

Testimony of the Honorable Linda M. Combs
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before the

Subcommittee on Government Management, Organization, and Procurement
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There may be no more important responsibility of government than to act as an effective steward of the taxpayers' money. It is therefore no surprise that the President has made improving financial performance one of his top management priorities. With the launch of the President's Management Agenda (PMA) in 2001, the President issued a "call to action" for Federal managers to achieve a series of critical financial management goals that, if attained, would help American citizens gauge whether "the people's money" is being properly accounted for and wisely spent, increase transparency into the fiscal health of the Federal Government, and provide reliable financial information to be used by Federal leaders to manage the day-to-day operations of the government more efficiently.

With the rising costs of entitlement programs expected to create an unprecedented and enormous fiscal imbalance for the Federal Government in the coming decades, achieving our financial management goals is more critical today than any other time in our nation's history. The financial management community is not only responsible for reporting on the extent and nature of our fiscal challenges, it also plays a critical role in developing and implementing strategies to control Federal spending and otherwise ensure that the fiscal health of the Federal Government remains sound.

I am pleased to report that the Federal financial community is well positioned to meet these challenges, having achieved significant forward progress on all the key indicators of the PMA initiatives related to financial management. Specifically, in fiscal year (FY) 2006:

- Nineteen major agencies, representing more than 75% of all Federal outlays, achieved a clean audit opinion.
- The number of auditor-reported material weaknesses was reduced by approximately 15% (from 48 reported in FY 2005 to 41 reported this past year).
- For the second consecutive year, every major Federal agency issued their audited financial statements within 45 days of the close of the fiscal year. Prior to 2001, some of

these major Federal agencies took as long as five months to complete their financial reports.

- Improper payments declined to \$36.3 billion for those programs that originally reported a total of \$45.1 billion in FY 2004. This represents an approximate \$9 billion improvement in 2 years.
- The Federal Government has disposed of more than \$4.2 billion in excess real property since FY 2004.

It is now incumbent upon the Federal community to build on this foundation of progress so that we are prepared to address the fiscal challenges that lie ahead. Federal managers must continue to mobilize resources and re-dedicate efforts to strengthen accounting practices, implement stronger internal controls, issue financial reports more timely, eliminate instances of error and waste, and use financial data to manage costs. Also, we must approach these management improvement activities with an eye towards balancing the costs of our efforts against the benefits they ultimately derive for the taxpayer. Stated simply, we must not spend \$2 on our management improvement efforts if the return to the taxpayer is only \$1.

As we set out to achieve new and better levels of financial performance, and do so in a cost-effective manner, it is critical that the Federal financial community orient itself around a common set of priorities, an agreed upon plan for action, and a clear and consistent roadmap for improvement. Therefore, pursuant to the Chief Financial Officers Act of 1990 (CFO Act), the Office of Federal Financial Management (OFFM) within the Office of Management and Budget (OMB) has published the “2007 Federal Financial Management Report – A Framework for Improving Financial Performance.” The Framework, released in January of 2007, is intended to provide the public with a simple reporting tool for identifying: (1) The PMA – How We Define and Measure Financial Management Success; (2) Reform Activities – Priority Financial Management Initiatives that Support PMA Objectives; and (3) Core Activities – The Foundation of Effective Financial Management.

The PMA

When the CFO Act was signed into law more than 15 years ago, the Federal Government was responding to numerous financial management challenges. The Comptroller General at the time had testified that billions of dollars were “at risk” in the Federal Government’s programs due to inadequate financial management systems and controls. Agencies generally could not give assurance that their financial statements were accurate and reliable, as only one agency was able to achieve a clean audit opinion in the Act’s first year of implementation.

The CFO Act was a direct response to these deficiencies and was aimed toward reforming financial management practices within the Federal Government. The Act called for stronger financial leadership, more disciplined financial controls, improved financial management systems, and accurate and timely financial information for decision-making. If implemented effectively, the reform environment created by law, administrative action, and executive order provides a solid foundation for continual improvements in the Federal Government’s stewardship of the public’s tax dollars. The primary instrument used by the Administration to

implement the principles of the CFO Act and other Federal financial management laws is the Improving Financial Performance Initiative of the PMA. Under this initiative, the President identified a limited number of clear, meaningful, and attainable financial goals that every Federal agency must meet. Each individual goal is an indicator of financial management excellence, and reflects standards established either by law or Administrative action.

As a primary goal, every agency CFO is responsible for meeting standards that reflect a sound foundation of Federal financial management: achieving a “clean” audit, resolving material weaknesses in a timely manner, implementing and/or maintaining a financial system that meets Federal standards, meeting reporting deadlines, and complying with laws and regulations. These standards ensure that Federal agencies are properly accounting for taxpayer dollars and can produce financial information that is both timely and reliable. Federal agencies must achieve these standards to move from “red” to “yellow” status on the PMA stop light scorecard system. To achieve a “green” status score, CFOs must build on the “yellow” standards by ensuring that financial information is available for managers on demand and is actively being used to drive results in key areas of operations.

In addition to the Improving Financial Performance Initiative, the President has also established additional PMA initiatives to eliminate improper payments and right-size the Federal Government’s real estate. The accompanying table demonstrates the key goals for the financial management-related PMA initiatives, with the corresponding FY 2006 results and 5-year performance targets.

PMA GOALS, RESULTS & TARGETS

PMA GOALS	FY 2006 RESULTS	FY 2011 PERFORMANCE TARGETS
Increase # of Clean Audit Opinions	19 of 24 CFO Act Agencies w/ Clean Opinion	22 of 24 CFO Act Agencies w/ Clean Opinion
Reduce # of Material Weaknesses (MW)	15% Reduction in Auditor MWs from Prior Year	50% Elimination of all Current Government-wide MWs
Timely Financial Reporting	All Agencies Report w/in 45 Days	All Agencies Report w/in 45 Days
Dispose of Excess Real Property	\$4.2 Billion in Excess Property Disposed of Since 2004	\$11 Billion in Excess Property Disposed
Eliminate Improper Payments (IP)	\$9 Billion IP Reduction from 2004 Base	\$20 Billion IP Reduction from 2004 Base

As a result of the PMA, every CFO across the Federal Government now shares common goals for improving financial performance, and a financial management community exists that works closely with one another to respond to long-standing and arising financial challenges. As OMB, Federal CFOs, and the larger financial management community look toward the next 5 years of financial management improvements, the PMA will continue to guide our efforts.

As indicated in the table above, most agencies now receive a clean opinion on their audited financial statement each year. However, some agencies, such as the Department Homeland Security (DHS) and Department of Energy (DOE), did not achieve that goal in FY 2006. During today's hearing, you will hear directly from these agencies on their specific plans to address financial management challenges. OMB will continue to play a key role in these efforts by using the PMA to hold DHS and DOE accountable for meeting the milestones on their financial improvement plans and demonstrating measurable progress towards achieving a clean opinion and resolving material weaknesses.

The PMA framework has proved successful to date, with numerous agencies, such as the Department of Housing and Urban Development (HUD), the General Services Administration (GSA), the Department of Justice (DOJ), and the Small Business Administration (SBA), moving from either a qualified or disclaimed opinion to a clean opinion in the past few years through action plans that were tracked closely through the PMA.

At DOE, we have seen measurable progress since it first received a disclaimer of opinion in 2005 and expect that in the coming year they will join the ranks of HUD, GSA, DOJ, and SBA and regain its overall clean financial statement opinion in FY 2007. Specifically, DOE improved its audit results in FY 2006 and received a qualified opinion on its balance sheet; however, they still had a disclaimer of opinion on the overall financial statements.

At DHS, the achievement of a clean audit is on a longer time horizon. However, DHS has taken several critical steps that serve as an important foundation for improving their financial management. Most notable, DHS has developed what it terms the Internal Controls over Financial Reporting (ICOFR) Playbook. This playbook, when implemented fully, will dramatically strengthen policies and procedures throughout the Department and yield significant improvements in key financial outcomes related to the audit.

Reform and Core Activities

To support the PMA, the Federal financial community has undertaken a series of reforms intended to strengthen key areas of financial management and thus help ensure the PMA's success. These activities include improving and/or strengthening: internal controls, financial systems, payment accuracy, real property management, grants management, and financial reporting for the government as a whole (including enhanced reporting on social insurance programs and the sustainability of the government's finances over time). To ensure the Federal community has a common understanding of what we are trying to accomplish, OMB's Framework for Improving Financial Performance establishes an overarching strategic goal, a 5-year performance target, short-term objectives, and priority actions for the coming year.

The Federal financial community also undertakes a myriad of day-to-day activities or core functions that are necessary to effectively manage the resources of the Federal Government. These activities include improving, strengthening, and monitoring financial systems and reports, internal controls, auditing standards, and asset and grants management. In collaboration with the financial management community, OFFM works to ensure that the government-wide policies and requirements that drive our core activities are user friendly, transparent, consistently

complied with by Federal agencies, and facilitate improved financial management without undue burden on agency and taxpayer resources.

Of equal importance to the transparency and clarity of the Framework, the reform and core activities within the Framework will help position the financial management community to meet the fiscal challenges that face our nation today. Due to the expected growth of Social Security, Medicare, and other entitlement programs, the Federal Government faces an imbalance of more than \$40¹ trillion, in present value terms, over the next 75 years. Our efforts to strengthen government-wide reporting (including on social insurance programs) will ensure that policymakers and the public have comprehensive data on the sustainability of the government's finances that facilitates and guides entitlement reform efforts and other decisions on Federal spending. To this end, Treasury Secretary Paulson and OMB Director Portman sent a copy of the United States 2006 Financial Report of the U.S. Government to every member of Congress on December 15, 2006. The report was also posted on the Treasury Financial Management Service's website and a link to it is on the front page of OMB's website. In addition, we are working with the financial management community to strengthen internal controls, reduce payment errors, and manage our assets more efficiently, to help control costs in an environment where Federal resources for non-entitlement programs will become increasingly scarce.

Moving Forward Through Smarter, Stronger, and Sustainable Accountability

While the financial management community has made significant progress since the enactment of the CFO Act in 1990 and is executing a sound and transparent strategic plan, much remains to be done before the government can say that it has achieved the level of financial management for which we are striving. As we move forward on our plan, we will increase the reliability and transparency of the government's financial information while placing special emphasis on the principle that our improvement activities must have a positive return on investment for the taxpayer.

To this end, the CFO Council (CFOC) and the President's Council on Integrity and Efficiency (PCIE) are currently joining forces to improve the cost-effectiveness of how we go about producing audited financial statements. The presentation of our financial data should be understandable and useful without becoming an excessive cost and drain on agency resources. The CFOC and PCIE will work together with the larger financial community and the Congress to determine if we are sharing the right information with the Government's stakeholders, if the data are timely and in the right format for decision making, and if the appropriate amount of audit scrutiny and precision exists, without compromising audit quality. By improving the cost-effectiveness of our current activities, we will empower our financial leaders to expand their focus beyond clean audits and material weakness resolution into other critical areas of fiscal responsibility, such as the reporting of the full costs of Federal programs and activities so that Federal managers have better information to make key business decisions.

¹ The amount is about \$44 trillion on a close group basis, which excludes the benefit payments and contributions of individuals under age 15 (or not yet born). On an open group basis (current and future participants) this amount is about \$39 trillion.

Every tax dollar is too precious not to make well-informed decisions. This Administration looks forward to continuing our partnership with Congress to pursue fiscal health by holding agencies accountable, improving financial management through the PMA, addressing our long-term fiscal challenges, and striving for stronger, smarter, and sustainable accountability. We will build on our current successes, maintain and enhance our day-to-day (core) activities, and incorporate reform initiatives to move every agency to financial management excellence and to “green” status on the PMA stop light scorecard. We will be strategic with the financial management policies we set and how we manage our programs in order to account for and wisely spend “the people’s money.”