



# Federal Financial Management Report 2006

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## **Executive Summary**

The President's Management Agenda (PMA) has provided a clear strategic direction for financial management in the Federal Government. The PMA has changed the paradigm for financial reporting and ushered in a new level of financial accountability. The PMA's Improved Financial Performance initiatives recognize that an agency's ability to produce timely and accurate information is rooted in the quality of its internal processes and internal controls. The PMA's focus on accelerated reporting and internal controls establishes clear objectives for strengthening this essential foundation for driving financial management improvements.

Under the PMA, there has been ongoing improvement in the number of agencies that demonstrate their ability to use timely and accurate financial information to make decisions about program management. The ultimate goal is for managers to have ready access to reliable financial information for use in their daily decision-making.

### **Timeliness Continues to Improve in FY 2005**

This year every major Federal agency completed its Performance and Accountability Report (PAR) by November 15, 2005. This is the first time every PAR was completed by the deadline set in 2001 by the Office of Management and Budget (OMB). Furthermore, nearly 80% of the government corporations that have a September 30 year end also met the accelerated deadline one year ahead of schedule. In addition, 36 of the agencies subject to the Accountability of Tax Dollars Act (ATDA) met the accelerated deadline, a 33% increase over the number of ATDA agencies reporting last year. By the end of December 2005, 48 of 73 ATDA agencies had reported. Timely reporting is vital to ensure taxpayer money is spent honestly and wisely. The timely financial reporting by Federal agencies reflects this Administration's commitment to strengthening government transparency and accountability. Before the Bush Administration came to office, agencies took as long as five months to complete their financial reports. Now agencies are producing financial statements within 45 days after the close of the fiscal year.

Additionally, for a second year, the issuance of the consolidated *Financial Report of the United States Government* was accelerated to December 15, 2005 – one month after the agencies reported. Just two years ago, the Government-wide report was issued in late February 2004, five months after the fiscal year being reported (FY 2003) had ended.

### **Audit Results Are Also Improving**

Throughout the process of implementing accelerated financial reporting, the number of “clean” audit opinions has remained stable. This year, 18 Federal agencies received clean audit opinions by November 15. One additional agency's auditor subsequently reissued its audit opinion as unqualified in mid-December to bring the total unqualified opinions to 19.

Three agencies improved their audit results over last year (Department of Justice, Department of Housing and Urban Development, and the Small Business Administration) after successfully implementing corrective actions to resolve previous year's issues. Two agencies' audit results

declined relative to last year (the Department of Energy and the General Services Administration) and both have active efforts underway to address the reasons for the decline.

Agencies also reduced the total number of auditor-reported material weaknesses from FY 2004 to FY 2005 (from 50 to 48). In addition, while our goal is to eliminate restatements of previously issued financial statements, there were fewer in 2005 than in the previous year, and 4 of the 7 restatements in 2005 either improved the opinion or retained the already clean opinion. As processes and internal controls continue to improve, restatements should continue to decline.

## **Strengthening Internal Control Remains a Focus Area**

Recognizing the importance of effective internal control within federal agencies, OMB continues to emphasize the expectations for management accountability and responsibility in maintaining effective internal control. In December 2004, OMB revised Circular A-123, *Management's Responsibility for Internal Control* (A-123). The revisions to A-123 contained in Appendix A provide agencies with a framework for assessing and managing financial reporting risks more strategically and effectively.

Effective in FY 2006, the strengthened management requirements for assessing the effectiveness of internal control over financial reporting are being implemented. Appendix A of the A-123 requires management to undertake a more rigorous assessment process and for agency heads to provide a separate management assurance on the internal control over financial reporting. In July 2005, OMB worked closely with the Chief Financial Officers Council (CFO Council) to issue a step-by-step guide for implementing Appendix A of Circular A-123. Key milestones relative to this effort will be incorporated into the Improved Financial Performance initiative scorecard under the President's Management Agenda. OMB will continue to play an active role in overseeing A-123 implementation.

## **Improper Payments Have Declined**

During fiscal year 2005, the Federal Government made substantial progress in meeting the President's goal to eliminate improper payments. Most notably the government-wide improper payments total reported last year decreased by approximately \$7.8 billion, due to dramatic improvements implemented by HHS in the stewardship of Medicare funds. In addition, agencies demonstrated improved error detection and measurement, providing improper payment data on programs for which no improper payment statistics had been available in the past.

Much of the success achieved in the past year can be attributed to the PMA initiative to eliminate improper payments, which established an effective accountability framework for ensuring that Federal agencies initiate all necessary financial management improvements for addressing this critical problem area. With agencies working to deploy more innovative and sophisticated approaches for addressing improper payments, the prospects for additional and significant improper payment reductions in the coming years are promising. The CFO Council continues to play a critical role in these efforts by ensuring that agency best practices, such as those employed by HHS in the Medicare Program, are disseminated and utilized at other agencies.

## Moving Forward

The Federal financial management community has made great progress in the 15 years since the CFO Act became law. The PMA has built upon this progress by setting a clear direction for further improvements in financial management. The PMA set aggressive goals and raised the bar for demonstrating accountability and achieving financial management results, based on consistent success criteria and persistent measurement of progress and benefits.

The PMA will continue to guide our activities in the coming year. Our financial management focus areas continue to include: sustaining clean and timely audited financial statements, reducing the number of material weaknesses, strengthening internal control, reducing improper payments, improving real property management, and routinely using timely and accurate financial information to make management decisions.

OMB will continue to aggressively monitor agency financial management plans and progress. Our policies will continue to set a high standard for financial accountability, transparency, and results.



*Linda M. Combs*  
Linda M. Combs  
Controller

# Office of Federal Financial Management

OMB's Office of Federal Financial Management (OFFM) – headed by the OMB Controller and under the direction of the OMB Deputy Director for Management – is responsible for the financial management policy of the Federal Government. OFFM's specific responsibilities include implementing the financial management improvement priorities of the President, establishing government-wide financial management policies of executive agencies, and carrying out the financial management functions of the CFO Act. In short, the mission of OFFM is to promote and support first class financial management in the executive branch of the Federal Government.

OFFM is structured to address financial management issues, and includes subject matter experts to provide leadership across its areas of responsibility. OFFM is comprised of three separate issues-oriented branches with the following objectives:

- Financial Standards and Grants Branch – develops financial management policies for Federal agencies and grant recipients; facilitates the development of timely, accurate and useful financial information to support management decisions; and ensures accountability and effective customer service for Federal grants programs.
- Financial Integrity and Analysis Branch – ensures that Federal financial programs are measuring and achieving intended results, eliminating inefficiencies and improprieties, and managing their financial activities in accordance with superior practices.
- Federal Financial Systems Branch – ensures that the government-wide Federal financial management systems architecture is producing the information needed to support first class financial management.

Each OFFM branch works directly with agency Chief Financial Officers (CFOs) and Inspectors General (IGs), as well as the CFO Council, to provide guidance to agencies in relevant areas of financial management.

# Improving Financial Reporting

The President's Management Agenda (PMA) was launched early in the Bush Administration to address specific deficiencies and problems in the Federal Government's management practices. One of the five government-wide PMA initiatives is Improved Financial Performance. This initiative in part directs agencies to produce more timely and reliable financial information, improve the integrity of their financial activities, and have sound and dependable financial systems.

Under the PMA's Improved Financial Performance initiatives, agency Chief Financial Officers (CFOs) share responsibility – both individually and through the efforts of the CFO Council – for improving the financial performance of the government. It is through this initiative, in conjunction with the other government-wide and program initiatives of the PMA, that the government is improving its financial reporting practices.

## Achieving Accountability – FY 2005 Financial Results

Every major Federal agency completed its Performance and Accountability Report (PAR)<sup>1</sup> by November 15, the first time every CFO Act agency met the accelerated reporting deadline. This deadline was set by OMB in 2001 and effective beginning in fiscal year 2004. By comparison, the comparable requirement for private-sector financial reports is 75 days after the year's end. Accelerated reporting has shifted the paradigm from one of heroic year-end effort to a more disciplined approach throughout the year.

This year, 19 Federal agencies received “clean” audit opinions. Three agencies improved their audit results over last year (the Department of Justice, Department of Housing and Urban Development, and the Small Business Administration) after successfully implementing corrective actions to resolve previous year's issues. Two agencies' audit results declined relative to last year (Department of Energy and the General Services Administration) and both have active efforts underway to address the reasons for the decline.

In addition to the CFO Act agencies, agencies subject to the Accountability of Tax Dollars Act (ATDA) also worked to issue their audited financial statements by November 15. Last year was the first year that many of these 75 ATDA agencies were required to produce audited financial statements. For FY 2005, 36 met the accelerated deadline, 33% more than last year. (Please see Appendix D for additional information.) By the end of December 2005, 48 ATDA agencies had submitted audited financial statements to OMB. Also noteworthy is that nearly 80% of the government corporations, which have a September 30 year end, met the November 15 deadline. This is over twice the number of government corporations that met the timeline compared to last

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<sup>1</sup>Agencies subject to the Chief Financial Officers Act and the Accountability of Tax Dollars Act must submit an annual PAR, which contains important information about the financial condition and operations of the agency, including an auditor's opinion on the agency's financial statements. Information provided in the PAR supports agency management and accountability for the taxpayers money, and enables the public and Congress to assess the performance of an agency relative to its mission and activities.



year. OMB has made the November 15 reporting deadline (or 45 days after the fiscal year end if other than September 30) mandatory for government corporations beginning in fiscal year 2006.

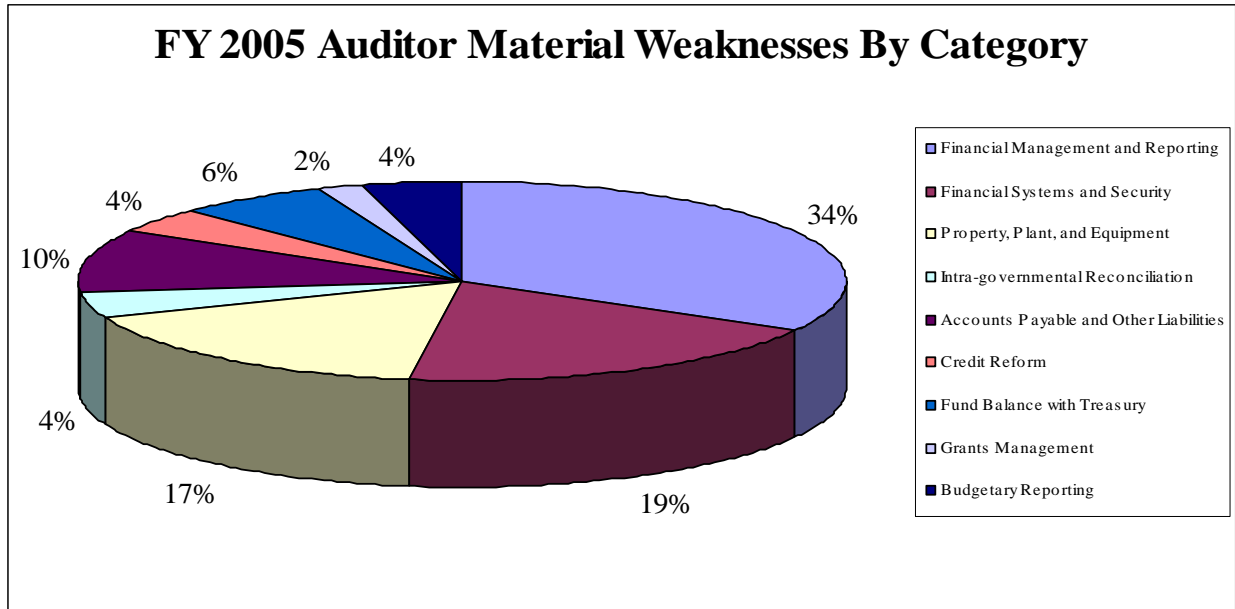
Despite the accelerated reporting time frame, 18 of the 24 major Federal agencies received unqualified audit opinions by the reporting deadline in FY 2005. (Appendix A contains the summary of FY 2005 agency financial statement results.) Five agencies – the Departments of Defense, Energy, Homeland Security, General Services Administration, and the National Aeronautics and Space Administration – received disclaimers on their statements. One agency – the Department of State – initially received a qualified opinion, but it was subsequently reissued in December as unqualified, bringing the total to 19 unqualified opinions. Noteworthy progress was made by the Department of Justice and Department of Housing and Urban Development whose audit opinions improved from disclaimers to unqualified opinions for FY 2005. In addition the Small Business Administration’s audit opinion improved to an unqualified opinion in FY 2005 from a qualified opinion the prior year.

## **Reducing Material Weaknesses**

In FY 2005, agencies also continued to work to fully achieve the President’s goal of Improved Financial Performance by reducing their material weaknesses. These material weaknesses include those that are auditor-reported, as well as those pursuant to Sections 2 and 4 of the Federal Managers’ Financial Integrity Act (FMFIA) of 1982. (Appendix B of this report provides the number of auditor-reported material weaknesses, as well as the number of FMFIA internal control weaknesses and systems nonconformances.) Auditor-reported material weaknesses are those instances identified during a financial statement audit in which the internal control of an organization does not properly mitigate the risk of a material misstatement on the financial statements. Material weaknesses pursuant to FMFIA are those instances identified by management (rather than by an auditor) in which the internal control of the organization is not properly mitigating the risk of not meeting its objectives in programmatic operations, financial reporting, or compliance with applicable laws and regulations.

Material internal control weaknesses are reported by independent auditors as part of the annual financial statement audit process. Across the government in FY 2005, a total of 11 new weaknesses were reported while 13 weaknesses were reported as resolved or consolidated – a net decrease of two weaknesses from FY 2004. The majority of new weaknesses were related to financial management and reporting. As agencies focus more on internal control, as directed by the revised Circular A-123, the initial result could be an increase in the number of internal control weaknesses identified, although over time internal control weaknesses should be reduced.

In FY 2005, the overall majority of the auditor-reported weaknesses were related to: deficiencies in financial management and reporting; financial systems and security; and property, plant, and equipment. The following chart shows the distribution of the auditor material weaknesses by category:



In FY 2005, the Department of Interior made noteworthy improvement by resolving two auditor-reported material weaknesses while reporting no new weaknesses from its auditors. In total, the Department of Interior has reduced auditor reported material weaknesses by nine (net) since the beginning of FY 2001.

Agency progress to correct internal control weaknesses is monitored on a quarterly basis as part of the PMA scorecard, as agencies must not have any material internal control weaknesses in order to achieve “green” status. This fiscal year, additional emphasis will be placed on preventing new weaknesses from surfacing. OMB is working closely with the agencies to assist them in developing detailed corrective actions plans to reduce existing material weaknesses and to prevent new ones.

In accordance with FMFIA, OMB also requires the head of each executive agency to report annually on whether there exists reasonable assurance that the agency’s internal controls are achieving their intended objectives and whether the agency’s financial management systems conform to government-wide requirements. The head of each agency is required to identify material weaknesses related to agency programs and operations pursuant to Section 2 of FMFIA, as well as nonconformances with government-wide financial systems requirements pursuant to Section 4 of FMFIA.

In FY 2005, ten agencies provided assurance that the management controls were adequate and thus reported no material weaknesses under FMFIA section 2. The most progress in resolving FMFIA material weaknesses (Section 2) was achieved by the Department of Defense, with a net reduction of 13.

***FMFIA Issues Identified by Agency Heads***

	<b><i>Section 2 (Internal Control Weaknesses)</i></b>	<b><i>Section 4 (Systems Nonconformances)</i></b>
<i>Beginning FY 2004</i>	89	21
<i>New</i>	33	5
<i>Resolved</i>	36	10
<i>Consolidated</i>	0	0
<i>Reassessed</i>	3	1
<i>Beginning FY 2005</i>	83	15
<i>New</i>	20	6
<i>Resolved</i>	33	5
<i>Consolidated</i>	1	0
<i>Reassessed</i>	1	0
<i>Ending FY 2005</i>	68	16

As shown above, the overall number of agency-identified FMFIA internal control weaknesses and systems nonconformances decreased by nearly 14% in FY 2005 compared to 11% FY 2004.

# Financial Management Improvement Initiatives

During FY 2005, the Administration continued its efforts to improve the financial management of the Federal Government through several different focused initiatives.

## Strengthening Internal Controls

OMB recognizes the importance of effective internal control within Federal agencies and will continue to be clear about our expectations for management accountability and responsibility in maintaining effective internal control. OMB Circular A-123, *Management's Responsibility for Internal Control (A-123)* defines Federal agencies' internal control responsibilities. The recent revisions to this circular provide agencies with a framework for assessing and managing financial reporting risks more strategically and effectively. Appendix A of the circular requires management to undertake a strengthened assessment process and prepare a separate management assurance on the internal control over financial reporting. The strengthened process requires management to document and test the controls over financial reporting, similar to the process that public corporations must follow under the Sarbanes-Oxley Act. Beginning in FY2006, these strengthened management requirements for assessing the effectiveness of internal control over financial reporting will be implemented.

To better assist the agencies in implementing the new requirements of A-123, OMB and the CFO Council have collaborated on a host of additional guidance. In July 2005, the CFO Council produced a step-by-step technical implementation guide to Appendix A of the A-123 circular. Concurrent with the release of the implementation guide, OMB issued additional technical guidance in the form of "Frequently Asked Questions" to provide more insight into the revisions of the Circular. These new tools are available on the OMB website. ([www.whitehouse.gov/financial/fin\\_report.html](http://www.whitehouse.gov/financial/fin_report.html))

OMB also required agencies to submit agency-specific implementation plans by August 31, 2005. Agencies are also completing risk assessments, identifying key processes and controls, and testing these controls to determine their effectiveness. This effort will culminate in the agencies' first management assurance statement for internal control over financial reporting as of June 30, 2006. Key milestones from the agency-specific plans will also be incorporated into the Improved Financial Performance initiative of the PMA scorecard to ensure agencies are held accountable for meeting their internal control assessment and improvement goals.

## FMLOB: Achieving Standardization and Efficiencies

Improving the investments of agencies in financial management systems is one of the President's top management priorities. Critical first steps were taken to meet this challenge by developing a common set of core financial system requirements and by creating a software certification process that independently tests those requirements. Consequently, most major agencies have purchased certified commercial-off-the-shelf financial management systems and many have completed their implementation.

An additional step in meeting the financial management systems challenge was taken with the inauguration of the Financial Management Line of Business (FMLOB) initiative in FY 2004. The FMLOB established the “Centers of Excellence” concept, which provided for cross-servicing of multiple financial systems, achieving cost and quality economies and providing a competitive alternative to more expensive stand-alone solutions.

Centers of Excellence may be operated by public agencies, private firms, or a mix of public/private partnerships. A small number of agencies were selected in fiscal year 2005 to operate as Centers of Excellence. Currently, several other agencies have begun migrating to Centers of Excellence.

In addition, OMB and the CFO Council are working together to disseminate best practices on financial system implementations. Through forums and other means, the Federal financial community is working to ensure that mistakes of the past are not repeated and that agencies initiating complex modernization efforts have a clear understanding of significant risks and appropriate mitigation strategies.

## **Full Implementation of Federal Financial Management Improvement Act**

In FY 2005, OMB continued to work to ensure full and thorough implementation of the Federal Financial Management Improvement Act (FFMIA) of 1996. Such full implementation is an important component of providing government managers with reliable, useful, and timely financial information.

In general, the implementation of FFMIA builds upon the foundation originally laid by the CFO Act. Specifically, FFMIA requires CFO Act agencies to apply and maintain financial management systems that substantially comply with: (1) federal financial management systems requirements; (2) applicable federal accounting standards; and (3) the United States Standard General Ledger at the transaction level. FFMIA also requires both the agency head and the auditor to state whether the agency’s financial management systems comply with FFMIA’s system requirements.

Despite 19 CFO Act agencies achieving unqualified audit opinions in FY 2005, many continue to use financial management systems that are not integrated and produce data that is not standard or timely. While many agencies continue to make progress in implementing FFMIA, significant work remains.

OMB efforts for full FFMIA implementation include oversight of agencies’ financial statement audits, as well as incorporating FFMIA requirements into the PMA’s financial management performance goals. This balanced, yet robust, approach blends the rigors of the audit process with substantive goals agreed to by both OMB and agency management. Further oversight of the deployment of agencies’ financial management systems, combined with the disciplined processes inherent in the PMA and the Financial Management Line of Business initiative, will help lead to more complete FFMIA implementation and thereby enhance the government’s overall performance.

## **Status of the Debt Collection Improvement Act of 1996**

The Debt Collection Improvement Act of 1996 (DCIA) requires OMB to report annually on any deficiencies in the standards and policies of Federal agencies for compromising, writing down, forgiving, and discharging indebtedness.

The agency annual report submissions address each agency's current and ongoing responsibilities under the debt collection provisions of the Debt Collection Act of 1982 as amended by DCIA and OMB Circular No. A-129 *Policies for Federal Credit Programs and Non-Tax Receivables*.

The DCIA established a framework for improved federal debt collection government-wide by centralizing the management of delinquent obligations overdue by 180 days in the Department of the Treasury and providing agencies with more effective debt collection tools, such as centralized administrative offsets and administrative wage garnishments. The DCIA requires agencies to take prompt action to recover debts, aggressively monitor all accounts, properly screen potential borrowers in the case of credit programs, resolve the outstanding debt through a variety of options, including referring the debt to the Department of Justice for litigation and, Department of the Treasury for administrative offset and cross-servicing.

OMB has received annual report submissions from the 24 CFO Act agencies. The submissions, which were due December 31, 2004 and included follow up submissions, provided OMB with good information on: (1) internal debt collection processes; (2) agency identified deficiencies in current policies; (3) actions taken by agencies to comply with DCIA and A-129; (4) the status of debt subject to litigation, and (5) intended action to improve debt collection policies and practices. All agencies appear to be making a significant effort to comply with DCIA and A-129 and improve their debt collection processes.

All agencies reported that they have internal policies and procedures in place to address debt collection and provided an overview of their policies, citations for internal policy, or statutory citations. Several agencies have updated their internal policies and procedures to ensure compliance with DCIA, A-129, or the Federal Claims Collections Standards (FCCS) as a result of their internal reviews of existing processes. Agencies that have updated their policies and procedures include USDA, DoD, EPA, GSA, NASA, SSA, State, and VA. A number of agencies have reported that they are still working to come into compliance with specific aspects of DCIA, A-129, or the FCCS. For example, the Food and Safety Inspection Service at USDA is working for a system solution to generate form 1099C to replace manual reporting. Also, the Justice Management Division and the Executive Office of United States Trustees (EOUST) at the Department of Justice are working to ensure that interest and penalties are properly assessed on past due receivables held by EOUST. Additionally, DHS bureaus have established debt management policies that DHS indicates are consistent with the DCIA, A-129, and FCCS requirements. DHS is currently working to establish department-wide debt management policies to ensure consistency in application across DHS. In all instances, the agencies have stated that corrective action is underway to ensure compliance.

Overall, agencies reported that the debt collection policies currently in place are applied consistently. In the limited instances where an agency reported that internal policy was not consistently applied, the inconsistency was limited to a bureau within the agency. Agencies will also be placing continued emphasis on improving the reporting of closed-out /discharged debt to the IRS on Form 1099-C and assuring the reporting balances with the agency Treasury Report on Receivables (TROR) submission.

OMB continues to work with the agencies as well as the Financial Management Services' Debt Management Service within the Department of the Treasury to ensure that agencies are in compliance with the DCIA. Agencies continue to improve their internal policies and procedures, address any known deficiencies, consistently apply policies and accurately report closed-out/discharged debt.

OMB is pleased to report that overall agencies have in place strong policies and procedures consistent with the requirements of DCIA and A-129, and agencies continue to strive to improve their debt collection efforts. As improved debt collection yields significant and measurable savings for the taxpayer, OMB plans to continually evaluate opportunities to strengthen agency and government-wide performance in this critical area of financial management.

### **Strengthening Asset Management**

Strengthening the management of the Federal Government's assets has been an important objective of this Administration. According to its FY 2005 financial statements, the Federal Government owns approximately \$680 billion in Property, Plant, and Equipment (PP&E).

The government also holds title to approximately one in every four acres of the United States' entire land mass. It owns sites and structures, monuments, memorials, cemeteries, as well as the items in its museums and libraries, including major works of art and historical documents. The Administration continues to expect its assets be accounted for, and that plans be made for purchases, management, maintenance, and operation.

The Administration has taken specific steps to improve the management of real property on a government-wide level by implementing the requirements of Executive Order 13327, "Federal Real Property Asset Management," signed on February 4, 2004. This order directed all major agencies to establish the position of a Senior Real Property Officer, who is held accountable for the effective management of agency real properties.

The Executive Order also created an interagency Federal Real Property Council (FRPC) to develop guidance, serve as a clearinghouse for best practices, and facilitate the efforts of the agency senior real property officers. One of the first orders of business of the FRPC was to establish 10 Guiding Principles that are used in governing the work of the four established Committees to implement Government-wide rightsizing of the Federal Real Property portfolio. The committees met throughout FY 2005 to further refine their guidance and responsibilities under the real property initiative to ensure that by early 2006, all appropriate agencies have consistent Asset Management Plans to coordinate their real property rightsizing efforts, have reported constructed asset level information into the Federal Real Property Profile, and have

developed a three year implementation timeline to execute their real property portfolio change management as well as track progress against specific performance measures.

The Administration is also continuing its monitoring effort of the Federal Real Property Asset Management initiative by tracking agency implementation and progress through the President's Management Agenda. In February of 2004, a new Federal Real Property Asset Management initiative was added to the scorecard of the largest Federal landholding agencies. The agencies were given a "score" on the status and progress of their real property management improvement efforts on the quarterly PMA scorecard beginning in third quarter of 2004 and were scored on the initiative throughout 2005. Agencies have shown significant progress toward improving their status scores in 2005, demonstrating that agencies are putting the necessary tools in place to right-size their real property inventories.

Over the next several years, it is the goal of this Administration for all major agencies to develop and implement effective asset management plans. Agencies and the FRPC will continue to work toward the development of a comprehensive and descriptive database of all Federal real properties and the appropriately identified performance measures. The asset management plans, database, and performance measures will assist agency management in making informed decisions about what properties are needed, are being utilized effectively, or qualify for disposal. And, through the PMA, the Administration will continue to hold agencies accountable to use improved planning and data gathering to implement specific rightsizing activities that will reduce surplus assets, improve the condition of mission critical assets, and ensure that assets are managed at the right cost.

### **Improving Payment Accuracy & Recovery Auditing**

During fiscal year 2005, the Federal Government made substantial progress in meeting the President's goal to eliminate improper payments. Most notably the government-wide improper payments total reported last year decreased by approximately \$7.8 billion, with the FY 2005 total estimated at \$37.3 billion for the programs that reported measurements last year. This decrease represents nearly a 17% drop from the totals reported in FY 2004. The largest portion of this dramatic decrease was a result of advances in the Medicare program, which reduced the improper payment dollars from \$21.7 billion to \$12.1 billion through strengthened due diligence that ensured the necessary documentation was in place to support payment claims.

Other highlights from FY 2005 include:

- Food Stamps – The Department of Agriculture reported an error rate of less than 6%, the lowest error rate in the history of the program.
- Unemployment Insurance – The Department of Labor reduced improper payments in this large State-administered program by \$600 million.
- Public Housing/Rental Assistance – The Department of Housing and Urban Development continued the steady decline of improper payments in this program, reducing improper payments by an additional \$200 million as reported in their FY 2005 PAR.



Much of the success achieved in the past year can be attributed to the PMA initiative to eliminate improper payments, which established an effective accountability framework for ensuring that Federal agencies initiate all necessary financial management improvements for addressing this critical problem area. The CFO Council continues to provide critical support to agencies in their efforts to eliminate improper payments by disseminating best practices, sponsoring partnerships with state and local governments, and ensuring that agencies have access to information on innovative and sophisticated approaches taken in the commercial sector.

Federal agencies also made advances in recovering improper payments made to vendors. Notable accomplishments from FY 2005 include:

- DFAS-Internal Review maintains a post-payment process that reviews commercial payments within 180 days of disbursement. In FY 2003 this process identified \$122 million in duplicate payments, of which \$119 million has been recovered. Of \$40 million identified in FY 2004, \$30 million has been recovered.
- DOD's internal review of agency-wide commercial payments identified \$469.5 million for recovery, of which \$414.9 million has been successfully recaptured. Through its recovery auditor, an additional \$1.9 million was identified as paid improperly—100% of this amount has been recovered.
- TRICARE Management Activity (DOD) recovered approximately \$1.6 million in hospital costs for which the institutions failed to submit amended cost reports.
- Of the \$10.6 million in overpayments identified by the Department of Energy during FY 2005, only a fraction of a percent was deemed unrecoverable.
- Immigration and Customs Enforcement, under the Department of Homeland Security, has recovered \$1.2 million (more than 50%) of the \$2.2 million identified. The Department anticipates recovering most of the amount identified in the near term.
- The Department of Justice has recovered \$765 thousand out of the \$1 million identified as improperly paid to contractors this year. Approximately \$1 million in additional funds has been recovered from amounts identified in prior years.

## **Strengthening Control over Federal Charge Cards**

The Federal Government sponsors more than 2.5 million credit cards to use in purchasing goods and services, or for employees when traveling on official government business. These transactions represent \$24 billion dollars spent through the use of purchase, fleet and travel cards, with nearly \$17 billion spent in the purchase card program alone in FY 2005. These programs continue to demonstrate the improved efficiencies of charge card use, through administrative savings, refunds earned, and streamlined processes.

Evidence of agency progress in improving the management of Federal charge card programs is captured through the CFO Council's Metric Tracking System. As of August 2005, 16 of 24 agencies achieved green status for eliminating payment delinquencies in individually-billed travel cards, 18 agencies achieved green status for centrally-billed travel cards, and 16 agencies achieved green status for purchase cards. In addition, the average government-wide delinquency rate for individually billed travel accounts is below 3% through September 30, 2005. This achievement ranks the Federal government as good as or better than the private sector for these types of charge accounts.

OMB issued new, consolidated guidance as Appendix B to OMB Circular A-123, *Management's Responsibility for Internal Control* on August 5, 2005. These new requirements will help ensure that agencies take the necessary steps to further mitigate the risks of misuse, delinquency, and other forms of waste and abuse. For example, the new guidance mandates split disbursement and salary offset in all travel card programs, and establishes new rules for strategic sourcing and credit worthiness.

# The Chief Financial Officers Council

The Chief Financial Officers (CFO) Act of 1990 created the CFO Council as a mechanism for advising and coordinating the activities of its member agencies on matters such as improved quality of financial information, financial data and information standards, consolidation and modernization of financial systems, internal control, legislation affecting financial operations and organizations, and other financial management matters.

The CFO Council consists of the CFOs and Deputy CFOs of the 24 major Federal departments and agencies covered by the CFO Act and is chaired by the OMB Deputy Director for Management. Other members include the OMB Controller and the Fiscal Assistant Secretary of the Treasury. The CFOs of the Executive Office of the President and the Corporation for National and Community Service also participate in the efforts of the CFO Council.

## CFO Act Agencies

- Department of Agriculture
- Department of Commerce
- Department of Defense
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security\*
- Department of Housing and Urban Development
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of State
- Department of Transportation
- Department of the Treasury
- Department of Veterans Affairs
- Agency for International Development
- Environmental Protection Agency
- General Services Administration
- National Aeronautics and Space Administration
- National Science Foundation
- Nuclear Regulatory Commission
- Office of Personnel Management
- Small Business Administration
- Social Security Administration

\* The Department of Homeland Security became a CFO Act agency under P.L. 108-330, which was enacted on October 4, 2004.

## CFO Council Committees

The CFO Council accomplishes its goals through its committee structure, which was recently restructured to better align with emerging issues and the needs of the federal financial community. In general, the committees serve to reinforce the President's Management Agenda and to assist the agency CFOs. One former committee, the Best Practices Committee, is no longer operating as a separate committee because its primary objective of exposing the CFOs to new ideas and strategies from "best practice" organizations and industry has been incorporated into the overall operation of the Council.

The following is a description of each committee, its recent accomplishments, and its plans for the future. Please note that a new committee – the Grants Policy Committee – was recently created to oversee the implementation of Public Law 106-107 (grants streamlining) and to work closely with the Grants Executive Board which oversees the Grants.gov and the Grants Management Line of Business E-Gov initiatives.

### Financial Management Policies and Practices

Chair: Vacant

Since its inception in early FY 2004, the Financial Management Policies and Practices Committee (the Committee) has been comprised of representatives from Federal agencies who work collaboratively to identify and address emerging issues to improve financial management in the Federal Government.

The committee is structured around three subject areas:

- Financial Policy – to address emerging issues that will ultimately improve financial management and reporting in the Federal Government.
- Accounting Standards – to ensure CFO Council participation in the standard setting process by providing viewpoints on proposed Federal Accounting Standards Advisory Board (FASAB) Standards, Interpretations, Technical Bulletins, Technical Releases or Concepts.
- Internal Control – to ensure coordination and consistency among internal control policies promulgated for executive departments and agencies.

The committee worked jointly with OMB to review existing internal control reporting, identify necessary changes, and redraft OMB Circular A-123, *Management's Responsibility for Internal Control*. The revisions, issued December 2004 significantly improved the Federal Government's ability to verify that effective control is in place. In addition, the committee and OMB jointly prepared an Implementation Guide released in July 2005. OMB has provided extensive outreach

training to communicate changes to agencies and contractors. OMB also fostered agency forums in order to share implementation ideas.

The committee established a separate subcommittee whose purpose was to revise and update OMB's Circular A-136 *Financial Accounting Requirements*, first released in December 2004. The subcommittee's first revision in August 2005 incorporated OMB Bulletin 01-09 *Form and Content of Agency Financial Statements* and other updates and changes. The subcommittee will continuously revise A-136 annually with new accounting standards and other significant policy changes to improve the quality of the Performance and Accountability Report (PAR). One of the subcommittee's top priorities is to look for ways to better communicate financial results to the users of the PAR (i.e., OMB, GAO, the public, Congress, etc.).

Over the next five years, the Committee will continue to:

- Identify and address emerging issues in financial management and reporting;
- Participate actively in the accounting standard-setting process; and
- Monitor implementation of the new A-123 requirements for providing assurance over financial controls.

## **Financial Reporting Acceleration**

Chair: Donald Hammond, Fiscal Assistant Secretary, Department of the Treasury

The Financial Reporting Acceleration Committee was established as a result of the Administration's initiative to accelerate agency and government-wide financial reporting to November 15 and December 15, respectively. The specific purpose of the committee is to help agencies identify and eliminate common barriers to meeting these deadlines. Fiscal year 2005 was the fourth year of operation for this committee.

Building on the success experienced with the FY 2004 reports, the committee's emphasis this past year was to focus attention on key common challenges that were highlighted during the FY 2004 process to facilitate further progress for FY 2005 reporting. The committee continued its focus on taking a broad perspective of financial reporting recognizing that improving data and business processes is at the heart of supporting more timely and useful financial reporting.

The FY 2005 results indicate the committee has essentially accomplished its primary objective. All 24 CFO Act agencies completed their financial statements no later than November 15 and the government-wide financial report was issued on December 15.

During FY 2005, the committee initiated two projects: (i) recommendations for streamlining the array of agency reporting requirements, and (ii) recommendations for modification of the intragovernmental business rules to support more efficient agency reporting and intragovernmental balance consolidation. Each of these areas were selected after extensive discussion as the two key areas that could increase the efficiency of agency reporting, enhance data quality and consistency and provide the most opportunity for recurring benefit.

Recognizing the significance of each of these efforts, two subcommittees were organized. Each subcommittee undertook independent efforts to analyze their respective areas and develop recommendations. These were open processes that sought input and participation from across the government financial management community. By the end of the year, the committee had reached agreement on proposed directions and recommendations for each project and had distributed these to the full CFO Council for comment.

FY 2006 will be the final year for the Financial Reporting Acceleration Committee. The committee will finalize the reports described above and present them to OMB and Treasury for their consideration and further action. Additionally, the committee will frame issues for the CFO Council to consider on the future of financial reporting. This last item will be available to serve as a reference for policy makers to consider as they determine the next steps in advancing the government's financial reporting and financial management to being truly effective and useful.

## **Financial Systems Integration**

Chair: Samuel T. Mok, Chief Financial Officer, Department of Labor

The Financial Systems Integration Committee addresses interagency financial management standards and issues as part of the broader effort to meet the President's goals for improved financial management.

During the past year, the committee continued to examine how information technology can be leveraged to more effectively and efficiently deliver financial services. By working with the broader CFO community to develop best practices and by actively participating in key financial management initiatives, the committee plays a leadership role in steering the Government's financial management future.

For example, the committee took an active role in promoting the Financial Management Line of Business (FMLOB) initiative. The FMLOB initiative seeks to eliminate redundant investments across agency lines and take advantage of the enormous economies of scale that exist in the public sector. Standardizing service delivery and developing more efficient reporting will achieve substantial cost savings and strengthen internal control. The FMLOB initiative seeks to achieve these goals through the development of "Centers of Excellence" hosted by the public and private sectors. Through consolidation and standardization of processes and services, COEs will meet the Government's financial services needs.

The committee continues to promote implementation of numerous e-Government initiatives, including e-Gov Travel and e-Payroll, as well as explore the use of better technology frameworks to enhance agencies' ability to accurately capture, analyze, and report growing volumes of financial information to stakeholders. As part of this effort, the committee reviews and provides guidance on requirements for core financial management systems and testing of systems.

Through improved interaction between agencies' financial management systems and enhanced use of information technology, the committee's work will achieve a better-managed and more accountable Federal government.

## **Grants Policy**

Co-Chair: Thomas Cooley, Director, Office of Budget, Finance and Award Management and Chief Financial Officer, National Science Foundation

Co-Chair: Susan J. Grant, Chief Financial Officer, Department of Energy

The Grants Policy Committee was established in the second quarter of FY 2005, to oversee and coordinate the implementation of the grants streamlining efforts mandated by the Federal Financial Assistance Management Improvement Act of 1999 (Public Law 106-107). This Committee was created under the Executive Leadership of the Chief Financial Officer's Council to coordinate proposals resulting from grants streamlining initiatives, serve as a decision-making body for grant policies, and provide policy directives for E-Gov technical solutions. The Grants Policy Committee works closely with the Grants Executive Board, which oversees the activities of Grants.gov and the Grants Management Line of Business E-Gov initiatives.

The Committee recommends government-wide policies needed to implement the vision of P.L. 106-107. That vision includes:

- One place for all grants administration policies - Title 2 Code of Federal Regulations
- One Catalog with all assistance programs listed - program registration in the Catalog of Federal Domestic Assistance (CFDA) required
- One announcement format of assistance opportunities - Standard format and synopses are available electronically
- One electronic portal for grantees:
  - To register (CCR; profiles; certifications and assurances)
  - To search (FIND; links to full announcements; links to CFDA)
  - To apply (APPLY; using government-wide standard data sets)

During FY 2005, the GPC undertook extensive planning and reorganization activities, such as activating two work groups, developing an organizational chart to ensure effective and appropriate representation by agencies on work groups and/or teams, and establishing a baseline plan of tasks, milestones, and schedules. The Committee is well positioned to support the goals of P.L. 106-107 in FY 2006.

## **Improper Payments**

Chair: Clarence Crawford, Associate Director for Management and Chief Financial Officer, Office of Personnel Management

Initially chartered in November of 2001, the Improper Payments Committee continues to assist agencies in identifying and reducing improper payments within their programs and activities. In its efforts, the committee works closely with the Inspector General (IG) community through the Improper Payments Joint Working Group.

In FY 2005, the second full year that agencies were required to report their compliance with the recently-enacted Improper Payments Information Act (IPIA) of 2002, the Committee served as a venue for assisting the agencies to develop new and innovative strategies for detecting and eliminating improper payments. As part of this effort, the Committee sponsored a series of “Industry Days” intended to inform agencies on solutions available in the commercial sector. In addition, the Committee has established new Federal-State partnerships, where efforts are focused on developing solutions for addressing improper payments in state-administered grant programs.

These efforts are yielding significant benefits as evidence by the dramatic decreases in the government-wide improper payment total and the establishment of error measurements in programs where no data had been available in the past.

## **Performance Measurement**

Chair: Kathleen Turco, Acting Deputy Administrator and Chief Financial Officer, General Services Administration

The Performance Measurement Committee’s objective is to establish a performance measurement system based on key financial management indicators so that government managers, Congress, and other stakeholders can assess the financial management health of both the Federal Government as a whole and each individual agency. To achieve this goal, the committee is working to develop and refine: (i) a series of baseline and target financial metrics; (ii) a rigorous, consistent, and systematic agency reporting process; and (iii) a centralized system/database where data and results can be readily viewed by interested parties.

Although officially formed in FY 2004, members of the CFO Council began working on a financial performance measurement system as early as FY 2002. In December 2004, the Performance Measurement Committee publicly reported nine financial management indicators. Using the metric web portal, managers and other interested parties have a tool for assessing Federal financial performance. For example, one can see how agencies are meeting goals to reduce unreconciled balances, reduce delinquent accounts receivables, increase the use of electronic payments, and reduce travel and purchase card delinquencies. Having the means to track performance on indicators such as these help to guide financial management reforms and target resources to areas where better stewardship of federal financial resources is truly needed.



Since last December, the Committee has been conducting a consistency assessment of agency reporting to ensure the validity and reliability of data and completing the definition of additional metrics and targets for public reporting. This fiscal year, the committee is well positioned to build on these accomplishments including reporting new measures and enhancing the existing reporting system.

## Future Outlook

Over the next five fiscal years and beyond, we envision a Federal Government that, as a whole, increasingly achieves first class financial management practices. OMB, the CFO Council, and the individual agency CFOs are leading the effort to improve the government's financial management for the benefit of the American taxpayer.

OFFM is positioned to assist agencies in improving their financial management practices, and it will continue to work closely with agency CFOs, agency IGs, and the CFO Council to strive toward achieving results through improved financial performance and management.

Each of the three branches of OFFM will continue to oversee efforts to:

- Achieve unqualified opinions on all agency audited financial statements;
- Receive the first-ever unqualified opinion on the government-wide audited financial statement;
- Increase the routine use of timely and accurate financial information in day-to-day decision making and in operational execution;
- Reduce both auditor-reported and FMFIA material weaknesses;
- Identify and eliminate improper payments in agency programs and activities;
- Increase the number of sound and dependable financial systems;
- Successfully implement new agency financial management systems where appropriate;
- Strengthen asset management through the work of the Federal Real Property Council and agency Senior Real Property Officers;
- Strengthen control over agency federal credit cards; and
- Improve the internal control at federal agencies, including a focus on internal control training and the improvement of internal control over financial reporting.

The CFO Council – chaired by the OMB Deputy Director for Management – is also well-positioned to appropriately address the emerging issues and needs of the Federal financial community. Each of the CFO Council committees serves to assist the agency CFOs in key financial management issues and initiatives.

In the next five fiscal years, we expect the CFO Council and its committees to, where appropriate, identify issues and projects, provide a forum for discussion, survey agencies, develop strategies, share best practices, and make proposals. With regard to federal financial management systems, we anticipate the Financial Systems Integration Committee to continue to evaluate ways in which agencies, and the government as a whole, can improve systems integration and increase systems sharing. We also plan to address the challenge of maintaining a capable financial workforce in the federal government through improved recruitment of accounting and related disciplines. OFFM and the CFO Council look forward to continued efforts toward improved financial management and accountability throughout the Federal Government.

# APPENDICES

## Appendix A:

### Summary of FY 2005 Financial Statement Results by Agencies and Selected Components

In FY 2005, agencies subject to the CFO Act were required to prepare annual audited financial statements. OMB also designates those individual agency components that must prepare audited financial statements.

<i>CFO Act Agencies:</i>	<i>FY 2005 Audit Opinion</i>
Department of Agriculture (USDA)	Unqualified
Department of Commerce (DOC)	Unqualified
Department of Defense (DOD)	Disclaimer
Department of Education (Education)	Unqualified
Department of Energy (DOE)	Disclaimer
Department of Health and Human Services (HHS)	Unqualified
Department of Homeland Security (DHS)	Disclaimer
Department of Housing and Urban Development (HUD)	Unqualified
Department of the Interior (DOI)	Unqualified
Department of Labor (DOL)	Unqualified
Department of Justice (DOJ)	Unqualified
Department of State (State)	Unqualified
Department of Transportation (DOT)	Unqualified
Department of the Treasury (Treasury)	Unqualified
Department of Veterans Affairs (VA)	Unqualified
Agency for International Development (USAID)	Unqualified
Environmental Protection Agency (EPA)	Unqualified

General Services Administration (GSA)	Disclaimer
National Aeronautics and Space Administration (NASA)	Disclaimer
National Science Foundation (NSF)	Unqualified
Nuclear Regulatory Commission (NRC)	Unqualified
Office of Personnel Management (OPM)	Unqualified
Small Business Administration (SBA)	Unqualified
Social Security Administration (SSA)	Unqualified
<b><i>Agency Components:</i></b>	
Food and Nutrition Service (USDA)	N/A*
Forest Service (USDA)	Unqualified
Rural Development (USDA)	Unqualified
Department of Army General Funds (DOD)	Disclaimer
Department of Navy General Funds (DOD)	Disclaimer
Department of Air Force General Funds (DOD)	Disclaimer
Military Retirement Trust Fund (DOD)	Unqualified
U.S. Army Corp of Engineers Civil Works Program (DOD)	Disclaimer
Department of Army Working Capital Fund (DOD)	Disclaimer
Department of Navy Working Capital Fund (DOD)	Disclaimer
Department of Air Force Working Capital Fund (DOD)	Disclaimer
Centers for Medicare and Medicaid Services (HHS)	Unqualified
Federal Aviation Administration (DOT)	Unqualified
Highway Trust Fund (DOT)	Unqualified
Internal Revenue Service (Treasury)	Unqualified
Civil Service Retirement and Disability Fund (OPM)	Unqualified
Federal Employees Health Benefits Program (OPM)	Unqualified
Federal Employees Life Insurance Program (OPM)	Unqualified

\* Agency component received an OMB waiver from audit for FY 2005.

## **Appendix B:**

# **Material Weaknesses Reported by Auditors and Federal Managers' Financial Integrity Act Tables**

OMB audit guidance requires auditors to disclose material weaknesses in internal control over financial reporting. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 and OMB guidance require the head of each executive agency to annually report whether there is reasonable assurance that the agency's controls are achieving their intended objectives and whether the agency's financial management systems conform to government-wide requirements.

Agency heads are required to identify material weaknesses related to agency programs and operations (pursuant to Section 2 of FMFIA) and nonconformances with government-wide financial systems requirements (pursuant to Section 4 of FMFIA). Reporting of material weaknesses under FMFIA is not limited to weaknesses over financial reporting.

The following tables include: the number of material weaknesses reported by independent auditors, the number of material weaknesses reported by agency heads under Section 2 of FMFIA, and the number of financial system nonconformances reported by agency heads under Section 4 of FMFIA.

### Table Definitions:

- **Beginning** – the number of material weaknesses (beginning balance) reported in the Independent Auditor's Report for the prior fiscal year.
- **New** – the number of new material weaknesses reported in the Independent Auditor's Report for the current fiscal year which could include reportable conditions reported by the auditors from the prior fiscal year whose severity has risen to the level of a material weakness.
- **Resolved** – the number of material weaknesses reported in the Independent Auditor's Report for the current fiscal year that were reported as resolved by the auditors or whose severity has been reduced to that of a reportable condition.
- **Consolidated** – the number of material weaknesses reported in the Independent Auditor's Report that were combined with other repeat material weaknesses from a prior fiscal year or with a new material weakness from the current fiscal year
- **Ending** – the number of material weaknesses (ending balance) reported in the Independent Auditor's Report for the current fiscal year. The number is calculated by adding the number of new material weakness reported by the auditors from the current fiscal year to the number of material weaknesses reported the prior fiscal year and then subtracting the number of weaknesses resolved and consolidated weaknesses during the current fiscal year.

**Fiscal Year 2005:  
Auditor-Reported Material Weaknesses**

	<b>Beginning</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending</b>
<b>Agriculture</b>	2				2
<b>Commerce</b>	0				0
<b>Defense</b>	11				11
<b>Education</b>	0				0
<b>Energy</b>	0	1			1
<b>HHS</b>	2	1	1		2
<b>Homeland</b>	10	1		1	10
<b>HUD</b>	3	1	2		2
<b>Interior</b>	4		2		2
<b>Justice</b>	2	1	1		2
<b>Labor</b>	0				0
<b>State</b>	0	2			2
<b>DOT</b>	4	1	2		3
<b>Treasury</b>	1				1
<b>VA</b>	2	1			3
<b>AID</b>	1	1	1		1
<b>EPA</b>	0				0
<b>GSA</b>	0	1			1
<b>NASA</b>	4		1		3
<b>NSF</b>	0				0
<b>NRC</b>	1				1
<b>OPM</b>	1		1		0
<b>SBA</b>	2		1		1
<b>SSA</b>	0				0
<b>Totals</b>	<b>50</b>	<b>11</b>	<b>12</b>	<b>1</b>	<b>48</b>

**Fiscal Year 2005:  
Section 2 Reporting in Agency FMFIA Reports**

	Adequate and Effective Management Controls*			Number of Material Weaknesses					
	Yes	Yes, with Material Weaknesses	No	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture		X		2	1	1			2
Commerce		X		1					1
Defense		X		46	10	22		1	33
Education	X			0					0
Energy	X			0					0
HHS		X		3	1	3			1
Homeland**		X		9	4		1		12
HUD	X			1		1			0
Interior		X		4	1	1			4
Justice		X		1					1
Labor	X			0					0
State	X			0					0
DOT		X		3	1	1			3
Treasury		X		7		1			6
VA		X		1					1
AID	X			1		1			0
EPA	X			0					0
GSA		X		0	1				1
NASA		X		1					1
NSF	X			0					0
NRC	X			0					0
OPM		X		1	1	1			1
SBA		X		2		1			1
SSA	X			0					0
<b>TOTAL</b>	<b>10</b>	<b>14</b>	<b>0</b>	<b>83</b>	<b>20</b>	<b>33</b>	<b>1</b>	<b>1</b>	<b>68</b>

\*Agency head has provided overall assurance that the agency has adequate and effective management controls, except for the material weaknesses identified.

\*\*In FY 2005 the Department of Homeland Security was required to provide a separate management assurance over financial reporting. While it reported an overall qualified assurance (FMFIA Section 2), it provided no assurance over financial reporting. The 12 weaknesses reporting in this table reflect all FMFIA Section 2 weaknesses reported by the Department.



**Fiscal Year 2005:  
Section 4 Reporting in Agency FMFIA (or Accountability) Reports**

	Systems Conform to Requirements			Number of Nonconformances					
	Yes	Yes, with Non-conformances*	No	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture		X		1					1
Commerce	X			0					0
Defense		X		1					1
Education	X			0					0
Energy	X			0					0
HHS			X	1					1
Homeland			X	1	3				4
HUD	X			1		1			0
Interior	X			0					0
Justice		X		2	1				3
Labor	X			0					0
State	X			0					0
DOT		X		2		1			1
Treasury		X		1					1
VA	X			1		1			0
AID	X			1		1			0
EPA	X			0					0
GSA		X		0	1				1
NASA		X		2	1				3
NSF	X			0					0
NRC	X			0					0
OPM	X			0					0
SBA		X		1		1			0
SSA	X			0					0
<b>TOTAL</b>	<b>14</b>	<b>8</b>	<b>2</b>	<b>15</b>	<b>6</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>16</b>

\* Agency head has provided overall assurance that the agency has adequate and effective management controls, except for the non-conformances identified.

## Appendix C: Government Corporations Required to Submit Audited Financial Statements to OMB

<b><u>Government Corporation</u></b>	<b><u>FY 2005 Audit Opinion</u></b>
Commodity Credit Corporation	Unqualified
Community Development Financial Institutions Fund	Unqualified
Corporation for National and Community Service	Unqualified
Export-Import Bank of the United States	Unqualified
Federal Crop Insurance Corporation	Unqualified
Federal Deposit Insurance Corporation	Not received <sup>1</sup>
Federal Home Loan Banks	Not received <sup>1</sup>
Federal Housing Administration Fund	Unqualified
Federal Prison Industries, Incorporated	Unqualified
Financing Corporation	Not received <sup>1</sup>
Government National Mortgage Association	Unqualified
Millennium Challenge Corporation	Unqualified
National Credit Union Administration Central Liquidity Facility	Not received <sup>1</sup>
Overseas Private Investment Corporation	Unqualified
Pension Benefit Guaranty Corporation	Unqualified
Resolution Funding Corporation	Not received <sup>1</sup>
Rural Telephone Bank	Unqualified
Saint Lawrence Seaway Development Corporation	Unqualified
Tennessee Valley Authority	Unqualified

<sup>1</sup> Agency has a calendar year end; the financial statements were not due as of the printing of this report.

## Appendix D:

# Accountability for Tax Dollars Act Agencies Required to Submit Audited Financial Statements to OMB

<u>Agency</u>	<u>FY 2005 Opinion</u>
Advisory Council on Historic Preservation	Not received
African Development Fund	Unqualified
Appalachian Regional Commission	Unqualified
Architectural and Transportation Barriers Compliance Board	Unqualified
Armed Forces Retirement Home	Unqualified
Barry Goldwater Scholarship and Excellence in Education Fund	Not received
Broadcasting Board of Governors	Unqualified
Christopher Columbus Fellowship Foundation	Unqualified
Central Intelligence Agency	Disclaimer
Chemical Safety and Hazard Investigation Board	Extension <sup>1</sup>
Commission on Civil Rights	Disclaimer
Commission of Fine Arts	Unqualified
Commission for the Preservation of America's Heritage Abroad	Not received
Committee for Purchase from People Who Are Blind or Severely Disabled	Unqualified
Commodities Futures Trading Commission	Unqualified
Consumer Product Safety Commission	Unqualified
Court Services and Offender Supervision Agency for DC	Not received
Defense Nuclear Facilities Safety Board	Extension <sup>1</sup>
Delta Regional Authority	Not received
Denali Commission	Extension <sup>1</sup>
Equal Employment Opportunity Commission	Unqualified
Farm Credit Administration	Unqualified
Farm Credit System Financial Assistance Corporation	Not received <sup>2</sup>
Farm Credit System Insurance Corporation	Not received <sup>2</sup>
Federal Communications Commission	Disclaimer
Federal Election Commission	Qualified
Federal Financial Institutions Examination Council Appraisal Subcommittee	Not received
Federal Housing Finance Board	Unqualified
Federal Labor Relations Authority	Unqualified
Federal Mediation and Conciliation Service	Unqualified
Federal Mine Safety and Health Review Commission	Unqualified
Federal Retirement Thrift Investment Board	Not received <sup>2</sup>
Federal Trade Commission	Unqualified
Harry S. Truman Scholarship Foundation	Unqualified
Institute of American Indian and Alaska Native Culture and Arts Development	Not received
Institute of Museum and Library Services	Extension <sup>1</sup>
Inter-American Foundation	Unqualified
James Madison Memorial Fellowship Foundation	Not received
Japan-U.S. Friendship Commission	Unqualified
Marine Mammal Commission	Unqualified

<sup>1</sup> Extension not to exceed 60 days.

<sup>2</sup> Agency has a calendar year end; the financial statements were not due as of the printing of this report.

<u>Agency</u>	<u>FY 2005 Opinion</u>
Merit Systems Protection Board	Unqualified
Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation	Unqualified
National Archives and Records Administration	Qualified
National Capital Planning Commission	Not received
National Commission on Libraries and Information Science	Not received
National Council on Disability	Unqualified
National Credit Union Administration	Not received <sup>2</sup>
National Endowment for the Arts	Qualified
National Endowment for the Humanities	Unqualified
National Labor Relations Board	Unqualified
National Mediation Board	Unqualified
National Transportation Safety Board	Unqualified
Nuclear Waste Technical Review Board	Unqualified
Occupational Safety and Health Review Commission	Unqualified
Office of Government Ethics	Unqualified
Office of Navajo and Hopi Indian Relocation Commission	Not received
Office of Special Counsel	Unqualified
Peace Corps	Disclaimer
Presidio Trust	Qualified
Railroad Retirement Board	Unqualified
Securities and Exchange Commission	Unqualified
Selective Service System	Unqualified
Smithsonian Institution	Unqualified
SI/John F. Kennedy Center for the Performing Arts	Unqualified
SI/National Gallery of Arts	Not received
SI/Woodrow Wilson International Center for Scholars	Not received
Trade and Development Agency	Unqualified
U.S. Court of Appeals for Veterans Claims	Unqualified
U.S. Holocaust Memorial Museum	Unqualified
U.S. Interagency Council on Homelessness	Unqualified
U.S. International Trade Commission	Unqualified
Vietnam Education Foundation	Not received
White House Commission on the National Moment of Remembrance	Extension <sup>1</sup>

## **Appendix E: Executive Branch Management Scorecard**

The Office of Management and Budget (OMB), in consultation with the agencies, professional associations, and academics, established Standards for Success for each government-wide initiative of the President's Management Agenda.

Each quarter, OMB grades each agency on its current status, as well as its progress, toward meeting the established standards. An agency's status and progress are rated using the familiar stoplight colors of red, yellow, and green.

The following Executive Branch Management Scorecard shows the Current Status and Progress scores on the Improving Financial Performance initiative of the PMA. The fourth quarter scorecard provided here presents the agencies' ratings as of September 30, 2005. These ratings were prior to the publication of the fiscal year 2005 audited financial statements.

## Improved Financial Performance

### Explanation of Current Status Score (as of Quarter 4 FY 2005)



Agency:

- Meets all Yellow Standards for Success;
- Currently produces accurate financial information that is used by management to inform decision-making and drive results in key areas of operations; **AND**
- Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations.



Agency:

- Receives an unqualified opinion on its audited annual financial statements;
- Meets financial reporting deadlines;
- Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act;
- Has no chronic or significant Anti-Deficiency Act Violations;
- Has no material auditor-reported internal control weaknesses;
- Has no material non-compliance with laws or regulations; **AND**
- Has no material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.



Agency:

- Receives an opinion other than unqualified on its annual financial statements;
- Does not meet financial reporting deadlines;
- Cannot report in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act;
- Commits chronic or significant Anti-Deficiency Violations;
- Has material auditor reported internal control weaknesses;
- Is in material non-compliance with laws or regulations; **OR**
- Has material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.



Green – Implementation is proceeding according to plans



### Explanation of Progress Score

Yellow – Slippage in implementation schedule, quality of deliverables, or other issues requiring adjustments by agency in order to achieve initiative on a timely basis.



Red – Initiative in serious jeopardy. Unlikely to realize objectives without significant management intervention

## Executive Branch Management Scorecard Financial Management (Baseline - Current)

	Current Status					Progress				
	FY02 Q2	FY03 Q4	FY04 Q4	FY05 Q3	FY05 Q4	FY02 Q2	FY03 Q4	FY04 Q4	FY05 Q3	FY05 Q4
AGRICULTURE	●	●	●	●	●	●	●	●	●	●
COMMERCE	●	●	●	●	●	●	●	●	●	●
DEFENSE	●	●	●	●	●	●	●	●	●	●
EDUCATION	●	●	●	●	●	●	●	●	●	●
ENERGY	●	●	●	●	●	●	●	●	●	●
EPA	●	●	●	●	●	●	●	●	●	●
HHS	●	●	●	●	●	●	●	●	●	●
HOMELAND		●	●	●	●		●	●	●	●
HUD	●	●	●	●	●	●	●	●	●	●
INTERIOR	●	●	●	●	●	●	●	●	●	●
JUSTICE	●	●	●	●	●	●	●	●	●	●
LABOR	●	●	●	●	●	●	●	●	●	●
STATE	●	●	●	●	●	●	●	●	●	●
DOT	●	●	●	●	●	●	●	●	●	●
TREASURY	●	●	●	●	●	●	●	●	●	●
VA	●	●	●	●	●	●	●	●	●	●
AID	●	●	●	●	●	●	●	●	●	●
Corps of Eng	●	●	●	●	●	●	●	●	●	●
GSA	●	●	●	●	●	●	●	●	●	●
NASA	●	●	●	●	●	●	●	●	●	●
NSF	●	●	●	●	●	●	●	●	●	●
OPM	●	●	●	●	●	●	●	●	●	●
SBA	●	●	●	●	●	●	●	●	●	●
SMITHSONIAN	●	●	●	●	●	●	●	●	●	●
SSA	●	●	●	●	●	●	●	●	●	●



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