

## **Financial Management Reaches New Heights 15 Years After the Passage of the CFO Act**

The 15 year anniversary of the Chief Financial Officer's (CFO) Act of 1990 was marked on November 15<sup>th</sup>, 2005. The core tenets of this law are to strengthen financial leadership, develop more disciplined financial controls, improve financial management systems, and improve the accuracy and timeliness of financial information for decision making. I am pleased to report that over the past 15 years the Federal Government has made significant progress towards achieving these goals.

Today, the primary mechanism the Administration uses to promote financial improvement is the President's Management Agenda (PMA) initiative for Improving Financial Performance. Under this initiative, the President identified a limited number of clear, meaningful, and attainable financial goals that every Federal agency must meet. As a result, every CFO across the Federal Government now shares common goals for improving financial performance that were outlined in the CFO Act. Having shared goals has truly paid off in the results produced at the Federal agencies. When the CFO Act was passed in 1990, only one major agency received a "clean" audit opinion on its annual financial statements. By 1996, this number increased to six and today the number has risen to 19.

Not only has the accuracy of financial information improved, but it has also been reported more timely. Until fiscal year 2001, on average, it took agencies five months to produce financial statements. On November 15<sup>th</sup>, 2005 the Federal Government took a major step forward as every major Federal agency completed its Performance and Accountability Report (PAR), including financial statements, just 45 days after the end of the 2005 fiscal year. I am proud to note that our 45 day deadline for the agencies to complete their audits is actually a full 30 days less than that demanded of those in the corporate world.

Progress can also be seen in more disciplined financial controls through the decline of material weaknesses, which are the breeding ground for waste, fraud, and abuse. From fiscal year 2004 to 2005, the Federal Government reduced the number of material weaknesses reported by management and the independent auditors by 11%. During this Administration, the Federal Government has reduced the number of material weaknesses from over 300 in 2001 to 130 in 2005. This represents a reduction of 58% fewer weaknesses in five years.

Financial leaders are also looking to leverage the benefits of technology through improved financial systems. This goal is becoming a reality through the Financial Management Line of Business (FMLOB) initiative. The vision of the FMLOB is to improve the cost, quality and performance of financial management systems by leveraging shared service solutions and implementing other government-wide reforms that foster efficiencies in Federal financial operations.

The ultimate goal of these financial improvement efforts is that agency leaders have access to accurate and timely information to manage costs. When an agency achieves this, it has not only met the spirit and intent of the CFO Act, it has earned a "green" score on the PMA. This quarter, I'm pleased to report that the Smithsonian Institution, the world's largest museum and research complex, has joined this elite class of Federal agencies who are "green" in financial performance.

The Smithsonian is also one of the most visible and visited government organizations. In fact, twenty-five million people visit the Smithsonian annually to witness iconic objects such as the Star Spangled Banner, the First Ladies' gowns, the Hope diamond, and the Wright flyer. The Smithsonian Institution has always followed superior financial management practices and the "green" rating recognizes that it is a good steward of the Federal dollars and private contributions that fund this organization.

Additional financial improvement efforts are underway that will continue our past successes. These efforts include an increased emphasis on improving internal control, eliminating improper payments, and right-sizing the Federal real property inventory. I look forward to detailing achievements in these areas in future updates.

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