Federal Financial Management Report 2005

Executive Office of the President
Office of Management and Budget
Washington D.C.

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Executive Summary

On August 9, 2004, President George W. Bush met with the President's Management Council and the lead members of the President's Management Agenda (PMA). Along with the other four members of the PMA leadership team at the Office of Management and Budget (OMB), I had the opportunity at this meeting to brief the President on the results we are achieving in the area of financial management and in the Improved Financial Performance initiative of the PMA.

There was much to report at this meeting. Fiscal year (FY) 2004 was a year of demonstrable results in the Federal Government's financial management. The agencies subject to the Chief Financial Officers (CFO) Act of 1990 have achieved new levels of timeliness and frequency in their financial reporting, have measured the accuracy of their payments to a greater extent than ever before, and have laid the foundation for comprehensive real property asset portfolio management.

Financial management leaders also extended beyond the CFO ranks in productive joint efforts during FY 2004. Under the direction of OMB's Office of Federal Financial Management (OFFM), the Chief Financial Officers Council and the Inspectors General community partnered to develop new standards of assurance for internal control over financial reporting. Collaboration across management disciplines was also evident in the joint CFO-Chief Information Officer (CIO) development of the new paradigm for ensuring effective and efficient investments in financial management systems.

Achieving Private Sector Standards of Timeliness

As recently as ten years ago, CFO Act agencies were not required to issue audited year-end financial statements. Since then, agencies have been engaged in a process of catching up to long-established private sector practices of financial reporting. The financial management leadership of the Bush Administration has increased the pace of progress in reaching this standard.

In FY 2004, a record 22 of the 23 CFO Act agencies completed their Performance and Accountability Reports just 45 days after the end of the fiscal year. Before the Administration came to office, these agencies took as long as five months to complete their financial reports. 18 of the 23 agencies received unqualified opinions in an environment of increased audit rigor, as well as substantially improved timeliness.

The issuance of the consolidated *Financial Report of the United States Government* was also accelerated to December 15, 2004 – one month after the standalone agency reports were issued. This compares to a release date of late February 2004 for the FY 2003 report.

With this year's successful efforts, the public and Congress have information in a more timely manner to assess how well an agency is meeting its mission. Sooner than ever before, the American taxpayer can now more readily access information that shows how tax dollars are being used.

In addition, under OFFM's direction, agencies have been required for the first time to prepare interim financial statements throughout the year. During FY 2004, all CFO Act agencies prepared quarterly financial statements on a timely basis.

Improving the Accuracy of Payments

Pursuant to the guidance issued by OFFM in May 2003, Federal agencies implemented the requirements of the Improper Payments Information Act (IPIA) of 2002 for the first time in 2004. Reporting required by the IPIA was captured in a common format in each agency's Performance and Accountability Report.

A comprehensive report on the results of the agency-specific efforts – highlighting significant findings, agency accomplishments, and remaining challenges – may be found at http://www.whitehouse.gov/omb/financial/fia_improper.html. This report provides the clearest picture policymakers and federal agency managers have ever had on the extent of improper payments and the critical challenges faced in eliminating them. This year's efforts provide the necessary baseline from which short and long-term program payment accuracy improvement strategies will be established.

In the coming years, agencies will focus on expanding sampling and rate development to all risk susceptible programs while continuing their efforts to reduce and ultimately eliminate improper payments. Beginning with the first quarter of FY 2005, these efforts will be tracked in a new PMA program initiative.

Effective Real Property Asset Management

Federal agencies are taking major steps toward implementing best practices employed by private sector real property portfolio managers. In February 2004, President Bush signed Executive Order 13327, "Federal Real Property Asset Management," to better ensure the most effective management of the hundreds of billions of dollars in real property owned by the Federal Government. Under this order, the needed infrastructure – such as comprehensive asset management plans, meaningful performance measures, and detailed inventories – are being developed for all agencies with significant real property holdings. With these tools, agencies will be equipped for evaluating their currently owned and leased properties versus their future need. We will better manage properties that are needed, and we will dispose of the excess. As with improper payments, real property asset management results are being monitored under a new PMA program initiative.

Strengthened Accountability for Internal Control

Last year I reported that OFFM would convene a working group of CFOs and Inspectors General to review the new internal control assurance requirements applicable to the private sector for their relevance to Federal Government agencies. I am pleased to report that, thanks to the diligent sustained effort of this joint committee throughout 2004, significant enhancements to the current assurance structure were proposed. These policy recommendations have been incorporated into a revised OMB Circular A-123, which was issued in December 2004.

These policy changes will strengthen the requirements for conducting management's assessment of internal control over financial reporting. The circular now emphasizes the need for agencies to integrate and coordinate internal control assessments with other internal control-related activities.

The new requirements are effective beginning with FY 2006. During FY 2005, agencies will be preparing for implementation and will be assisted by an implementation guide to be issued in spring 2005.

A New Era in Financial Management Systems

Members of the CFO Council partnered with the CIOs of major agencies to develop a strategy to meet the Federal Government's future needs for core financial management system functionality. This effort focused on minimizing redundant investments and maximizing the prevalence of cutting-edge technology.

The result is a service model built around centers of excellence. In this structure, entities meeting the stringent qualification requirements of a new due diligence checklist will be eligible to provide core financial management system functionality to client agencies. Rather than attempting to maintain the highest level of functionality at every agency, which has proven to be a barrier to successful management in the past, this new model will allow for focused investment and enhancement to include the broader benefit of client agencies.

Migration to this model will take place over a number of years as agencies face significant upgrades to their financial management systems.

Building on our Success

The Federal Government is executing its financial management duties more responsibly today than it did just a few short years ago. FY 2004, in particular, was a year of advancement in the quality of its financial management.

Significant progress has been made on many deficiencies, as noted in this summary and in the text that follows. But much remains to be done before the government can say that it has achieved the level of financial management for which we are striving. The path before the financial community is clear and, with the momentum and successes of 2004, there is every reason to expect continued improvement. We owe the American citizens no less.

Linda M. Springer
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

[B]eing results-oriented is about delivering results AND also about our having an expectation that costs will be managed, the government will spend the people's money wisely, and that managers will be held accountable for achieving results.

Clay Johnson III, OMB Deputy Director for Management
August, 2004

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 possess more timely and reliable financial information, improve the integrity of their financial activities, and have sound and dependable financial systems.

Under the Improved Financial Performance initiative, 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 2004 Financial Results

For the FY 2004 reporting cycle, agencies continued to meet the challenges involved with improving the financial management under the Improved Financial Performance initiative. Such efforts are exemplified by a record number of agencies that issued their Performance and Accountability Reports (PARs)[1], including audited financial statements, within 45 days after the end of the fiscal year. This accelerated deadline, required by the Administration to begin this past fiscal year, significantly reduces a reporting delay of five months that had been typical prior to this year. This year, 22 of the 24 CFO Act agencies submitted their PARs by November 15 in FY 2004.

While two agencies – the Departments of Homeland Security (DHS) and Health and Human Services (HHS) – did not meet the November 15 deadline, DHS issued its PAR just four days after the 45 day deadline, while HHS submitted its PAR in early December. These two agency submissions should still be considered a major accomplishment, coming in more than two-and-a-half months earlier than required by statute.

[1] Agencies subject to the Chief Financial Officers Act and the Accountability for 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.

In addition to the CFO Act agencies, agencies subject to the Accountability for Tax Dollars Act (ATDA) also worked to issue their audited financial statements within 45 days after the end of the fiscal year. Of these 75 ATDA agencies, 25 met the accelerated deadline. (Please see Appendix D for additional information.) This acceleration is especially noteworthy given that a significant number of these smaller agencies were producing audited financial statements for the very first time.

Despite the accelerated reporting time frame in FY 2004, the same number of CFO Act agencies received unqualified audit opinions on their financial statements. Of the 24 major Federal agencies, 18 received unqualified audit opinions this past fiscal year. This is a noteworthy outcome given the shorter amount of time to prepare audited financial statements in FY 2004, as well as the increased rigor of the audit process. (Appendix A contains the summary of FY 2004 agency financial statement results.)

One agency – the Small Business Administration (SBA) – received a qualified opinion, while five agencies – the Departments of Defense, Homeland Security, Housing and Urban Development, Justice, and the National Aeronautics and Space Administration – received disclaimers on their statements. For several of the agencies not receiving an unqualified opinion, in general, increased audit work surfaced issues that could not be resolved in time to meet the accelerated reporting deadline. OMB looks forward to working with these agencies to resolve these issues in FY 2005.

Noteworthy progress was especially made at SBA whose audit opinion improved from a disclaimer in FY 2003 to a qualified opinion in FY 2004. The improvements made by SBA over the past year have positioned it well for receiving an unqualified opinion in the future.

The earlier financial reporting of the agencies in FY 2004 serves several important purposes. For example, the accelerated reporting provides the foundation for the earlier issuance of the government-wide report on December 15 – which was accomplished in 2004 for the first time ever. Additionally, the earlier financial reporting provides agencies with more timely financial information from which to base program management decisions.

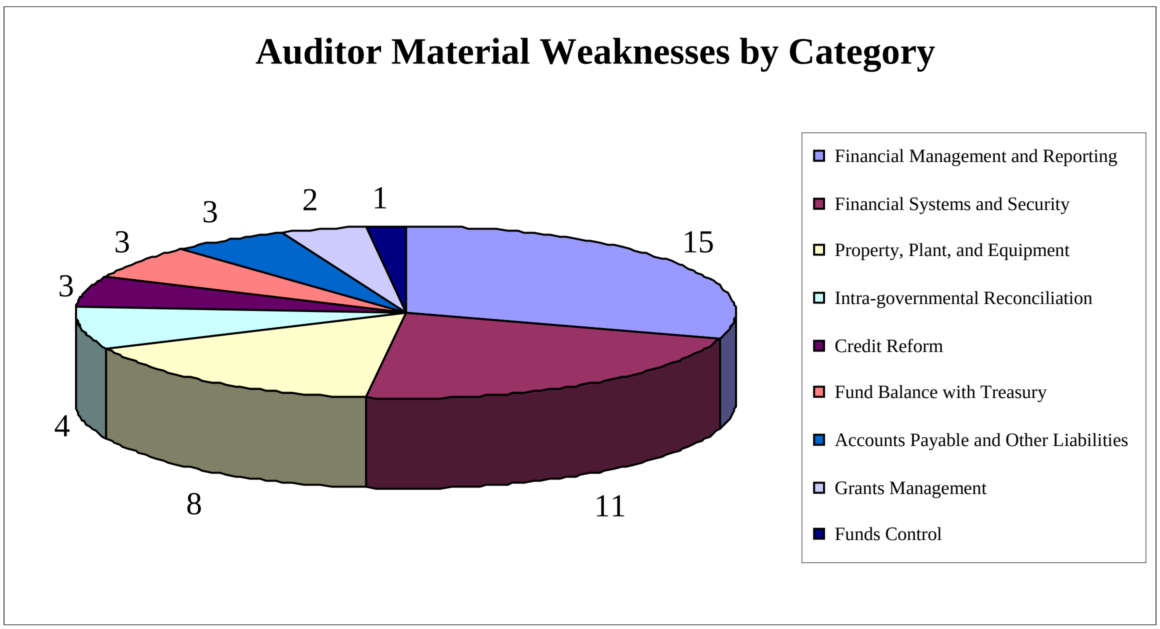
In FY 2004, Federal agencies also progressed toward the demonstration of first class financial management, as reflected in an agency's ability to attain "green" status on the Improved Financial Performance Initiative of the PMA. Since the last issuance of this report, the Departments of Energy (DOE) and Labor (DOL) have achieved green status on this initiative, joining the Department of Education, Environmental Protection Agency, National Science Foundation, and Social Security Administration. Now, DOE and DOL are demonstrating first class financial management principles and practices.

Reducing Material Weaknesses

In FY 2004, 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 depicts the number of auditor-reported material weaknesses, as well as the number of FMFIA internal control weaknesses and systems nonconformances.)

Material internal control weaknesses are reported by independent auditors as part of the annual financial audit process. Across the government, a total of 13 new weaknesses were reported in FY 2004 – a net increase of two new weaknesses from FY 2003. This small increase may be attributed to the accelerated reporting requirement, which placed greater emphasis on the need for effective financial reporting controls. However, as internal control is strengthened at agencies to routinely meet accelerated reporting dates, internal control weaknesses should be reduced.

In FY 2004, the 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:



For the second year in a row, the most noteworthy improvement in the area of material weaknesses may be the U.S. Agency for International Development (USAID). At USAID, three material weaknesses were resolved in FY 2004.

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 also plans to issue strengthened requirements for conducting assessments of the effectiveness of internal control over financial reporting. OMB will continue to work 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 controls are achieving their intended objectives and whether the agency's financial management systems conform to government-wide requirements. Agency heads are thus 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 2004, nine agency heads provided assurance that the management controls were adequate and thus reported no material weaknesses. The most notable agencies that resolved material weaknesses were: the Department of the Interior, with a net reduction of six; the Department of Agriculture, with a net reduction of five; and the General Services Administration, with a net reduction of three.

FMFIA Issues Identified by Agency Heads

	Section 2 (Internal Control Weaknesses)	***Section 4 (Systems Nonconformances)***
Beginning FY 2003	150	27
New	18	4
Resolved	48	7
Consolidated	15	2
Reassessed	16	1
Beginning FY 2004	89	21
New	33	5
Resolved	36	10
Consolidated	0	0
Reassessed	3	1
Ending FY 2004	83	15

As shown above, the overall number of agency-identified FMFIA internal control weaknesses and systems nonconformances decreased by nearly 11% in FY 2004 compared to FY 2003. Taken separately, the government reduced its Section 2 weaknesses by seven percent in FY 2004. Additionally, the government reduced its Section 4 nonconformances by 29% in FY 2004 compared to FY 2003.

Financial Management Improvement Initiatives

During FY 2004, the Administration continued its efforts to improve the financial management of the Federal Government through several different initiatives.

Internal Control

Effective internal control is a key factor in producing timely and reliable financial information and helps ensure that programs are managed with integrity and resources are used efficiently and effectively. Ensuring the proper stewardship of federal resources is a fundamental responsibility of agency managers and staff.

The recent emphasis on internal control and reliable financial reporting contained in the Sarbanes-Oxley Act (SOX) of 2002 for publicly-traded companies has served as an impetus for a re-examination of internal control requirements within the Federal Government. During FY 2004, OMB convened a committee of representatives from the Chief Financial Officers' Council (CFOC) and the President's Council on Integrity and Efficiency (PCIE) to review the SOX requirements and determine how those requirements may, or may not, apply to the Federal Government.

This joint CFOC/PCIE committee determined that within the current federal environment, agencies are subject to a variety of existing legislative and regulatory requirements intended to promote and support effective internal control. At the center of these existing requirements is the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular No. A-123, *Management Accountability and Control*, which requires agencies to annually evaluate and report on the effectiveness of their internal control and report material weaknesses to the President and the Congress.

In addition, FMFIA also requires an annual statement on whether the agency's financial management systems conform to government-wide requirements. These federal financial management requirements are mandated by the Federal Financial Management Improvement Act of 1996 (FFMIA) and OMB Circular No. A-127, *Financial Management Systems*. FFMIA requires agency management and financial statement auditors to determine whether financial management systems meet systems requirements, comply with the U.S. Standard General Ledger at the transaction level, and adhere to the standards promulgated by the Federal Accounting Standards Advisory Board (FASAB).

The joint CFOC/PCIE committee recommended that OMB strengthen its existing guidance for assessing the effectiveness of internal control. Thus, the joint committee developed amendments to OMB guidance that would adopt the standards prescribed in the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (November 1999), which are consistent with the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. These amendments also require a more comprehensive and coordinated approach to assessing the effectiveness of internal control over financial reporting. OMB released these amendments in the revised Circular A-123 in December 2004, to be effective beginning in FY 2006.

Full Implementation of Federal Financial Management Improvement Act

In FY 2004, 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 Stated Standard General Ledger at the transaction level. FFMIA also requires auditors to state in their financial statement audit reports whether the agencies' financial management systems comply with FFMIA's system requirements.

Despite 18 CFO Act agencies achieving unqualified audit opinions in FY 2004, many continue to use financial management systems that are not integrated and produce data that is not standard or timely. At the end of FY 2004, eight of the CFO Act agency heads, with auditor concurrence, reported overall compliance with FFMIA. 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 financial management performance goals of the PMA. 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.

Strengthening Asset Management

Strengthening the management of the Federal Government's assets has been an important objective of this Administration – especially given the fact that the government owns approximately $650 billion in Property, Plant, and Equipment (PP&E) and $260 billion in Inventories and Related Property (according to its FY 2004 financial statements). The Administration continues to expect its assets be justified and accounted for, and that plans be made for purchases, management, maintenance, and operation.

In FY 2004, the Administration took several steps to improve the management of real property on a government-wide level. In early February, the President signed Executive Order 13327, "Federal Real Property Asset Management." This order directed all major agencies to, among other requirements, establish the position of a Senior Real Property Officer, who will be 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. The FRPC began its work by establishing 10 Guiding Principles that govern the efforts of the Council and its four committees. These committees are:

- The Asset Management Plan Committee – focusing its efforts on establishing required components that each agency must include in their agency Asset Management Plans.

- The Property Inventory Committee – outlining 23 data elements to be reported by each agency into a government-wide and descriptive inventory database.

- The Performance Measures Committee – working on establishing common government-wide performance measures in the areas of cost, condition, utilization, and mission dependency that will monitor agency progress. The Committee will also establish a disposal algorithm to aide in the identification of properties that are not needed.

- The Systems Committee – outlining the business needs for the government-wide Property Inventory system that will capture the data on the 23 FRPC data elements.

In conjunction with the executive order, a new program initiative was added to the President's Management Agenda in February of 2004. This new Federal Real Property Asset Management initiative applies to the largest Federal landholding agencies, which are given a "score" on the status and progress of their real property management improvement efforts on the quarterly PMA scorecard. Asset Management Scorecards began in the third quarter of 2004, and agencies have shown progress toward improving their status scores.

Over the next several years, it is the goal of this Administration for all major agencies to develop and implement effective asset management plans, identify and apply appropriate performance measures, and to work toward the development of a comprehensive and descriptive database of all Federal real properties. The asset management plan, performance measures, and the database will all serve to assist agency management in making informed decisions about what properties are needed, are being utilized effectively, or qualify for disposal.

Eliminating Improper Payments

As part of the PMA's Improved Financial Performance initiative in 2001, the Administration's efforts to eliminate improper payments initially focused on the Federal Government's major benefit programs. The Administration first identified those programs that make payments in excess of $2 billion annually, and then required those agencies to assess the risk of, estimate the extent of, and put in place a strategy to eliminate improper payments. Based on the agencies' estimates of improper payments made in these programs – making nearly $1 trillion in annual payments – improper payments exceeded $35 billion a year.

This fiscal year represents the first full year that OMB is implementing the Improper Payments Information Act (IPIA) of 2002, P.L. 107-300, which codifies and expands the President's initiative to eliminate improper payments. The IPIA extends the range of programs that the executive branch will assess to all Federal payment streams. Thus, more programs that make hundreds of billions of dollars in payments annually can now also be targeted.

OMB issued guidance to agencies regarding how to go about complying with the requirements of the new law. As part of IPIA implementation, Federal agencies have established specific milestones to: 1) develop program inventories; 2) perform risk assessments to determine which programs are risk susceptible; 3) statistically sample those programs determined to be high risk; 4) create corrective action plans; and 5) establish baseline error rates and improvement targets for future reporting.

As part of this implementation, agencies have now identified an additional $400 billion in risk susceptible outlays to date – in addition to the previously reviewed $1 trillion in Federal outlays. Therefore, programs totaling at least $1.4 trillion (or nearly 2/3) of annual outlays are subject to steps 3, 4, and 5 stated above. The results of these efforts were reported in both agency FY 2004 PARs and a recent report from OMB, "Improving the Accuracy and Integrity of Federal Payments."

The OMB report provides the clearest picture policy-makers and Federal agency managers have ever had on the extent of improper payments and the critical challenges faced in eliminating them. Notable findings from the report include:

- Federal agencies were able to establish improper payment rates (and amounts) for programs that account for more than 80% of risk susceptible dollars. Specifically, of the $1.4 trillion in risk susceptible outlays, improper payment amounts (and rates) are reported on $1.2 trillion of those outlays. In a small number of risk susceptible programs, the absence of an improper payment amount in FY 2004 reporting is the result of measurement challenges as well as time and resource constraints that will be resolved in future reporting years.

- Agencies reported a total of $45.1 billion in improper payments in FY 2004, which represents a 3.9% improper payment rate. This estimated total compares to the previously published estimate of $35 billion in annual improper payments based on FY 2001 data. The increase in the estimate of $10.1 billion is explained mostly by improved error detection in Medicare, where reported improper payment dollars have increased by $9.6 billion since 2001. Notably, for all Federal programs that measured improper payments, other than Medicare, the government-wide improper payment rate is 2.7%.

- Approximately 92% of improper payments are overpayments.

- Seven programs alone account for approximately 95% of the improper payments reported in FY 2004: Medicare ($21.7 billion); Earned Income Tax Credit ($8.7 billion - $10.6 billion); Unemployment Insurance ($3.9 billion); Supplemental Security Income ($2.6 billion); Old Age and Survivors' and Disability Insurance ($1.7 billion); Public Housing/Rental Assistance ($1.7 billion); and Food Stamps ($1.6 billion).

- Several agencies achieved significant accomplishments in reducing improper payments between FY 2003 and 2004. For example, the Department of Housing and Urban Development lowered its agency-wide improper payment amount by approximately $1.6 billion since FY 2000; the Social Security Administration reduced Supplemental Security Income improper payments by more than $100 million since FY 2003; and the Department of Labor lowered improper payments in the Federal Employee Compensation Act program by $12 million since FY 2003.

With the baseline now in place, and the tools of the IPIA and the PMA in effect, the Federal Government is in a strong position to continue its efforts toward eliminating improper payments government-wide. The Administration will utilize these tools to ensure that agencies are prioritizing resources so that corrective action plans are thoughtfully developed and successfully carried out for critical risk susceptible programs. Increased attention and resources will be dedicated to achieving reduction targets in the seven critical programs that make up 95% of the improper payments total. Moreover, the Administration will continue efforts to ensure that agencies report an improper payment measurement for all risk susceptible programs on an annual basis.

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 translate into $16.5 billion dollars spent through the use of purchase cards alone in FY 2003.

Starting in January 2003, OMB has required quarterly purchase and travel card reporting from executive branch agencies. As a direct result of this action, performance has continued to improve. For instance, travel card delinquency remains at historically low levels, and the number of active purchase and travel card accounts are more aligned with agency mission requirements. In addition, since on-time payment performance has improved, the amount of rebates has correspondingly increased.

Building on these positive trends, the Administration plans to issue new guidance that provides requirements and best practice suggestions for improving charge card management. This guidance will consolidate and update all existing charge card requirements, as well as provide additional guidelines on emerging areas such as credit worthiness, split disbursement and salary offset for travel card debt, and strategic buying. The guidance, a collaboration of work from Federal Government representatives, is expected to be released in the first half of 2005.

Recovery Auditing

The Defense Authorization Act for Fiscal Year 2002, Section 831 ("Recovery Auditing Act"), requires OMB to submit a report to Congress on recovery audit efforts at executive agencies.

As instructed by the Recovery Auditing Act, OMB issued guidance through a memorandum (M-03-07) to the heads of executive departments and agencies in January of 2003. This guidance was intended to assist agencies to successfully implement recovery auditing and recovery activity as part of an overall program of effective internal control over contract payments. As part of this guidance, all executive branch agencies that award $500 million or more in contracts annually were originally mandated to report for three consecutive years beginning not later than December 31, 2004, on their efforts in this area. However, in order to consolidate agency financial reporting, OMB has moved these three deadlines to the PAR reporting timeframe of November 15, 2004, 2005, and 2006, respectively.

Early accomplishments include:

- A general description and evaluation of the steps taken to carry out a recovery auditing program;
- The total cost of the agency's recovery auditing program with an identification of the costs of the agency's recovery audit program activities (agency salaries and expenses) and contracted recovery audit services (amounts paid and payable to recovery audit contractors);
- The total amount of payment errors identified under the recovery auditing program, the total amount subsequently deemed not recoverable, the total amount recovered, and the total amount outstanding pending final resolution or collection. Report separate totals from amounts attributable to internal agency activities and to recovery audit contractors;
- A general description and evaluation of any management improvement program carried out pursuant to the Act; and
- A description of the classes of contracts that the agency determined, under the Act, would not be within the scope of recovery audits and activities.

With the benefit of the information in the PAR, OMB will issue its report on recovery audit efforts to Congress following receipt and review of the agency PARs submitted in November.

Core Financial Management Systems

Over the past year, OMB worked with the CFO Council Financial Systems and E-Government Committee to develop a new paradigm for meeting the Federal Government's future needs for a core financial management system. In collaboration with the CIOs of major agencies, this effort seeks to ensure effective and efficient investments in federal financial management systems.

This work was centrally focused on minimizing redundant investments across the government while maximizing cutting-edge technology. Unlike the past, this new model will be built around centers of excellence that will maintain state of the art functionality. Some agencies will serve as these centers of excellence, while other agencies may elect to be clients of those centers. In this way, we will not only ensure cutting-edge technology across the agencies, but we will do so with focused investments rather than the current practice of spending limited investment dollars across the government.

Over the coming years, migration to this model is expected to take place as agencies face the need for expanded financial management systems capabilities.

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 such matters 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.

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 Governance Committee – was recently created to oversee and coordinate the implementation of Public Law 106-107 (grants streamlining) and two E-Gov initiatives (Grants.gov and the Grants Management Line of Business).

Best Practices

Co-Chair: Christopher B. Burnham, Assistant Secretary and Chief Financial Officer, Department of State

In FY 2004, the Best Practices Committee advanced its primary objective of supporting the CFO Council's ability to resolve common financial management and business process challenges across federal agencies through exposure to new ideas and strategies from "best practice" organizations and alternative perspectives of government and industry leaders.

The ultimate goal of the committee is to find the very best of government and the private sector and apply it to the stewardship of the departments and funds entrusted to the government by the American people. The overall focus is governance issues with particular emphasis on strengthening internal controls and management controls.

The Best Practices Committee Charter, which was updated in April 2004, outlines the focus of the committee and the essential elements required to accomplish the President's vision for a Federal Government that is:

- Results-oriented;
- Market-based; and
- Citizen-centered.

The committee has recently hosted guest speakers on the following topics:

- *Internal Control/Best Practices.* The committee sponsored two speakers from KPMG to discuss provisions of the Act and "best practices" for potential agency implementation in the future. Specifically, the focus was on the importance of certifying financial statements, internal control over financial reporting in periodic reports filed with the SEC (section 302), annually assessing and reporting on internal controls (section 404), and the requirement for auditors to provide an attestation report on management's annual assessment. The challenge, according to KPMG, is to design and implement an effective, efficient and sustainable compliance program for Sarbanes-Oxley.

- *Performance Management Metrics/Enterprise Financial Management Systems.* The committee sponsored a speaker from IBM to discuss its success in turning the corporation from dependence on multiple disparate systems to a more productive streamlined process, which now provides more reliable information for decision makers. For example, the company was able to complete many different consolidations: 16,000 software programs were decreased to less than 6,000; 155 data centers were cut to 12; 21 private networks were reduced to one; 128 different Chief Information Officer (CIO) positions were consolidated into one; and hundreds of personal-computer configurations were distilled into four. IBM attributes its success to a strong re-organization and focus on a common worldwide planning system, single worldwide consolidation system, common geographic mega-centers, and a single worldwide financial information warehouse.

- *Human Resource Management.* In December of 2004, the committee sponsored presentations to the Council on timely human capital issues. Watson Wyatt Worldwide addressed "Five Best Practices to Recruit and Retain Talent," with a presentation of case studies illustrating methods federal agencies may adopt to attract and hire the best financial management personnel in an ever-more competitive marketplace. Additionally, the Gallup Organization shared information on "Improving Performance in the Federal Workplace" with a discussion of maximizing employee engagement and methods to improve employee candidate selection and management focus.

In the coming year, the committee will focus on areas identified through a previous survey of the CFO Act agencies and other areas identified by the committee, including the following:

1. Enterprise Financial Management Systems and Implementation Experiences;
2. Shared Services and Competitive Sourcing Opportunities;
3. Internal Controls and Sarbanes-Oxley Act Implementation;
4. Financial Statement Reporting Improvements;
5. Federal Financial Management Human Resources;
6. New CFO and Deputy CFO Orientation; and
7. Improved Best Practices Website.

In FY 2005, the committee will continue to arrange for guest speakers on best practices topics as dictated by current issues or as requested by CFO Council members. The committee also plans to refresh its survey of CFO Council members to meet the demand and expectations for best practice areas of primary interest to the Council.

Financial Management Policies and Practices

Chair: James L. Taylor, Deputy Chief Financial Officer, Department of Commerce

Since its inception in early FY 2004, the Financial Management Policies and Practices 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 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 has 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 proposed changes will significantly improve the Federal Government's ability to verify that effective control is in place. The committee has also provided to OMB input from the CFO community on financial reporting issues before the FASAB.

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

- Identify and address emerging issues in financial management;
- Actively participate in the accounting standard-setting process; and
- Develop implementation guidance to conduct management's assessment of the effectiveness of internal control over financial reporting.

Financial Reporting Acceleration

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

The mission of the Financial Reporting Acceleration Committee is to help agencies identify and eliminate common barriers to issuing their PARs, including the reporting of their audited financial statements by November 15. Accelerating these agency submissions facilitates the preparation and issuance of the consolidated government-wide financial statements by December 15, as occurred this past year. FY 2005 will be the fourth year of operation for this committee.

The Financial Reporting Acceleration Committee strives to help all agencies "get to green" on the Administration's scorecard for the Improved Financial Performance initiative of the PMA. Timely financial information is essential to better program management and more effective stewardship of the nation's resources. The committee is committed to helping agencies accelerate their annual reporting processes, but provides the greatest value by increasing agency awareness of common problems and their solutions, providing a forum for their discussion and resolution, and providing a key interface with the audit community on areas of mutual interest. While helping agencies accelerate their reporting processes remains the short-term focus, the committee realizes that the ultimate benefit will be facilitating the use of this information in agency management decisions.

This past year, the committee focused on sharing best practices, developing common solutions, and reaching a common understanding of issues among agencies and their auditors. Its scope extends beyond just agency financial reporting to government-wide reporting issues and budgetary reporting. As such, the committee continued to add value to the acceleration effort by providing additional best practices and lessons learned forums to facilitate ongoing acceleration, and identify ways to help agencies improve process efficiency. Increased efficiency enables organizations to spend less time on preparation and more time on analysis and use of the information. The committee also focused its energies on identifying issues of reporting consistency in both interagency and external reporting. This work will establish the foundation for our efforts in coming year.

As part of its collaborative theme, the committee this year held a joint meeting with senior OMB budgetary reporting officials to begin the discussion of better synchronizing financial and budgetary reporting. The combined active participation by both the CFO and audit communities continues to add significant value to these sessions.

Given the tremendous success in accelerated reporting in FY 2004 (with 22 of 24 CFO Act agencies meeting the November 15 deadline and the government-wide report being issued on December 15), the committee is still finalizing its agenda for the next fiscal year. However, that agenda is certain to include the following two areas functioning as a forum to share best practices and identify and resolve issues:

1. *Continue to identify and resolve agency reporting issues that involve central agency (e.g., OMB, Treasury) financial reporting requirements (e.g., government-wide financial reporting, Federal Agencies Centralized Trial Balance System II) and agency financial and budgetary reporting processes.* Currently, agencies report financial data in a wide range of formats. While these varying formats all purport to ultimately convey the same or similar information, timing and source differences can often yield inconsistencies and differences that must be reconciled. Such inconsistencies pose a challenge for analysts and auditors, and complicate attempts to provide accurate financial management information from a government-wide perspective. Examples of government-wide reporting include the *Financial Report of the United States Government* and the President's Budget. Of particular importance are agency efforts to reconcile and resolve the remaining intragovernmental transaction differences.

2. *Promote the use of accelerated financial information in day-to-day program and agency management.* Accelerating agency and government-wide financial reporting is only part of the goal. Agencies must also leverage the availability of accelerated information to provide management with more current information to support decision-making; otherwise, the benefits of acceleration will be rendered superficial. Through the use of surveys and roundtable discussions, the Committee plans to help agencies both produce financial information more expeditiously and to find ways to make better use of that information.

The committee believes that its greatest value to federal financial management is to provide forums to efficiently share the best practices and lessons learned of all parties on the issues critical to effective financial reporting. Ultimately, we will know we are successful when agency and government-wide financial reporting processes gain in efficiency, an optimal alignment of budgetary and financial reporting occurs and the members themselves find a lack of issues to consider.

Because the goal of the committee is to realize results and benefits in the short term, the Financial Reporting Acceleration Committee does not prepare a long-term plan. However, in light of the FY 2004 reporting accomplishments, the committee is refocusing its efforts on better reporting, with less emphasis on acceleration. The ultimate measure of success will be achieved when the efforts of the committee are no longer needed.

Financial Systems and E-Government

Chair: Mark Carney, Deputy Chief Financial Officer, Department of Education

Over the past year, the Financial Systems and E-Government Committee has actively helped to improve federal financial systems and reporting. The committee championed systems that produce data needed to efficiently and effectively manage the day-to-day operations of the Federal Government and provide accountability to its taxpayers. The committee also sought to demonstrate and promote standardization of financial data and the elimination of redundant federal financial systems.

This past year, the committee participated in a number of key initiatives designed to transform the way the Federal Government as an enterprise deploys and uses information technology (IT). The committee also assisted OMB in aligning the efforts of the CFO community with the broader government-wide technology initiatives.

During FY 2004, the committee assisted with efforts to refine the newly-introduced Federal Framework for Financial Management, which places core financial systems requirements into a much broader context. The committee also served as a pivotal “straw man” in updating the 2005 mandatory and value-added system requirements for core systems.

The committee has also participated in the “Line of Business Initiative” for financial management and back office grants management systems. The initial goal of this effort is to develop common solutions and target architectures for a line of business that considers business processes, technology, and data. A major initiative to identify opportunities to standardize agency business processes was launched in support of the financial line of business. The majority of this work is expected to be completed in 2005.

Over the past fiscal year, the committee also promoted the alignment of twenty-four “e-government” initiatives with the acquisition and IT communities. Expectations and needed commitments by the CFO community were defined to effectively implement these initiatives. The committee continues to encourage crosscutting e-Government initiatives, such as e-Grants, e-Payroll, e-Travel, the Integrated Acquisition Environment, and the further refinement of the Federal Enterprise Architecture.

Grants Governance

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

Co-Chair: Susan J. Grant, Director, Office of Management, Budget and Evaluation and Chief Financial Officer, Department of Energy

The Grants Governance Committee was established in the first quarter of FY 2005. This committee will oversee and coordinate the work of three grants management initiatives:

1. The implementation of grants streamlining efforts under P.L. 106-107, the Federal Financial Assistance Management Improvement Act of 1999;

2. Grants.gov (E-Gov initiative), which creates a single portal of FIND and APPLY for the public; and

3. Grants Management Line of Business project (E-Gov initiative) that establishes a consortia to provide agency back office grants management system services.

This committee remains in the early stages of its existence and will be developing its priorities in the near future.

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 2004, the first 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 better understand the requirements of the Act and OMB guidance. As part of this effort, the Committee produced the following deliverables:

- A standard format for reporting IPIA activities and data in the FY 2004 PAR;
- Alternate guidance for large, complex programs that have significant challenges in developing an annual statistical sampling to produce an annual improper payment rate and dollar amount;
- Various methodologies for sampling payments below the primary grantee level;
- A joint government-private sector Industry Day, which has served as an initial step toward finding private sector solutions to overarching improper payment measurement challenges across government; and
- A forum for sharing best practices and common challenges to provide agencies with proven ways to accomplish the required legislative milestones, as well as resolving common challenges that agencies face in implementing IPIA.

In FY 2005 and beyond, the committee plans to:

- Release several white papers addressing the subject of methodologies for sampling payments before the primary grantee level;
- Expand efforts to identify cross-cutting solutions for improved measurement and reduction of improper payments;
- Continue to seek alternative approaches for improved oversight of grant transactions (an area that presents unique opportunities for cross-agency cooperation); and
- Focus attention on the programs with the most significant amount of improper payments to ensure that the taxpayer receives the best possible return on investment.

Performance Measurement

Chair: Linda Combs, Assistant Secretary for Budget and Programs and Chief Financial Officer, Department of Transportation

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. Therefore, several key milestones have already been achieved. Specifically, agencies have been reporting on "Phase 1" indicators since March of 2003, while "Phase 2" indicators are near completion. This fiscal year, the committee is well positioned to build on these accomplishments and work towards enhancing the system.

Key deliverables for FY 2005 include:

- For Phase 1: defining government-wide and agency-specific targets, conducting a consistency assessment of agency reporting to ensure the validity and reliability of data, and making data and results available to the public through a web portal;

- For Phase 2: completing definition of metrics and targets and commencing agency reporting; and

- For Phase 3: identifying candidate metrics for future consideration.

Once the database is operational, managers and other interested parties will have a powerful tool for assessing federal financial performance. For example, it is important to know whether the Federal Government and its individual agencies are meeting goals to reduce unreconciled balances, increase the use of electronic funds transfers, reduce delinquent accounts receivables, 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.

Five Year 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 regular 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.

Additionally, the newly-restructured 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 seven 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 and E-Government Committee to continue to evaluate ways in which agencies, and the government as a whole, may improve systems integration and increase systems sharing.

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 2004 Financial Statement Results by Agencies and Selected Components

In FY 2004, 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.

Fiscal Year 2004 Financial Statements	
Agency	**Type of Opinion**
CFO Act Agencies:	
Department of Agriculture (USDA)	Unqualified
Department of Commerce (DOC)	Unqualified
Department of Defense (DOD)	Disclaimer
Department of Education (Education)	Unqualified
Department of Energy (DOE)	Unqualified
Department of Health and Human Services (HHS)	Unqualified
Department of Homeland Security (DHS)*	Disclaimer
Department of Housing and Urban Development (HUD)	Disclaimer
Department of the Interior (DOI)	Unqualified
Department of Labor (DOL)	Unqualified
Department of Justice (DOJ)	Disclaimer
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

* Although the Department of Homeland Security (DHS) was not yet a CFO Act agency in FY 2004, DHS prepared and submitted audited financial statements. DHS became a CFO Act agency under P.L. 108-330, which was enacted on October 4, 2004.

General Services Administration (GSA)	Unqualified
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)	Qualified
Social Security Administration (SSA)	Unqualified
Agency Components:	
Food and Nutrition Service (USDA)	N/A**
Forest Service (USDA)	Unqualified
Rural Development Mission Area (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 2004.

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.

Fiscal Year 2004:
Auditor-Reported Material Weaknesses

	Beginning	New	Resolved	Consolidated	Ending
Agriculture	3		1		2
Commerce	0				0
Defense	11				11
Education	0				0
Energy	0				0
HHS	2				2
Homeland	7	5	2		10
HUD	2	1			3
Interior	4				4
Justice	1	1			2
Labor	0				0
State	0				0
DOT	4	2	2		4
Treasury	2		1		1
VA	2				2
AID	3	1	3		1
EPA	0				0
GSA	1		1		0
NASA	4	1		1	4
NSF	0				0
NRC	0	1			1
OPM	0	1			1
SBA	2				2
SSA	0				0
Totals	**48**	**13**	**10**	**1**	**50**

Fiscal Year 2004:
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		6	1	3		2	2
Commerce		X		1					1
Defense		X		40	17	11			46
Education	X			0					0
Energy	X			0					0
HHS		X		0	3				3
Homeland		X		12	9	12			9
HUD		X		1					1
Interior		X		10	1	7			4
Justice		X		2		1			1
Labor	X			0					0
State	X			0					0
DOT		X		3	1	1			3
Treasury		X		7					7
VA		X		1					1
AID		X		2		1			1
EPA	X			0					0
GSA	X			0					0
NASA		X		2				1	1
NSF	X			0					0
NRC	X			0					0
OPM		X		0	1				1
SBA		X		2					2
SSA	X			0					0
TOTAL	**9**	**15**	**0**	**89**	**33**	**36**	**0**	**3**	**83**

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

Fiscal Year 2004:
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		2	1	2			1
Commerce	X			0					0
Defense		X		1					1
Education	X			0					0
Energy	X			0					0
HHS			X	1					1
Homeland		X		3		2			1
HUD		X		1					1
Interior			X	1		1			0
Justice		X		2					2
Labor	X			0					0
State	X			0					0
DOT		X		1	2	1			2
Treasury		X		2				1	1
VA		X		2		1			1
AID		X		1					1
EPA	X			0					0
GSA	X			3		3			0
NASA		X		0	2				2
NSF	X			0					0
NRC	X			0					0
OPM	X			0					0
SBA		X		1					1
SSA	X			0					0
TOTAL	**11**	**11**	**2**	**21**	**5**	**10**	**0**	**1**	**15**

* 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

Government Corporation	FY 2004 Audit Opinion
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[1]
Federal Home Loan Banks	Not received[1]
Federal Housing Administration Fund	Unqualified
Federal Prison Industries, Incorporated	Unqualified
Financing Corporation	Not received[1]
Government National Mortgage Association	Unqualified
Millennium Challenge Corporation	Not received
National Credit Union Administration Central Liquidity Facility	Not received[1]
Overseas Private Investment Corporation	Not received
Pension Benefit Guaranty Corporation	Unqualified
Resolution Funding Corporation	Not received[1]
Rural Telephone Bank	Unqualified
Saint Lawrence Seaway Development Corporation	Unqualified
Tennessee Valley Authority	Unqualified

[1] 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

Agency	FY 2004 Opinion
Advisory Council on Historic Preservation	Extension
African Development Fund	Unqualified
Appalachian Regional Commission	Unqualified
Architectural and Transportation Barriers Compliance Board	Unqualified
Armed Forces Retirement Home	Not received[1]
Barry Goldwater Scholarship and Excellence in Education Fund	Waived
Broadcasting Board of Governors	Disclaimer
Christopher Columbus Fellowship Foundation	Waived
Central Intelligence Agency	Disclaimer
Chemical Safety and Hazard Investigation Board	Unqualified
Commission on Civil Rights	Not received
Commission of Fine Arts	Waived
Commission on Ocean Policy	Waived
Commission for the Preservation of America's Heritage Abroad	Waived
Committee for Purchase from People Who Are Blind or Severely Disabled	Not received[1]
Commodities Futures Trading Commission	Disclaimer
Consumer Product Safety Commission	Unqualified
Court Services and Offender Supervision Agency for DC	Not received
Defense Nuclear Facilities Safety Board	Extension
Delta Regional Authority	Extension
Denali Commission	Waived
Equal Employment Opportunity Commission	Unqualified
Farm Credit Administration	Unqualified
Farm Credit System Financial Assistance Corporation	Not received[2]
Farm Credit System Insurance Corporation	Not received[2]
Federal Communications Commission	Qualified
Federal Election Commission	Extension
Federal Financial Institutions Examination Council Appraisal Subcommittee	Not received
Federal Housing Finance Board	Unqualified
Federal Labor Relations Authority	Not received[1]
Federal Mediation and Conciliation Service	Unqualified
Federal Mine Safety and Health Review Commission	Unqualified
Federal Retirement Thrift Investment Board	Not received
Federal Trade Commission	Not received[1]
Harry S. Truman Scholarship Fund	Waived
Institute of American Indian and Alaska Native Culture and Arts Development	Not received
Institute of Museum and Library Services	Not received
Inter-American Foundation	Unqualified
James Madison Memorial Fellowship Foundation	Not received[1]
Japan-U.S. Friendship Commission	Waived
Marine Mammal Commission	Waived

[1] Although no audit was performed, the agency did submit unaudited financial statements.
[2] Agency has a calendar year end; the financial statements were not due as of the printing of this report.

Agency	FY 2004 Opinion
Merit Systems Protection Board	Unqualified
Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation	Extension
National Archives and Records Administration	Qualified
National Capital Planning Commission	Not received
National Commission on Libraries and Information Science	Waived
National Council on Disability	Not received
National Credit Union Administration	Not received[2]
National Endowment for the Arts	Unqualified
National Endowment for the Humanities	Not received
National Labor Relations Board	Unqualified
National Mediation Board	Unqualified
National Transportation Safety Board	Unqualified
National Veterans Business Development Corporation	Not received
Nuclear Waste Technical Review Board	Waived
Occupational Safety and Health Review Commission	Unqualified
Office of Government Ethics	Unqualified
Office of Navajo and Hopi Indian Relocation Commission	Unqualified
Office of Special Counsel	Not received[1]
Peace Corps	Disclaimer
Presidio Trust	Unqualified
Railroad Retirement Board	Unqualified
Securities and Exchange Commission	Extension
Selective Service System	Extension
Smithsonian Institution	Not received
SI/John F. Kennedy Center for the Performing Arts	Not received
SI/National Gallery of Arts	Not received[1]
SI/Woodrow Wilson International Center for Scholars	Not received
Trade and Development Agency	Unqualified
U.S. Court of Appeals for Veterans Claims	Not received[1]
U.S. Holocaust Memorial Museum	Unqualified
U.S. Interagency Council on Homelessness	Waived
U.S. International Trade Commission	Unqualified
Vietnam Education Foundation	Not received
White House Commission on the National Moment of Remembrance	Waived

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.

Improved Financial Performance

Explanation of Current Status Score

Green	Yellow	Red
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.

Explanation of Progress Score

Green	Yellow	Red
Green – Implementation is proceeding according to plans	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 Q3	FY04 Q4	FY02 Q2	FY03 Q4	FY04 Q3	FY04 Q4
AGRICULTURE	Red	Red	Red	Red	Green	Green	Green	Green
COMMERCE	Red	Red	Red	Yellow	Green	Green	Green	Green
DEFENSE	Red	Red	Red	Red	Green	Green	Yellow	Yellow
EDUCATION	Red	Red	Green	Green	Green	Green	Green	Green
ENERGY	Red	Yellow	Green	Green	Green	Green	Green	Green
EPA	Red	Green	Green	Green	Yellow	Green	Green	Green
HHS	Red	Red	Red	Red	Yellow	Green	Green	Yellow
HOMELAND		Red	Red	Red		Green	Green	Green
HUD	Red	Red	Red	Red	Yellow	Green	Green	Yellow
INTERIOR	Red	Red	Red	Red	Yellow	Yellow	Yellow	Green
JUSTICE	Red	Red	Red	Red	Green	Green	Green	Green
LABOR	Yellow	Yellow	Yellow	Green	Green	Green	Green	Green
STATE	Red	Red	Yellow	Yellow	Green	Green	Green	Green
DOT	Red	Red	Red	Red	Green	Green	Green	Green
TREASURY	Red	Red	Red	Red	Yellow	Yellow	Yellow	Yellow
VA	Red	Red	Red	Red	Green	Green	Yellow	Red
AID	Red	Red	Red	Red	Yellow	Green	Green	Green
Corps of Eng	Red	Red	Red	Red	Yellow	Yellow	Yellow	Yellow
GSA	Yellow	Yellow	Red	Red	Green	Green	Green	Green
NASA	Red	Red	Red	Red	Green	Green	Yellow	Red
NSF	Green	Green	Green	Green	Green	Green	Green	Green
OPM	Red	Yellow	Yellow	Yellow	Green	Green	Green	Green
SBA	Red	Red	Red	Red	Yellow	Yellow	Green	Green
SMITHSONIAN	Red	Red	Red	Red	Yellow	Yellow	Yellow	Yellow
SSA	Yellow	Green	Green	Green	Green	Green	Green	Green

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