: Accounting for Liabilities of the Federal Government	December 20, 1995
SFFAS 6: Accounting for Property, Plant and Equipment (PP&E)	November 30, 1995
SFFAS 7: Accounting for Revenue and Other Financial Sources	May 10. 1996
SFFAS 8: Supplementary Stewardship Reporting	June 11, 1996
SFFAS 9: Deferral of Implementation Date for SFFAS 4	October 3, 1997
SFFAS 10: Accounting for Internal Use Software	October 9, 1998
SFFAS 11: Amendments to Accounting for PP&E – Definitions	December 15, 1998
SFFAS 12: Recognition of Contingent Liabilities from Litigation	February 5, 1999
SFFAS 13: Deferral of Paragraph 65.2 – Material Revenue-Related Transactions	February 5, 1999
SFFAS 14: Amendments to Deferred Maintenance Reporting	April 1999
SFFAS 15: Management's Discussion and Analyses	April 1999
SRAS 16: Amendments to Accounting for PP&E – Multi-Use Heritage Assets	July 1999
SFFAS 17: Accounting for Social Insurance	August 1999
SFFAS 18: Amendments to Accounting Standards for Direct Loans and Loan Guarantees	May 19, 2000

APPENDIX C—BASIS FOR AGENCY FINANCIAL MANAGEMENT GRADES

The grades for each of the 24 departments and agencies are based on the results of the financial statement audits. These audits were performed by the agency's Inspector General, independent public accounting firms, and the General Accounting Office. All auditors were required to follow generally accepted Government auditing standards. These standards incorporate the American Institute of Certified Public Accountant's Statements on Auditing Standards, the same standards required for audits of private sector entities. However, Generally Accepted Government Auditing Standards [GAGAS] adds certain requirements beyond the Statements on Auditing Standards. Most notably, GAGAS has additional reporting requirements beyond an opinion on the financial statements.

Three reports are required at the completion of each audit of Government entities under GAGAS and as incorporated in OMB Bulletin 98–08, Audit Requirements for Federal Financial Statements. These reports are an opinion of the financial statements, a report on internal controls, and a report on compliance with laws and regulations.

The opinion provides the auditor's assessment of the reliability of the information contained in the financial statements. There are four types of opinions that the auditor can render—Unqualified, Qualified, Adverse, or Disclaimer. An unqualified opinion signifies that the information in the financial statements was reliable in all material respects. A qualified opinion signifies that, except for specified information in the financial statements, the information is reliable. An adverse opinion means the statements are not reliable. Last, a disclaimer of opinion signifies that the auditor was unable to determine if material information in the statements was reliable.

The report on internal control provides an assessment by the auditors of the effectiveness of internal controls. The report is required to identify any instances of material weaknesses or reportable conditions in internal controls that surfaced during the course of the audit. The American Institute of Certified Public Accountants defines a material weakness in internal controls as ". . . a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing assigned functions."[23]

The report on compliance with the laws and regulations provides the auditor's assessment of instances in which the agency did not follow or conform materially to requirements of the laws and regulations deemed material to the financial operations of that agency. The Office of Management and Budget also provides guidance to the auditors in OMB Bulletin 98–08 regarding which general laws and regulations need to be considered during the audit.

Starting with fiscal year 1997, an agency's adherence to FFMIA must be assessed in the report on compliance with laws and regulations, in accordance with OMB guidance. FFMIA specifically requires that agencies conform to promulgated Federal Government accounting and systems standards, and use the Government standard general ledger. Many agencies did not materially conform to the requirements of FFMIA.

The subcommittee reviewed each financial report on an absolute scale and assessed grades on a 4 point scale with "A" = 4, "B" = 3, "C" = 2, "D" = 1, and "F" = 0. In the financial information category, when an unqualified opinion was rendered by the auditor, an "A" (4 points) was given; a qualified opinion received a "C" (2 points) and a disclaimer received an "F" (0 points). There were no adverse opinions rendered in fiscal years 1996, 1997, 1998, or 1999, however, an adverse opinion would have also received an "F."

If no material weaknesses in internal controls were reported, the agency received an "A" (4 points). Conversely, if material weaknesses were reported, the agency received an "F" (0 points) in this category.

Similarly, if the auditor reported that the agency had no known instances of non-compliance with laws and regulations an "A" (4 points) was awarded. If material non-compliances were reported, an "F" (0 points) was given.

These grades were then averaged (with equal weight) to determine the overall grade for the agency.

If no report was completed or provided prior to March 31, 2000, the agency was given an "F." When reports became available, the agency's grade was reassessed, as stated above. The grades included in this report are based on audit reports issued as of the publication of this report.

[23] *Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements).* No.s 1 to 82, American Institute of Certified Public Accountants, as of Jan. 1, 1997; AU sec. 325.15.

APPENDIX D—PUBLIC LAW 104–208, TITLE VIII—FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

TITLE VIII—FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT

SEC. 801. SHORT TITLE.

This title may be cited as the "Federal Financial Management Improvement Act of 1996."

SEC. 802. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds the following:

(1) Much effort has been devoted to strengthening Federal internal accounting controls in the past. Although progress has been made in recent years, Federal accounting standards have not been uniformly implemented in financial management systems for agencies.

(2) Federal financial management continues to be seriously deficient, and Federal financial management and fiscal practices have failed to—

(A) identify costs fully;

(B) reflect the total liabilities of congressional actions; and

(C) accurately report the financial condition of the Federal Government.

(3) Current Federal accounting practices do not accurately report financial results of the Federal Government or the full costs of programs and activities. The continued use of these practices undermines the Government's ability to provide credible and reliable financial data and encourages already widespread Government waste, and will not assist in achieving a balanced budget.

(4) Waste and inefficiency in the Federal Government undermine the confidence of the American people in the government and reduce the federal Government's ability to address vital public needs adequately.

(5) To rebuild the accountability and credibility of the Federal Government, and restore public confidence in the Federal Government, agencies must incorporate accounting standards and reporting objectives established for the Federal Government into their financial management systems so that all the assets and liabilities, revenues, and expenditures or expenses, and the full costs of programs and activities of the Federal Government can be consistently and accurately recorded, monitored, and uniformly reported throughout the Federal Government.

(6) Since its establishment in October 1990, the Federal Accounting Standards Advisory Board (hereinafter referred to as the "FASAB") has made substantial progress toward developing and recommending a comprehensive set of accounting concepts and standards for the Federal Government. When the accounting concepts and standards developed by FASB are incorporated into Federal financial management systems, agencies will be able to provide cost and financial information that will assist the Congress and financial managers to evaluate the cost and performance of Federal programs and activities, and will therefore provide important information that has been lacking, but is needed for improved decision making by financial managers and the Congress.

(7) The development of financial management systems with the capacity to support these standards and concepts will, over the long term, improve Federal financial management.

(b) PURPOSE.—The purposes of this Act are to—

(1) provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards throughout the Federal Government;

(2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, to the citizens, the Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits;

(3) increase the accountability and credibility of federal financial management;

(4) improve performance, productivity and efficiency of Federal Government financial management;

(5) establish financial management systems to support controlling the cost of Federal Government;

(6) build upon and complement the Chief Financial Officers Act of 1990 (Public Law 101–576; 104 Stat. 2838), the Government Performance and Results Act of 1993 (Public Law 103–62; 107 Stat. 285) and the Government Management Reform Act of 1994 (Public Law 103–356; 108 Stat. 3410); and

(7) increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities.

SEC. 803 IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS.

(a) IN GENERAL.—Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

(b) AUDIT COMPLIANCE FINDING.—

(1) IN GENERAL.—Each audit required by section 3521(e) of title 31, United States Code, shall report whether the agency financial management systems comply with the requirements of subsection (a).

(2) CONTENT OF REPORTS.—When the person performing the audit required by section 3521(e) of title 31, United States

Code, reports that the agency financial management systems do not comply with the requirements of subsection (a), the person performing the audit shall include in the report on the audit—

(A) the entity or organization responsible for the financial management systems that have been found not to comply with the requirements of subsection (a);

(B) all facts pertaining to the failure to comply with the requirements of subsection (a), including—

(i) the nature and extent of the noncompliance including areas in which there is substantial but not full compliance;

(ii) the primary reason or cause of the noncompliance;

(iii) the entity or organization responsible for the non-compliance; and

(iv) any relevant comments from any responsible officer or employee; and

(C) a statement with respect to the recommended remedial actions and the time frames to implement such actions.

(c) COMPLIANCE IMPLEMENTATION.—

(1) DETERMINATION.—No later than the date described under paragraph (2), the Head of an agency shall determine whether the financial management systems of the agency comply with the requirements of subsection (a). Such determination shall be based on—

(A) a review of the report on the applicable agency-wide audited financial statement;

(B) any other information the Head of the agency considers relevant and appropriate.

(2) DATE OF DETERMINATION.—The determination under paragraph (1) shall be made no later than 120 days after the earlier of—

(A) the date of the receipt of an agency-wide audited financial statement; or

(B) the last day of the fiscal year following the year covered by such statement.

(3) REMEDIATION PLAN.—

(A) If the Head of an agency determines that the agency's financial management systems do not comply with the requirements of subsection (a), the head of the agency, in consultation with the Director, shall establish a remediation plan that shall include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.

(B) If the determination of the head of the agency differs from the audit compliance findings required in subsection (b), the Director shall review such determinations and provide a report on the findings to the appropriate committees of the Congress.

(4) TIME PERIOD FOR COMPLIANCE.—A remediation plan shall bring the agency's financial management systems into substantial compliance no later than 3 years after the date a

determination is made under paragraph (1), unless the agency, with concurrence of the Director—

(A) determines that the agency's financial management systems cannot comply with the requirements of subsection (a) within 3 years;

(B) specifies the most feasible date for bringing the agency's financial management systems into compliance with the requirements of subsection (a); and

(C) designates an official of the agency who shall be responsible for bringing the agency's financial management systems into compliance with the requirements of subsection (a) by the date specified under subparagraph (B).

SEC. 804. REPORTING REQUIREMENTS.

(a) REPORTS BY THE DIRECTOR.—No later than March 31 of each year, the Director shall submit a report to the Congress regarding implementation of this Act. The Director may include the report in the financial management status report and the 5-year financial management plan submitted under section 3512(a)(1) of title 31, United States Code.

(b) REPORTS BY THE INSPECTOR GENERAL.—Each Inspector General who prepares a report under section 5(a) of the Inspector General Act of 1978 (5 U.S.C. App.) shall report to Congress instances and reasons when an agency has not met the intermediate target dates established in the remediation plan required under section 3(c). Specifically the report shall include—

(1) the entity or organization responsible for the non-compliance;

(2) the facts pertaining to the failure to comply with the requirements of subsection (a), including the nature and extent of the non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances; and

(3) a statement of the remedial actions needed to comply.

(c) REPORTS BY THE COMPTROLLER GENERAL.—No later than October 1, 1997, and October 1, of each year thereafter, the Comptroller General of the United States shall report to the appropriate committees of the Congress concerning—

(1) compliance with the requirements of section 3(a) of this Act, including whether the financial statements of the Federal Government have been prepared in accordance with applicable accounting standards; and

(2) the adequacy of applicable accounting standards for the Federal Government.

SEC. 805. CONFORMING AMENDMENTS.

(a) AUDITS BY AGENCIES.—Section 3521(f)(1) of title 31, United States Code, is amended in the first sentence by inserting "and the Controller of the Office of Federal Financial Management" before the period.

(b) FINANCIAL MANAGEMENT STATUS REPORT.—Section 3512(a)(2) of title 31, United States Code, is amended by—

(1) in subparagraph (D) by striking "and' after the semicolon;

(2) by redesignating subparagraph (E) as subparagraph (F); and

(3) by inserting after subparagraph (D) the following:

"(E) a listing of agencies whose financial management systems do not comply substantially with the requirements of Section 3(a) the Federal Financial Management Improvement Act of 1996, and a summary statement of the efforts underway to remedy the noncompliance; and"

(c) INSPECTOR GENERAL ACT OF 1978.—Section 5(a) of the Inspector General Act of 1978 is amended—

(1) in paragraph (11) by striking "and" after the semicolon;

(2) in paragraph (12) by striking the period and inserting "; and"; and

(3) by adding at the end the following new paragraph:

"(13) the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996."

SEC. 806. DEFINITIONS.

For purposes of this title:

(1) AGENCY.—The term "agency" means a department or agency of the United States Government as defined in section 901(b) of title 31, United States Code.

(2) DIRECTOR.—The term "Director" means the Director of the Office of Management and Budget.

(3) FEDERAL ACCOUNTING STANDARDS.—The term "Federal accounting standards" means applicable accounting principles, standards, and requirements consistent with section 902(a)(3)(A) of title 31, United States Code.

(4) FINANCIAL MANAGEMENT SYSTEMS.—The term "financial management systems" includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

(5) FINANCIAL SYSTEM.—The term "financial system" includes an information system, comprised of one or more applications, that is used for—

(A) collecting, processing, maintaining, transmitting, or reporting data about financial events;

(B) supporting financial planning or budgeting activities;

(C) accumulating and reporting costs information; or

(D) supporting the preparation of financial statements.

(6) MIXED SYSTEM.—The term "mixed system" means an information system that supports both financial and nonfinancial functions of the Federal Government or components thereof.

SEC. 807. EFFECTIVE DATE.

This title shall take effect for the fiscal year ending September 30, 1997.

SEC. 808. REVISION OF SHORT TITLES.

(a) Section 4001 of Public Law 104–106 (110 Stat. 642; 41 U.S.C. 251 note) is amended to read as follows:

"SEC. 4001. SHORT TITLE.

"This division and division E may be cited as the 'Clinger-Cohen Act of 1996'.".

(b) Section 5001 of Public Law 104–106 (110 Stat. 679; 40 U.S.C. 1401 note) is amended to read as follows:

"SEC. 5001. SHORT TITLE.

"This division and division D may be cited as the 'Clinger-Cohen Act of 1996'."

(c) Any reference in any law, regulation, document, record, or other paper of the United States to the Federal Acquisition Reform Act of 1996 or to the Information Technology Management Reform Act of 1996 shall be considered to be a reference to the Clinger-Cohen Act of 1996.

This Act may be cited as the "Treasury, Postal Service, and General Government Appropriations Act, 1997".

APPENDIX E—INDEX OF WITNESSES

ALDERMAN, Karen C., Executive Director, Joint Financial Management Improvement Program, June 6, 2000.

AMERAULT, Vice Admiral James F., Deputy Chief of Naval Operations (Logistics), United States Navy, May 9, 2000.

APP, Steven O., Deputy Chief Financial Officer, Department of Treasury, February 29, 2000.

BATEMAN, Victoria, Comptroller, Federal Housing Administration, Department of Housing and Urban Development, March 22, 2000.

BROWN, June Gibbs, Inspector General, Department of Health and Human Services, March 15, 2000.

CALBOM, Linda M., Director, Resources, Community, and Economic Development, Accounting and Financial Management Issues, Accounting and Information Management Division, U.S. General Accounting Office, March 21, 2000.

COBURN, General John C., Commanding General, U.S. Army Materiel Command, United States Army, May 9, 2000.

DALRYMPLE, John M., Chief Operations Officer, Internal Revenue Service, February 29, 2000.

GAFFNEY, Susan, Inspector General, Department of Housing and Urban Development, March 22, 2000.

GOERL, Vincette, Deputy Chief, Office of Finance and Chief Financial Officer, U.S. Forest Service, Department of Agriculture, March 21, 2000.

GOTBAUM, Joshua, Executive Associate Director and Controller, Office of Management and Budget, March 31, 2000, and June 6, 2000.

HAMMOND, Donald V., Fiscal Assistant Secretary, Department of Treasury, March 31, 2000.

HASH, Michael M., Deputy Administrator, Health Care Financing Administration, Department of Health and Human Services, March 15, 2000.

HEIST, James, Director of Financial Audits Division, Office of the Inspector General, Department of Housing and Urban Development, March 22, 2000.

HOLZ, Arnold G., Chief Financial Officer, National Aeronautics and Space Administration, June 6, 2000.

HSIAO, Benjamin, Director of Information Systems Audits Division, Office of the Inspector General, Department of Housing and Urban Development, March 22, 2000.

JACOBSON, Lisa, Director of Defense Audits, Accounting and Information Management Division, U.S. General Accounting Office, May 9, 2000.

JARMON, Gloria L., Director, Health, Education and Human Services Accounting and Financial Management Issues, Accounting and Information Management Division, U.S. General Accounting Office, March 15, 2000, and June 6, 2000.

KEATING, David L., Senior Counselor, National Taxpayers Union, April 10, 2000.

KELLEY, Colleen M., National President, National Treasury Employees Union, April 10, 2000.

KELLY, Keith, Administrator Farm Service Agency, Department of Agriculture, March 21, 2000.

KUHL-INCLAN, Kathryn, Assistant Inspector General for Audit, Department of Housing and Urban Development, March 22, 2000.

KUTZ, Gregory D., Associate Director, Governmentwide Accounting and Financial Management, Accounting and Information Management Division, U.S. General Accounting Office, February 29, 2000.

LIEBERMAN, Robert J., Assistant Inspector General for Auditing, Department of Defense, May 9, 2000.

LYLES, General Lester L., Commander, Air Force Materiel Command, United States Air Force, May 9, 2000.

LYNN, William J., Under Secretary of Defense (Comptroller), Chief Financial Officer, Department of Defense, May 9, 2000.

NEWBY, James, Senior Policy Advisor for Rural Development, Department of Agriculture, March 21, 2000.

OVESON, W. Val, National Taxpayer Advocate, Internal Revenue Service, April 10, 2000.

RAMIREZ, Saul N., Deputy Secretary, Department of Housing and Urban Development, March 22, 2000.

ROGERS, Lawrence W., Acting Chief Financial Officer, Internal Revenue Service, February 29, 2000.

ROSSOTTI, Charles O., Commissioner, Internal Revenue Service, April 10, 2000.

SEBASTIAN, Steven J., Assistant Director, Governmentwide Accounting and Financial Management, Accounting and Information Management Division, U.S. General Accounting Office, February 29, 2000.

SKELLY, Thomas P., Director, Budget Service and Acting Chief Financial Officer, Department of Education, June 6, 2000.

STEINHOFF, Jeffrey C., Assistant Comptroller General, Accounting and Information Management Division, U.S. General Accounting Office, May 9, 2000, and June 6, 2000.

THOMPSON, Sally, Chief Financial Officer, Department of Agriculture, March 21, 2000.

TOYE, Nelson E., Deputy Chief Financial Officer, Department of Defense, May 9, 2000.

VENGRIN, Joseph E., Assistant Inspector General for Audit Operations and Financial Statement Activities, Department of Health and Human Services, March 15, 2000.

VIADERO, Roger C., Inspector General, Department of Agriculture, March 21, 2000.

WALKER, David M., Comptroller General of the United States, U.S. General Accounting Office, March 31, 2000.

WARREN, David R., Director Defense Management Issues, National Security and International Affairs Division, U.S. General Accounting Office, May 9, 2000.

WILLIAMS, McCoy, Assistant Director, Resources, Community, and Economic Development, Accounting and Financial Management Issues, Accounting and Information Management Division, U.S. General Accounting Office, March 21, 2000.

WINTER, Kenneth J., Deputy Chief Financial Officer, National Aeronautics and Space Administration, June 6, 2000.

WRIGHTSON, Margaret T., Associate Director, Tax Policy and Administration Issues, U.S. General Accounting Office, April 10, 2000.

YOUNG, Robert W., Deputy Assistant Inspector General for Audit, Department of Agriculture, March 21, 2000.

MINORITY VIEWS OF HON. HENRY A. WAXMAN, HON. JIM TURNER, HON. TOM LANTOS, HON. MAJOR R. OWENS, HON. EDOLPHUS TOWNS, HON. PAUL E. KANJORSKI, HON. PATSY T. MINK, HON. CAROLYN B. MALONEY, HON. ELEANOR HOLMES NORTON, HON. ELIJAH E. CUMMINGS, HON. DENNIS J. KUCINICH, HON. ROD R. BLAGOJEVICH, HON. DANNY K. DAVIS, HON. JOHN F. TIERNEY, HON. THOMAS H. ALLEN, HON. HAROLD E. FORD, JR., AND HON. JANICE D. SCHAKOWSKY

I. INTRODUCTION

A decade ago, financial management at most Federal agencies meant little more than reporting how appropriations were spent. This approach to Federal Government financial matters began to change in 1990 when Congress passed the Chief Financial Officers Act [CFO Act], which established a new framework for financial accountability. Several other legislative initiatives followed which were designed to significantly improve financial management throughout the Federal Government. The current system now provides the opportunity to identify and resolve the most significant financial problems existing in the Federal Government.

This report is the result of a series of Subcommittee on Government Management, Information, and Technology oversight hearings to examine the financial management practices of Federal departments and agencies. This subcommittee reviewed the financial management challenges and progress made at the Internal Revenue Service, Health Care Financing Administration, Department of Agriculture, Department of Defense, and Department of Housing and Urban Development. In addition, the Office of Management and Budget [OMB] and General Accounting Office [GAO] reported on the challenges agencies face in their attempts to report accurate financial information governmentwide and comply with the requirements of the Federal Financial Management Improvement Act of 1996 [FFMIA]. Unfortunately, we learned that many of the 24 CFO Act agencies are still unable to produce reliable and timely financial information on a regular basis and annual financial statement audits continue to report significant weaknesses in agencies' financial management controls and systems. The Federal Government has much work to do before we achieve our goal of a credible, accurate governmentwide financial system.

We commend the committee's efforts to highlight the importance of effective financial management and note that many of the report's findings and recommendations are valid. However, we are concerned that the report lacks balance because it does not adequately acknowledge the progress agencies have made to date, the tremendous scope of the problem, and the ongoing efforts to improve Federal financial management. We therefore reluctantly oppose this financial management report. Unfortunately, the majority report has turned financial management into a partisan issue by grading agencies in a manner that unfairly portrays the state of agencies' financial affairs. The majority report assigns numerous D's and F's to Federal agencies to convey the impression that the administration is failing to take financial management seriously. In fact, just the opposite is true.

II. Progress Is Being Made

This administration has done more than any other to improve the financial accountability of the Federal Government. According to GAO Comptroller General David Walker in his testimony on March 31, 2000, "the President has designated financial management improvement as a priority management objective and efforts are underway across the government to address pervasive, generally long-standing financial management problems."

As a result of the administration's focus on this issue, most agencies have significantly improved the accuracy and timeliness of financial reporting each year. Consider the fact that in 1994, only four Federal agencies produced reliable financial information on their balance sheets. By 1998, 10 Federal agencies were able to produce reliable information on their balance sheets. For fiscal year 1999, the majority of agencies received unqualified or "clean" audit opinions. Furthermore, timeliness of financial reports improved this year, increasing from 6 agencies that met the statutory deadline in 1997 to 19 agencies in 2000. The best example of agency improvement is arguably the Social Security Administration, which for 2 years running has managed to issue annual reports in November—4 months before the March 1 statutory deadline—and has received clean audits as well.

The administration's financial management accomplishments are even more extraordinary when you consider that 10 years ago, almost no agencies prepared and issued audited financial statements or had a set of governmentwide accounting standards. At that time, the Federal Government as a whole could not produce consolidated financial statements, let alone audited statements. It was not until the creation of the Federal Accounting Standards Advisory Board [FASAB] in 1990 that a mechanism was put in place which would finally lead to the development and issuance of a complete set of basic accounting standards and concepts in 1996. In October 1999, as validation of the administration's process and progress, the American Institute of Certified Public Accountants [AICPA] recognized FASAB standards as Generally Accepted Accounting Principles [GAAP]. This independent acknowledgment by an internationally recognized standard setting authority marks a significant milestone in improving public confidence in Federal financial management. Now, agencies issue financial statements annually, and the Federal Government has just produced its third governmentwide financial statement.

As shown by the experience of State governments, modernizing financial management and reporting is a long-term process, requiring years, not just months. With few exceptions, individual State governments began issuing GAAP-based financial statements backed by independent audits in the 1970's, well before the Federal

Government had such requirements. In 1980, Standard & Poors, a rating agency, issued a policy statement directing that all State bond issuers' financial reports should be prepared in conformity with GAAP, audited by independent auditors, and issued within 6 months of year end, lest their ratings be affected. By 1990, 10 years later, 43 States issued GAAP-based statements; of those, 25—or half of all State governments—received an unqualified or "clean" opinion. In 1995, 15 years later, 49 out of 50 States issued GAAP statements; however, only about three-quarters received clean opinions. By comparison, more than half (54 percent) of the CFO Act agencies were able to achieve clean opinions in just 4 years.

Aside from not properly acknowledging the administration's successes, this report does not adequately address the key factors that may impede an agency's ability to effect change such as funding problems, outdated infrastructures, addressing multiple FFMIA problems, and competing priorities, e.g., the year 2000 crisis. We believe the report should take into account the following:

- At the beginning of this administration, financial management systems, such as they were, did not keep standard accounts, could not communicate with each other, and could not provide accurate, timely, and meaningful information. This administration has developed standards and established a program of comprehensive testing of financial management systems to ensure compliance. Only those systems certified as compliant may be purchased by government agencies.
- Financial management systems improvements must be achieved with an infrastructure dominated by older legacy computer systems that were not designed to support current requirements or technology. In an era where budget resources are limited, infrastructure modernization remains a challenging problem.
- Agency efforts to improve their antiquated infrastructures may complicate their ability to produce timely financial audits. For example, this year, HUD's inability to complete the audit by March 1 is primarily the result of technical difficulties occasioned by the transition to a new financial system. HUD was consolidating several accounting systems to a new general ledger system as part of its ongoing modernization of its financial management systems—an action recommended by both the Office of Inspector General and GAO. While we regret that HUD missed its deadline this time, we are pleased that HUD has been able to correct system deficiencies and expect that in the long term its financial systems will benefit.
- The Federal financial systems environment includes over 700 financial systems among the 24 CFO Act agencies, most of which are custom designed for a particular agency or bureau. These systems cost approximately $2 billion annually to maintain and operate, and almost 80 percent of the systems have plans to be or are currently being upgraded or replaced.
- These financial management systems originally were built to keep track of cash outlays under budget appropriations law, not accrual-based financial accounting or to comply with the requirements of the Government Performance Results Act.

These systems track expenditures very carefully, but they were never designed to develop the financial information needed to produce GAAP statements. Now, for the first time, we are asking these systems to do both.

• Large agencies with multiple bureaus typically operate systems that are not integrated. They cannot share information automatically, even within the agency.

III. Discrepancies

We would also like to address the following points in the report:

• The majority report states, "similar to the Government's year 2000 conversions efforts, success in complying with FFMIA is dependent upon strong commitment from top agency management." It should also be noted that, unlike year 2000 efforts which addressed a single technical problem that affected everyone in a similar manner, FFMIA attempts to address multiple problems affecting multiple systems. Furthermore, in addition to management commitment and oversight, significant resources are also needed.

• The chart on page 26 of the report needs an additional bullet to state that the head of the agency is responsible for determining whether the agency complies with FFMIA. The agency head considers all relevant information, including the audited financial statements, in making this determination.

• The majority report states, "Specifically, 20 of the agencies were not compliant with the requirements of the Federal Financial Management Improvement Act [FFMIA] of 1996." It should be noted that compliance determination rests with the agency head and not the auditor, as specified in the Public Law 104–208, section 803(c)(1). Agency heads in six of the CFO Act agencies reported their fiscal year 1999 financial statement audit reports that their agencies were in substantial compliance with FFMIA. In three of the six agencies (Social Security Administration, the Office of Personnel Management, and the Federal Emergency Management Agency), the auditors did not agree with the agency heads' assessments. The majority report, therefore, is reporting the auditors compliance determinations, not the statutorily required determinations by agency heads.

IV. Response to the Majority's Recommendations

Section 1 of the report's recommendations states that "Each department and agency should provide a detailed, annual status report on its financial management operations." While we agree with this recommendation, we wanted to emphasize that current financial management plans are required by OMB Circular A–11 as part of the agency budget submission to OMB and are reviewed by OMB.

We question section 2 of the committee's recommendation that would require agency financial management systems remediation plans to provide a detailed description of planned actions with clear and reasonable milestones, including the names of staff members responsible for resolving particular issues. This is contrary to section 803(c)(3)(A) of FFMIA which does not require the names of staff members responsible. Ultimately, the agency head is responsible for ensuring agency compliance.

Additionally, the report states, “A draft of the approved plan should be sent to the Comptroller General who would coordinate the agency’s actions and related milestones in the remediation effort. These parties must meet regularly to monitor the agency’s progress in meeting the objectives of the plan.” This recommendation would remove the responsibility for correcting deficiencies from the agency and place responsibility with the Comptroller General. There is also a question as to whether coordinating the agency’s remediation efforts, which is an operational authority of the executive branch, is an appropriate role for the Comptroller General.

We are troubled with section 3 of the committee’s recommendations which would require that Federal agencies be financially penalized if they fail to produce timely and reliable financial information. Given the learning curve for implementing effective financial management, the tremendous challenges of improving financial systems, accommodating geographical differences, and addressing issues beyond agency control, punitive measures are inappropriate at this time. Positive incentives for agencies to implement reforms in their financial systems would be helpful. However, depriving agencies of their needed funds may hinder substantial financial reforms. Faced with a potential loss of appropriations, agencies may be inclined to implement “band-aid” repairs to their financial systems rather than making the appropriate long-term system modifications.

While we agree with section 4 of the report’s recommendations that the Federal Government should avoid inconsistent reporting of certain Social Security and Medicare (Part A) projections, we want to emphasize that the Department of the Treasury and other administration officials are already working to better coordinate the release of these two reports so that they will be able to present similar data. OMB staff is currently researching the feasibility and desirability of making any changes in regard to the audit coverage of social insurance information in future Federal financial statements. This will be done in the context of the FASAB’s deliberations on potential changes to the accounting standards relating to required supplemental stewardship information.

Section 5 of the committee’s recommendations states, “The Office of the Inspector General must ensure that all candidates for Inspector General positions are qualified to perform financial statement audits or specific segments of audits requiring specific expertise. These qualifications should be determined through a review by an external party and may be incorporated into the peer review process.” In light of the qualification reviews that are already required by the OIG, these two statements need clarification. OIG assigns GS–511 auditors to perform financial statement work and these employees are already required by the Office of Personnel Management to have successfully completed 24 semester hours of accounting and related courses. (GS–510 accountants, usually employed by the offices of the CFOs, are also required to have the same education.) Many OIG employees involved in financial statement work are Certified Public Accountants [CPAs], who have an additional requirement to complete 80 hours of continuing professional education every 2 years. In order to ensure quality performance, each OIG is subject to a triennial peer review by another OIG. The peer review includes an examination of auditors' qualifications to perform the work assigned. The committee should specify what additional requirements are necessary if any are needed.

Additionally, we question the report's recommendation that a board review the qualifications of Inspector General candidates before the nomination is forwarded to the Senate for consideration. We believe that it is the President's prerogative to select candidates who possess the qualifications required for Inspectors General under the Inspector General Act of 1978 (Public Law 95–452). During the confirmation process, the Senate has both the responsibility and the opportunity to review those qualifications.

Finally, we also question whether there is a need for a statutorily-mandated Office of Management within the executive branch as called for in section 6 of the committee's recommendations. OMB Director Jack Lew, in his April 7, 2000, testimony, noted that "In the real world, resource allocation and management are fundamentally interdependent. Given the complex systems that are necessary to address public problems, we must operate with the consideration of management and budget together, not apart. This reflects the realization that these two sets of concerns are in fact intertwined in actual operations." He further noted that OMB provides the President with the management expertise through OMB's Resource Management Offices [RMOs]. The Director stated that "RMOs play a pivotal role in . . . management guidance to Federal agencies. Staff are experts in their program and policy areas and are responsible for . . . implementation of governmentwide management initiatives. While each unit has its own focus, OMB . . . fulfills its responsibilities because of continuing collaboration among its offices and divisions."

The committee notes that a separate Office of Management "could help the President and his Cabinet to focus on the critical management challenges facing the Federal Government." OMB already has a mechanism in place to address these issues. In order to improve government management, each year the Director of OMB, after consulting with the President, the Vice President, and others in the administration, designates a series of Priority Management Objectives [PMOs]. Issues designated as PMOs receive coordinated, sustained, and intensive management attention. For example, in 1999 PMO No. 1 was the year 2000 challenge. This year, PMO No. 1 is to use performance information to improve program management and make better budget decisions; improving financial management information is PMO No. 2. This effort includes not only improved and timely financial reporting, backed by independent audits, but also the achievement of the financial systems goals of FFMIA.

It is unclear whether creating a new management agency will improve government management or whether separating management functions from budget functions will backfire and result in less attention being placed on management reform at Federal agencies. Presidents can create organizations within the executive branch that focus on management reform. In addition, a number of high-level interagency working groups focused on improving government management have taken hold, such as the Chief Financial Officers Council and the Chief Information Officers Council. Alternative approaches to improving management should be encouraged and explored. An Office of Management is just one approach.

V. Conclusion

We believe that Congress has implemented a legislative framework that will provide agencies the opportunity to identify and resolve the most significant financial problems existing in the Federal Government. It is a tremendous challenge to improve financial systems to produce accurate, reliable, consistent, and timely information for program and financial managers. While significant progress has been made in Federal financial accountability, we agree that much work remains to be done. We emphasize that financial management modernization is a long-term, complex process that cannot be solved in a matter of months. The assignment of poor grades to agencies merely politicizes the process and does not take into account the different circumstances and successes the Federal Government has made to date. By all accounts, agencies are clearly headed in the correct direction and are taking great strides toward achieving our goal of financial accountability. We would like to recognize the agencies' CFOs and their finance and accounting staff for the progress they have made in financial management.

Hon. Henry A. Waxman.
Hon. Jim Turner.
Hon. Tom Lantos.
Hon. Major R. Owens.
Hon. Edolphus Towns.
Hon. Paul E. Kanjorski.
Hon. Patsy T. Mink.
Hon. Carolyn B. Maloney.
Hon. Eleanor Holmes Norton.
Hon. Elijah E. Cummings.
Hon. Dennis J. Kucinich.
Hon. Rod R. Blagojevich.
Hon. Danny K. Davis.
Hon. John F. Tierney.
Hon. Thomas H. Allen.
Hon. Harold E. Ford, Jr.
Hon. Janice D. Schakowsky.

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