



FEDERAL FINANCIAL MANAGEMENT REPORT 2009

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET



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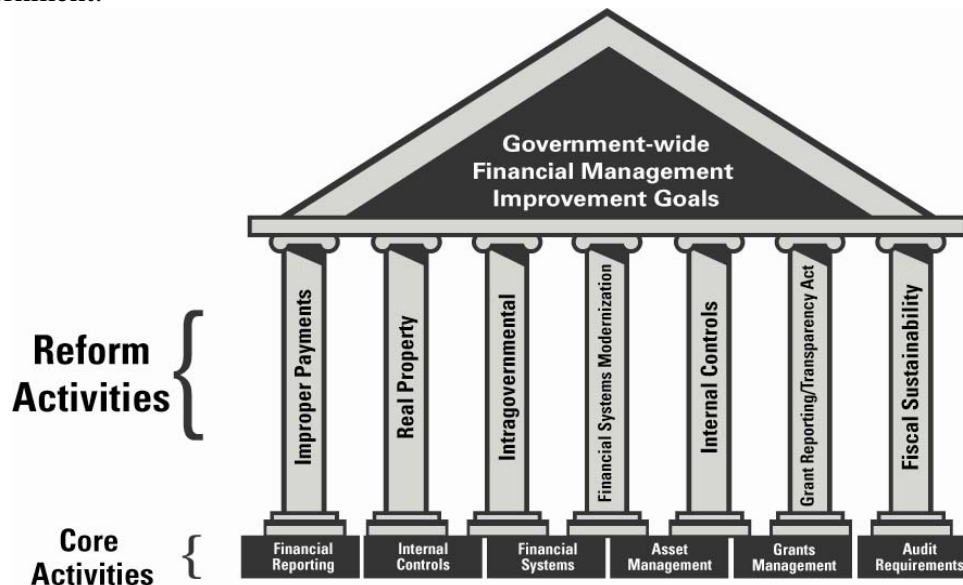
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Executive Summary

The Office of Federal Financial Management within the Office of Management and Budget developed the “Framework for Improving Financial Performance” to provide direction and clarity on the executive branch’s financial management improvement goals. As required in the Chief Financial Officers Act (31 U.S.C. 3512), the 2009 *Federal Financial Management Report* serves as the annual, financial management 5-year plan and status report for the executive branch of the Federal government. This report underscores the activities that lead to improved Federal financial management, and it highlights the most recent fiscal year's financial reporting results.

The Framework, as depicted in the diagram below, intends to provide the public with a simple presentation of:

- **Priority objectives** (or “pinnacle”) of the Federal government’s financial management improvement efforts, which historically have included improving government-wide and agency financial statement audit results and other financial health metrics such as reducing improper payments and “right-sizing” the Government’s real property holdings.
- **Reform Activities** that are meant to “support” or “strengthen” the ongoing, government-wide financial management improvement activities. In FY 2008, the reform initiatives focused on improved reporting and transparency in areas such as improper payments, real property, grant payments, and long-term fiscal sustainability. As outlined in greater detail in this report, critical successes were achieved in meeting these objectives and position the Federal government for further advances in FY 2009 and beyond.
- **Core Activities** that include the day-to-day financial management activities that help ensure a strong foundation is in place for achieving success across the Federal government.



In Fiscal Year 2008, the following results were achieved for the Government-wide Financial Management Improvement Goals:

- Clean Audit Opinions. Twenty of twenty-four CFO Act agencies¹, representing more than 75% of all Federal outlays, achieved a clean audit opinion. This represents the highest number of clean audit opinions achieved in the past 6 years.

Auditor-Identified Material Weaknesses. The total number of auditor-identified material weaknesses declined from 39 to 32 for FY 2008. This is the fifth consecutive year that material weaknesses have declined, with nearly a 50% decrease in weaknesses since FY 2001. Appendix B of this report offers a more detailed breakdown and description of those material weaknesses.
- Timely Reporting. For the fourth consecutive year, all CFO Act agencies met the government-wide performance target of issuing their audited financial statements within 45 days of the close of the fiscal year. This government-wide performance target will remain the same for future years.
- Improper Payments. The improper payment rate for the programs that originally reported in FY 2004 decreased from 3.1% to 3.0% in FY 2008. The largest portion of this reduction is attributable to the Old Age, Survivors & Disability Insurance program, which reduced errors by \$541 million since last reporting in FY 2007.
- Excess Real Property. The Federal government disposed of more than \$1 billion in excess real property in FY 2008 and has disposed of over \$8 billion in real property since FY 2004.²

These positive trends demonstrate that financial management improvement efforts are having their intended result. However, the metrics by which we measure the success of Federal financial management demonstrate that enormous challenges remain. The Departments of Defense and Homeland Security, two of the largest and most critical agencies in government, do not have clean opinions on their financial statements. Auditors continue to identify more than 30 material weaknesses in financial reporting across the Government. Billions of dollars in improper payments and excess real property remain on the Federal books and compromise our ability to serve the taxpayer most effectively. The FY 2008 results and those achieved over the past five years serve as an important building block toward addressing the longer-term challenges in Federal financial management.

¹ The CFO Act lists the 24 largest, independent executive agencies required to establish Chief Financial Officers (31. U.S.C. 91). See the “Improving Financial Reporting” core activity on page 14 for further statutory details.

² The source for real property disposal valuation is the Federal Real Property Profile (FRPP) – the consolidated inventory of Federal real estate maintained by the General Services Administration. The FRPP calculates total disposals by using the market price for those properties disposed through sale and the *replacement value* for those properties disposed through demolition or other conveyance. The replacement value represents the cost necessary to replace a facility and is often a higher than market value.

Framework for Improving Financial Performance

Introduction

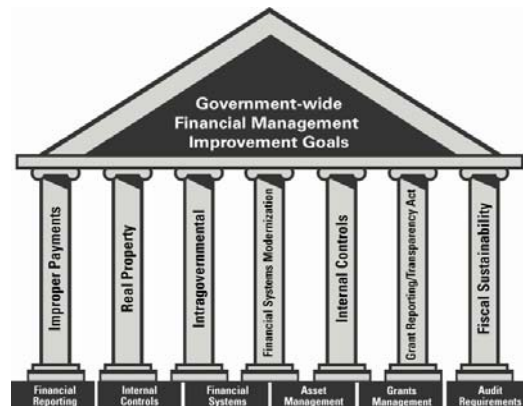
The Office of Federal Financial Management (OFFM) within the Office of Management and Budget (OMB) is responsible for the Federal government’s financial management policy and is led by the OMB Deputy Director for Management and the OMB Controller. The OFFM mission is to promote and support first-class financial management in the executive branch of the Federal government. To accomplish this mission, OFFM strives to:

- (1) Provide effective leadership on government-wide financial management improvement initiatives that result in successful outcomes for the financial management-related initiatives of the executive branch.
- (2) Issue government-wide financial management policies and requirements that are user-friendly, transparent, consistently complied with by Federal agencies, and that facilitate improved financial management without undue burden on agency and taxpayer resources.

OFFM works closely with the Chief Financial Officers Council (CFOC), the Inspector General community, and the Government Accountability Office (GAO) to build consensus on financial management priorities, identify cross-cutting challenges and solutions, and to ensure that OMB policies are having the desired effect. To set forth the roadmap and provide clarity on how its objectives will be met, OFFM developed the “Framework for Improving Financial Performance.”

About the Framework

The Framework is intended to provide the public with a simple presentation of: (1) the ultimate objective (or “pinnacle”) of the Government’s financial management improvement efforts; (2) the projects currently underway in the Federal financial community; and (3) the day-to-day financial management activities, or “core” activities that help ensure a strong foundation is in place for achieving success across all Federal agencies.



*Government-wide Financial Management Improvement Goals*³

Federal agencies in the executive branch are focused on achieving the financial management performance goals that allow Federal managers, Congress, and the public to gauge whether

³ Appendices A through H provide supplementary information for a complete representation of the 5-Year Financial Management Plan and financial reporting status for FY 2008.

taxpayer funds are being properly accounted for and wisely spent. Each reform activity, or “column,” of the “Framework for Improving Financial Performance” represents a key financial management-related initiative that has a defined goal and is monitored for improved results. As noted throughout this report, Federal agencies are making significant progress towards achieving each goal.

Eliminating Improper Payments - Agencies have improved the accuracy of Federal payments by (1) strengthening controls over the payment process, (2) ensuring that dollars are properly accounted for, and (3) sending the proper recipient the correct amount. Since FY 2004, the Federal government has established an impressive track record of making its improper payment measurements transparent to the public and then taking quick and effective action to eliminate those improper payments. More than 70 programs that were designated as high-risk for improper payments in FY 2004 have since been measured. In FY 2008, almost 100% of programs that were previously designated as high-risk were measured. Further, agencies have reduced the improper payment error rate in the programs originally measured and reported from 4.4% in FY 2004 to 3.0% in FY 2008. The goal of reducing the improper payment rate by a tenth of a percent annually was successfully reached in FY 2008. The goal for FY 2009 is an overall error rate of 2.9% or lower.

Right-sizing the Government’s Real Property - Agencies have established a comprehensive inventory of the entire Government’s real property assets that indicates excess and surplus property. The agencies are taking aggressive action to eliminate those properties from the Federal books. Since FY 2004, the Government has identified and disposed of approximately \$8 billion in unneeded real property. The goal for FY 2008, to dispose of an additional \$1 billion in excess real property, was achieved. Looking forward, the goal is to maintain an annual real property disposal rate of \$1 billion of excess real property with a cumulative disposal goal of \$12 billion by 2012.

Improving Financial Reporting - Agencies have improved the quality of their financial reporting. Twenty of twenty-four major agencies received clean audit opinions, and the agencies reduced the number of material weaknesses reported. The FY 2008 goal was for 21 agencies to receive clean audit opinions and to reduce material weaknesses to 37. Federal agencies had mixed results, falling short on the clean opinion goal by one agency, but exceeding the material weakness reduction goal by 5. Over the next five years, the goal is to achieve and maintain 22 clean opinions (with the Departments of Defense and Homeland Security achieving clean opinions beyond the 5-year window) and to continue to reduce material weaknesses by 10% annually.

The following chart illustrates the key FY 2008 results:



Reform Activities

The Federal financial community has undertaken a series of improvement efforts intended to strengthen key areas of financial management. The *Reform Activities* include the following seven initiatives:

1. Eliminating Improper Payments
2. Right-sizing the Government's Real Property
3. Improving Intragovernmental Reporting
4. Financial Systems Modernization
5. Strengthening Internal Controls
6. Improving Grants Reporting and Transparency
7. Improving Fiscal Sustainability Reporting

This report highlights the strategic goal, current focus, and status update for each of the seven initiatives.

Core Activities

The *Core Activities* represent the foundation that holds the Framework in place. In short, the core activities represent the universe of day-to-day activities that the Federal financial community must undertake to effectively manage the resources of the Federal government. The *Core Activities* include:

1. Improving Financial Reporting
2. Strengthening Internal Controls
3. Improving Financial Systems
4. Improving Asset Management
5. Improving Grants Management
6. Improving Audit Requirements

Some of these core activities (e.g., Strengthening Internal Controls) contain critical components that are also represented in the reform activities portion of the Framework. These overlaps are attributed to both OFFM and the Federal financial community determining that certain core activities require continued enhancement to reform the activities. In this way, the reform activities serve to both support the executive branch's success and solidify the foundation of Federal financial activities. This report includes a detailed discussion of each core activity.

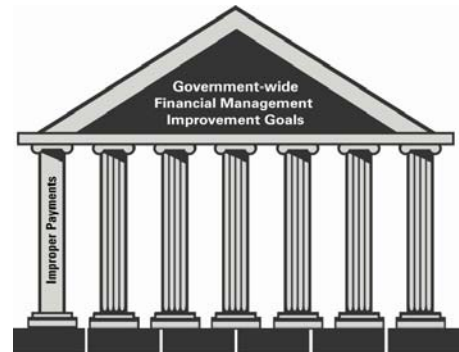
OFFM publishes this detailed report in its efforts to provide effective leadership on government-wide financial management improvement initiatives, as well as to issue policies and requirements that are user-friendly, transparent, and consistently complied with by Federal agencies.

The Framework's Columns: Reform Activities

The Framework's *Reform Activities* are meant to “support” or “strengthen” ongoing financial management improvement. OFFM and the greater Federal financial management community seek to enhance government-wide financial management for the next five years and beyond.

Eliminating Improper Payments

Improper payments occur when Federal funds go to the wrong recipient, the recipient receives the incorrect amount of funds, the documentation is not available to support a payment, or the recipient uses the funds in an inappropriate manner. The Improper Payments Information Act of 2002 (IPIA) (Sec. 1, Pub. L. 107-300, 116 Stat. 2350) created a permanent framework for assessing every Federal program and dollar for risk of improper payments, annually measuring the accuracy of payments, and initiating program improvements to ensure that payment errors and improprieties are reduced and ultimately eliminated. This reform activity supports the Government's efforts to be a good steward of taxpayer resources by identifying and eliminating improper payments.



STRATEGIC GOAL(S):

- Reduce the government-wide improper payment rate and total dollar amount.

CURRENT FOCUS:

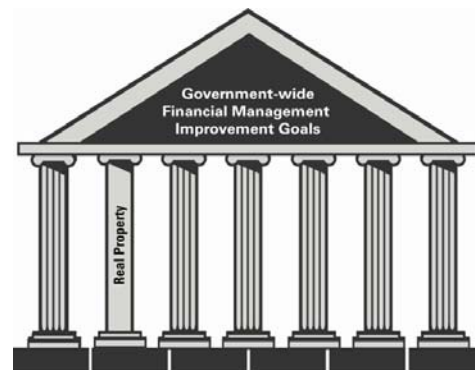
- Measure improper payments in programs that are at significant risk of improper payments on an annual basis.
- Identify the causes of improper payments and develop specific corrective action plans to address these causes.
- Prepare rigorous return-on-investment analyses for program integrity activities and ensure that these activities achieve an adequate return-on-investment.
- Work with the Congress to enact legislative reforms to eliminate errors.
- Expand reporting and risk assessment of contract improper payments.
- Participate in a Federal-State partnership project to enhance program integrity efforts in Federally-funded, State-administered programs such as Medicaid.

STATUS UPDATE:

- Implemented action plans to ensure 100% error measurement reporting for all previously identified high-risk programs.
- Completed root cause analysis for all reporting programs.
- Reported \$71.7 billion in total improper payments for FY 2008, a measure that captures the error amounts for virtually all high risk programs in government.
- Decreased improper payment rate in the programs originally reporting in the baseline year (FY 2004) from 3.1% to 3.0%. The goal for FY 2009 is a 2.9% improper payment rate or lower.

Right-sizing the Government's Real Property

On February 4, 2004, the President signed Executive Order 13327, Federal Real Property Asset Management. To meet the requirements of the Executive Order, agencies must develop and implement the necessary tools (e.g., planning, inventory, performance measures) to manage their portfolio of real property assets at the right size, in the right condition, and at the right cost. This reform activity supports the Government's objective to identify and dispose of excess Federal real estate.



STRATEGIC GOAL(S):

- Right-size the Federal real property inventory.

CURRENT FOCUS:

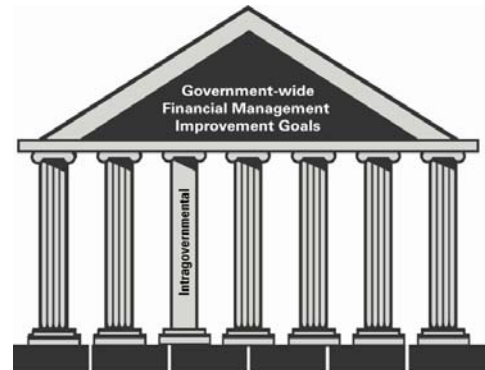
- Capture inventory data/performance metrics on all constructed assets.
- Dispose of unneeded Federal real property.
- Obtain legislative authority to reform asset management and disposition, including the retention of sales proceeds.
- Enact legislation to allow Executive agencies to retain a portion of the net proceeds of sales which would be directed toward the agency's repair and alterations needs.
- Facilitate inter and intra-agency coordination on real property efforts such as facility security, historic preservation, and sustainability.
- Ensure that agencies are using asset-specific performance data in their decision-making process.
- Develop performance targets and evaluate opportunities to consolidate leased space and maximize its utilization within a Department as well as government-wide.

STATUS UPDATE:

- Reported to the government-wide database, inventory and performance data on approximately 1.1 million assets valued with operating costs exceeding \$1.5 trillion.
- Disposed of approximately \$8 billion in unneeded real property assets since FY 2004.
- The goal for FY 2009 is to dispose of an additional \$1 billion in unneeded real property.

Improving Intragovernmental Reporting

Each year, the Treasury Department and OMB issue the *Financial Report of the U.S. Government*, which presents the consolidated financial statements for the Government as a whole. The Government Accountability Office (GAO) has issued a disclaimed audit opinion on the Government's financial statements for twelve consecutive years. A major reason for the disclaimer is the Government's inability to adequately account for and reconcile intragovernmental transactions between departments and agencies. This reform activity supports effective financial management through the achievement of a clean audit, the elimination of material weaknesses, and producing timely financial information to help guide decision-making.



STRATEGIC GOAL(S):

- Receive an unqualified or “clean” audit opinion on the Financial Report’s consolidated financial statements.

CURRENT FOCUS:

- Downgrade the Intragovernmental Transactions material weakness to a significant deficiency, and ultimately eliminate the deficiency.
- Facilitate more systemic quarterly reconciliations.
- Select and implement an Intragovernmental Dispute Resolution Committee.
- Define recommended systems changes, if needed.
- Complete work on a standardized interagency agreement template.

STATUS UPDATE:

- Updated and published standard intragovernmental business rules that are effective for all agencies (via Treasury’s Bulletin No. 2007-03, as amended by Bulletin No. 2009-01).
- Drafted and vetted a Memorandum of Understanding for CFOs to affirm their agency’s participation in the Intragovernmental Dispute Resolution Committee process.
- Distributed a draft interagency agreement template.
- Held initial discussions with CFOs and published “Watch List,” which resulted in a \$12 billion decrease in intragovernmental imbalances during FY 2008.
- The goal for FY 2009 is to eliminate an additional \$6 billion in imbalances reported on the Watch List.

Financial Systems Modernization

Efforts to standardize financial systems are improving the cost, quality, and performance of financial management operations by adopting common standards and shared solutions as well as implementing other government-wide improvements to foster efficiencies by standardizing, consolidating and optimizing Federal financial operations. This reform activity supports the objectives of the Federal Financial Management Improvement Act (FFMIA) of 1996 by significantly improving the quality of financial data Government managers need to make timely and successful decisions while reducing the cost of Government operations.



STRATEGIC GOAL(S):

- Implement government-wide solutions that yield lower cost and risk results in financial management activities.

CURRENT FOCUS

- Finalize all business process standards, including Reimbursables and Reporting.
- Revise certified software policy to require common government-wide accounting classifications and business process standards to be inherent in the core financial management software.
- Issue revised financial system requirements.
- Issue revised test scenarios.
- Collect and report performance metrics for the cost and performance of financial management activities.

STATUS UPDATE:

- Published final business process standards for Funds Management, Payment Management and Receivables Management processes.
- Currently revising OMB Circular A-127, *Financial Management Systems*, that reflects OMB's policy of requiring Federal and commercial shared service providers to implement core financial systems with standard financial business processes and system configurations.

Strengthening Internal Controls

Effective internal control over financial reporting is essential for successful financial management. Reliable financial information is critical for key decisions being made on a daily basis—ranging from routine decisions such as purchasing office supplies to more mission-related decisions such as building satellites. Federal agencies must strengthen internal control over financial reporting in order to sustain clean audit opinions within financial reporting deadlines in the wake of increasing financial audit scrutiny. This reform activity supports effective financial management as evidenced by the achievement of clean audits and the elimination of material weaknesses (MW).



STRATEGIC GOAL(S):

- Improve effectiveness of internal control over financial reporting.

CURRENT FOCUS:

- Facilitate sharing of best practices and lessons learned between agencies.
- Update OMB guidance, as necessary, based on lessons learned.
- Receive updated corrective action plans from agencies that reflect lessons learned from FY 2008 A-123, Appendix A implementation and achieve consensus between management, Inspectors General, and OMB.
- Receive updated implementation plans from two agencies that have not completed a full scope Appendix A assessment (testing all key processes).

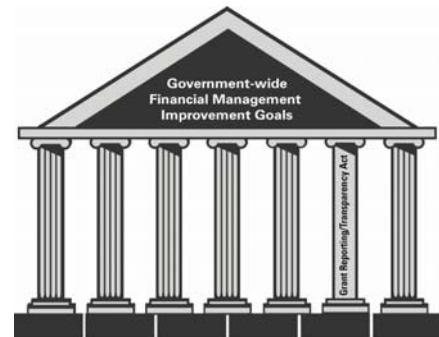
STATUS UPDATE:

- Facilitated a forum between the financial, acquisition, program, audit, and information technology communities to discuss overall internal control frameworks and to better integrate and leverage existing internal control reviews.
- Implemented a full scope Appendix A assessment in 22 of the 24 CFO Act agencies.
- Auditor-identified material weaknesses among the 24 major agencies have declined for five consecutive years, with an 18% reduction achieved from FY 2007

to FY 2008. The goal for FY 2009 and beyond is to achieve a 10% reduction in material weaknesses annually.

Improving Grants Reporting and Transparency

Each year, the Federal government provides over \$500 billion in grants to more than 60,000 grantees—State, local and tribal Governments, colleges and universities and non-profit organizations. These dollars are awarded through more than 1,700 grant programs managed by Federal agencies. Improved solutions for grants management are essential for the strengthening of accountability and increasing the cost efficiency of grant programs. This reform activity supports the objective to use financial information to manage costs and ensure Federal dollars are wisely and effectively spent.



STRATEGIC GOAL(S):

- Implement government-wide solutions that increase transparency of grant activities, lower administrative costs, and simplify application/reporting.

CURRENT FOCUS:

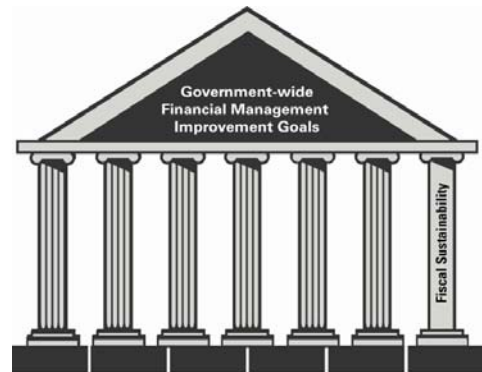
- Improve governance of government-wide grants initiatives.
- Expand searchable public website to include subgrant awards.
- Streamline the Federal systems that capture and maintain grant and subgrant data.
- Continue to simplify and standardize grant-making systems and processes.
- Make available FIND and APPLY capabilities on Grants.gov for 100% of all discretionary grants and explore uses for mandatory grants.
- Improve the quality of Single Audits and require additional training for auditors.

STATUS UPDATE:

- Completed the pilot project for collecting and reporting subgrantee data to searchable website.
- Developed consolidated standard grant forms for reporting financial and performance information.
- Implemented electronic submission for data collection form and all single audit reports (average 37,000 submissions per year).
- Conducted two grant policy information webcasts collectively reaching over 3,000 stakeholders.

Improving Fiscal Sustainability Reporting

Federal entitlement programs such as Medicare and Social Security are on an unsustainable fiscal path. OMB is working with the Treasury Department, the GAO, and the Federal Accounting Standards Advisory Board (FASAB) to improve fiscal sustainability reporting.⁴ Improved reporting helps Federal stakeholders assess long-term fiscal sustainability and alerts lawmakers and the public of the impending fiscal crisis that will occur if no action is taken. Improving fiscal sustainability reporting will result in timely and reliable financial information to help guide decision-making.



STRATEGIC GOAL(S):

- Report comprehensive fiscal sustainability data, including social insurance and other programs, that facilitate and guide reform efforts to address the long-term fiscal imbalance.
- Provide comprehensive fiscal sustainability data, including social insurance disclosures, in the Financial Report used by lawmakers and the public to inform the debate on entitlement reform.

CURRENT FOCUS:

- Develop a “Statement of Fiscal Sustainability” and include as a principal statement within the Government-wide Financial Report.
- Launch pilot project to develop a prototype Statement of Fiscal Sustainability.

STATUS UPDATE:

- Achieved an unqualified opinion on all agency-level Statements of Social Insurance (SOSI) for the third straight year and achieved a clean opinion on the government-wide SOSI for the second straight year.
- Released a FASAB Exposure Draft: Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government designed to improve sustainability reporting.

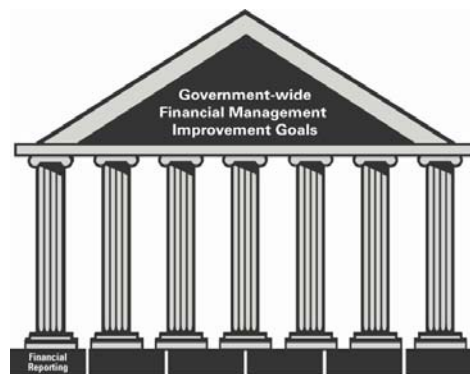
⁴ The FASAB has not defined fiscal sustainability reporting. However, fiscal sustainability reporting, as used here, is meant to align with the FASAB’s financial reporting objective of stewardship, specifically, “whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.” (Statement of Financial Accounting Concepts 1, paragraph 139)

The Framework's Foundation: Core Activities

The Framework's *Core Activities* represent the “every day” activities and statutory responsibilities of OFFM. Through these activities and responsibilities, OFFM improves, strengthens, and manages the Federal government's financial management policies, practices, and procedures.

I. Improving Financial Reporting

During FY 2008, OFFM continued to improve Federal financial reporting in three key areas: (1) government-wide financial reporting requirements (OMB Circular A-136, *Financial Reporting Requirements*); (2) accounting standards; and (3) consolidated government-wide financial statements (in coordination with the Department of the Treasury).



OMB Circular A-136, Financial Reporting Requirements

In conjunction with the CFO Council, OMB updates its guidance relating to agency and government-wide financial reporting in the OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136). The A-136 subcommittee under the CFO Council was created to perform this work, with all 24 CFO Act agencies represented. Circular A-136 establishes a central reference point for all Federal financial reporting guidance for executive branch departments, agencies, and entities required under the CFO Act⁵, the Government Management Reform Act (GMRA) of 1994⁶, and the Accountability of Tax Dollars Act (ATDA) of 2002⁷, and the Government Corporations Control Act of 1945⁸ to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) or Annual Management Reports. This Circular is available on the OMB homepage (by clicking the “Circulars” link), which is located at www.whitehouse.gov/omb.

A significant achievement in FY 2008 includes the continuation of a pilot to streamline PAR reporting that allows agencies to select an alternative reporting format. The results of the FY 2007 pilot presented many best practices for providing accessible and useful performance and financial information to agency stakeholders. One of the more successful products of the pilot was a “Highlights” document that contained performance and financial information in a brief, user-friendly format. In FY 2008, OFFM made further improvements to the pilot by initiating a three-tiered drill down reporting structure, which allowed agencies to provide information that is easily accessible to their diverse set of readers and stakeholders. The structure includes: (1) a 2-page Budget, Performance and Financial Snapshot that provides the reader with a quick picture of agency mission, organization, performance and financial results, and plans for the future; (2) a

⁵ Pub. L. 101 - 576, 104 Stat. 2838

⁶ Pub. L. 103 - 356, 108 Stat. 3410

⁷ Pub. L. 107 - 289, 116 Stat. 2049

⁸ 31 U.S.C. 9101 et seq.

25-page Citizens' Report (formerly called "Highlights") that summarizes the agency's mission, key goals, how funds are spent, performance relative to goals, and actions planned plan build on successes or address shortcomings; and (3) a comprehensive Agency Financial Report (AFR) and Annual Performance Report (APR) of complete details on relevant financial and performance results.

Accounting Standards

The Federal Accounting Standards Advisory Board (FASAB) was established as an advisory board under the Federal Advisory Committee Act (5 U.S.C. App) to facilitate the standard setting process. FASAB's mission is to consider and recommend accounting concepts and standards for the Federal government. In 1999, the American Institute of Certified Public Accountants (AICPA) formally recognized accounting standards published by FASAB as generally accepted accounting principles (GAAP) for Federal financial reporting entities (i.e., an accounting industry "stamp of approval").

The Deputy Controller represents OMB on the FASAB. Additionally, an OFFM representative serves on the Accounting and Auditing Policy Committee (AAPC), a permanent committee sponsored by the FASAB. The AAPC assists the Federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues within the framework of existing authoritative literature.

During FY 2008, FASAB issued Statement of Federal Financial Accounting Concepts 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. The AAPC completed the Technical Release 8, *Clarification of Standards Relating to Inter-Entity Cost*; and Technical Release 9: *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*.

The Financial Report of the U.S. Government

Each year, the Department of the Treasury, in coordination with OMB, prepares the *Financial Report of the U.S. Government (Financial Report)*. The *Financial Report* contains the consolidated financial statements of the Government as a whole, which are subject to audit by the Government Accountability Office (GAO). The *Financial Report* also serves as an important example of improved transparency for reporting government-wide financial information. The Treasury and OMB promote the *Financial Report* to increase awareness of America's fiscal position and condition.

The 2008 *Financial Report* was published on December 15, 2008, and is located on the web at <http://www.fms.treas.gov/fr/index.html>. The Treasury issued the *Financial Report* as an important piece of the Federal effort to increase public awareness of the Government's current and future spending obligations. For the past five years, OMB has required the Treasury to issue the *Financial Report* on December 15, rather than on the March 31 statutory deadline, to provide financial information early enough to be useful in the budget process.

On February 14, 2008, the Treasury and OMB, in coordination with GAO, released the first-ever summary of the *Financial Report* entitled, *The Government's Financial Health: A Citizen's*

Guide to the 2007 Financial Report of the United States Government. The 8-page Guide is a user-friendly overview of the U.S. Government's short-term and long-term financial outlook including the Government's biggest fiscal challenge, the unsustainable growth in entitlement programs. The FY 2008 Guide was published on December 15, 2008, and is included in the *2008 Financial Report*. In addition to focusing on the growth in entitlement programs, the FY 2008 Guide summarizes the recent events in the housing market and the Government's efforts to calm the resulting effects on the financial markets and what these efforts mean to the taxpayer.

Also, this past year, the Treasury Department and OMB successfully closed 35 of GAO's 81 recommendations reported in July 2007. In their June 2008 report, GAO cited 10 new findings, which resulted in a total of 56 open recommendations during GAO's FY 2008 audit. Recent OMB and the Treasury Department actions, taken to address GAO's new findings and recommendations, include updating guidance on standard processes for reconciling intragovernmental imbalances and continuing outreach efforts to address differences between what is reported in Federal agencies' financial statements and the consolidated financial statements.

During FY 2009, OMB will continue working with the Treasury Department to address all of GAO's recommendations from their FY 2008 and prior reports. This includes focusing on the three primary material weaknesses that contribute to the disclaimer of an opinion on the consolidated financial statements: (1) elimination of intragovernmental imbalances, (2) development of effective processes for preparation of the consolidated financial statements, and (3) resolution of management issues at the Department of Defense.

II. Strengthening Internal Controls

The OMB Circular A-123, *Management's Responsibility for Internal Control* (Circular A-123), is the policy document that implements the requirements of the Federal Managers Financial Improvement Act (FMFIA). The FMFIA requires that management establish and maintain effective internal control to achieve the objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with applicable laws and regulations. The FMFIA also requires the head of each executive agency to report annually to the President and the Congress on the effectiveness of the internal controls and any identified material weaknesses in those controls.



Circular A-123 contains multiple appendices that address, at a more detailed level, one or more of the objectives of effective internal control. The requirements in the appendices are the core activities to support the goal of strengthening internal control across the Government.

Circular A-123 Appendices:

Appendix A—Internal Control over Financial Reporting

Appendix A provides a methodology for agency management to assess, document, test, and report on the internal control over financial reporting. The appendix also encourages an integrated approach with other legislative and regulatory requirements to review internal control. The new requirements were developed in consultation with the Financial Standardization Team of the CFO Council. The Council and OMB produced a supplementary Implementation Guide (http://www.cfoc.gov/documents/Implementation_Guide_for_OMB_Circular_A-123.pdf), which provides a more hands-on perspective of how to implement the new requirements, and a Frequently Asked Questions (FAQ) document, which elaborates on concepts in the Appendix. The results of the FY 2008 assessment can be found in Appendix B of this report. The FAQ document can be found at (http://www.whitehouse.gov/omb/circulars/a123/faq_a123_appx_a.pdf).

Appendix B—Improving the Management of Government Charge Card Programs

The Federal government has more than 3.1 million charge cards in use under the General Services Administration's (GSA's) SmartPay Program. The cards are used to purchase goods and services, pay for Government employee travel and travel-related expenses, and to acquire fuel and maintenance services for Government vehicles, aircraft and other equipment. In FY 2008, these transactions totaled more than \$30 billion, with \$19.7 billion (nearly 67%) spent through purchase cards alone. This program continues to demonstrate the improved efficiencies of charge card use through an estimated \$1.85 billion in annual savings as compared to paper-based purchase processes. Other benefits of the program include refunds paid to agencies that were in excess of \$166 million in FY 2008, as well as access to reduced-price airfares under the

GSA City Pairs Program. FY 2008 usage of the City Pairs Program saved the Government a projected \$4.52 billion over regularly priced airfares.

OFFM provides oversight of Federal charge card programs through Appendix B of Circular A-123. This guidance requires agencies to maintain internal controls that reduce the risk of fraud, waste, and error in Government charge card programs. As required by Appendix B, agencies submit updated copies of their Charge Card Management Plans to OMB on an annual basis, and submit performance information on either a quarterly or annual basis depending on the size of the agency. OFFM works with agencies to ensure strong internal control policies and procedures government-wide. OFFM also works closely with the GSA SmartPay program, which manages the primary contracts with the Federal government's charge card providers, to ensure the program is operating effectively and efficiently. OFFM is currently working with GSA and the Federal charge card community to revise Appendix B. This revision incorporates recommendations made by the GAO in its April 2008 audit of the Federal Purchase Card Program as well as comments and suggestions made by Agency/Organization Program Coordinators. The revised Appendix B will incorporate internal controls for convenience checks, expand on controls related to property acquired with government charge cards, and implement specific guidance for ensuring that appropriate disciplinary actions (including dismissal) are properly considered and imposed for fraud and other egregious abuse of a Federal charge card.

Appendix C—Requirements for Effective Measurement and Remediation of Improper Payments

Appendix C implements the requirements of the Improper Payments Information Act (IPIA) and the Recovery Audit Act (31 USC 3561-3567). It consolidates previous guidance documents that were issued as OMB memoranda under Circular A-123. Appendix C addresses all categories of improper payments that include, but are not limited to: programmatic disbursements, benefit entitlements, loan guarantees, contracts, and other types of administrative payments.

III. Improving Financial Systems

In FY 2008, OMB continued its efforts to ensure that agencies are in substantial compliance with Federal Financial Management Integrity Act (FFMIA) Section 803(a) requirements: (1) Federal financial management systems requirements; (2) applicable federal accounting standards; and (3) the United States Standard General Ledger at the transaction level. Agencies have made measurable progress in achieving substantial compliance with FFMIA since last year. Specifically, 15 agency heads reported that their agencies were in substantial compliance with FFMIA, one more than in FY 2007 and ten more than in FY 2001, when only four agency heads reported substantial compliance.



The success in reducing the number of FFMIA noncompliance results is attributable to the efforts of agencies conducting management's assessment of internal control over financial reporting as required by Appendix A of OMB Circular A-123, *Management's Responsibility for Internal Control*. Many agencies have been implementing baseline assessments of all key processes and controls. The assessments have been successful in early detection of control deficiencies relating to financial management systems. As a result, agencies have been resolving systemic issues with greater efficiency and reducing FFMIA noncompliance.

In addition to the A-123 Appendix A assessments, OMB has continued its initiative to standardize government-wide business processes to address the Federal government's long-term need to improve financial management and assist agencies in substantially complying with FFMIA. The goal of the standardization initiative 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. To meet the goal, the projects were established to define and develop uniform business standards (e.g., common government-wide accounting code, business processes, data, and business rules). Over the next several years, software vendors will be required to incorporate these standards into their financial systems. This approach will better ensure that agencies begin implementing a financial system with a baseline set of FFMIA standards inherent in the software.

OMB continued its effort to migrate agencies to a shared service model, which requires designated public and qualified commercial providers to deliver both financial management and financial systems services to multiple agencies. In the last few years, the Department of Agriculture, the Department of Labor, the Environmental Protection Agency, the Office of Personnel Management, and the Department of Housing and Urban Development have selected a commercial shared service provider. By focusing on developing financial standards and incorporating them into Federal software, the standardization initiative will ensure that all agencies using financial systems with standard configurations meet FFMIA Section 803(a) requirements.

This year, OMB began a significant re-write of Circular A-127, *Financial Management Systems*. The revised Circular will clarify the definition of FFMIA substantial compliance so that auditors and agency heads interpret the guidance more consistently. This effort will further improve management of financial systems.

IV. Improving Asset Management

OFFM is improving asset management throughout the Federal government by coordinating activities in the areas of real property and financial assets, including the collection of debts owed to the Government.



Real Property

Strengthening the management of the Federal government's assets has been an important Federal objective the past five years. The Government owns approximately 1.1 million real property assets with a replacement value in excess of \$1.5 trillion and holds title to approximately one in every four acres of land in the United States. Federal real property assets continue to be accounted for and effective plans continue to be made for the acquisition, management, and disposition of assets.

The agencies have taken specific steps to improve the management of real property on a government-wide level by implementing the requirements of Executive Order 13327, "Federal Real Property Asset Management," signed on February 4, 2004. This Order directed all major agencies to establish the position of a Senior Real Property Officer (SRPO), who is accountable for the effective management of an agency's real properties. The Executive Order also created an interagency Federal Real Property Council to develop guidance, serve as a clearinghouse for best practices, and facilitate the efforts of the agency SRPOs.

Using the Executive Order as a framework, agencies are being held accountable for accurately reporting their real property inventory and performance measurement data. Agencies must provide evidence of the specific actions taken to ensure that mission critical assets are managed in the right condition and that those unneeded assets exit the Federal inventory.

Debt Collection

Agencies continue to improve federal debt collection with the support of centralized management of delinquencies in the Department of the Treasury. The Debt Collection Improvement Act (DCIA) of 1996 (Sec. 31001, Pub. L. 104-134, 110 Stat. 1321-358) requires agencies to take prompt action in recovering debts, aggressively monitor accounts, properly screen potential borrowers in the case of credit programs, and resolve outstanding debt through a variety of options. In combination with agency methods, referring debt to the Department of the Treasury and the Department of Justice for litigation can yield significant and measurable savings for the taxpayer. Between 1996 and 2008, Treasury's Financial Management Service (FMS) has collected more than \$37.4 billion in delinquent debt.

OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables* (Circular A-129) requires agencies to submit an annual report to OMB with information on: (1) internal debt collection processes; (2) agency identified deficiencies in current policies; (3) actions taken

by agencies to comply with DCIA and Circular A-129; and (4) intended actions to improve debt collection policies and practices. For FY 2008 full reports were due by December 31, 2008.

Overall, agencies have strong policies and procedures in place consistent with the requirements of DCIA and Circular A-129, and they continue to improve their debt collection practices. A number of agencies have reported that they are still working to come into compliance. See Appendix G: Debt Collection Deficiencies and Corrective Actions, which includes a table of notable deficiencies and corrective actions that were reported by agencies to OMB.

OMB will continue to work with the agencies on reducing delinquent obligations and to develop more effective debt collection tools.

V. Improving Grants Management

OFFM, working cooperatively with the grant-making agencies and the grantee community, establishes government-wide policy and requirements to ensure that grants are managed properly, Federal dollars are spent in accordance with applicable laws and regulations, and that Federal grants are free from fraud, waste, and mismanagement. Each year, the Federal government provides over \$500 billion in grants to State, local and Tribal Governments, colleges and universities, and other non-profit organizations—roughly one-sixth of the Federal budget.



In FY 2008, OFFM and Federal agencies, organized under the Grants Policy Committee of the CFO Council, continued to streamline grantee reporting in accordance with its implementation plan for the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107). While the Act itself expired in 2007, OFFM and Federal agencies revisited their implementation strategy and further simplified Federal financial assistance applications and reporting requirements. To date, achievements include:

- Establishing a single portal to find and apply for financial assistance opportunities.
- Limiting the number of standard application forms.
- Improving the approach to issue and locate OMB guidance, and to implement agency regulations that apply to grant award and administration.
- Achieving greater consistency across the different sets of OMB cost principles.
- Standardizing the funding opportunity announcement format that makes it easier for potential applicants to find the information they need to decide whether to apply and submit responsive applications.

Future efforts to streamline and improve the grants management include:

- Completing the establishment of government-wide standards for post-award reporting: financial, performance/progress, and property (intellectual, real, and tangible personal property).
- Adopting a new approach to award content and format that has potential pay-offs for both recipients and agencies in applying and complying with administrative and national policy requirements.
- Reducing the number of system variations and disparate business processes, including those related to grant payments.
- Enhancing the quality of Single Audits under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- Establishing training and certification standards for Federal grants managers.

Additionally, future efforts will also include capturing subgrant award data on the searchable website, USASpending.gov, in accordance with the Federal Funding Accountability and

Transparency Act of 2006, and the implementation of Section 872 of Public Law 110-417, which requires that OMB and GSA establish and maintain a database of information regarding the integrity and performance of certain persons awarded Federal contracts and grants. The focus for USASpending.gov will be on improving data quality and streamlining the data submission process. The focus for the new performance and integrity database will be to ensure the information is available by October 2009.

VI. Improving Audit Requirements

OMB provides audit requirements to implement the audit provisions of several key pieces of legislation previously mentioned in this report, such as the Inspector General Act of 1978 (5 U.S.C. App.), FMFIA, CFO Act, GMRA, and the FFMIA. The periodic review, improvement, and reissuing of audit requirements are important in ensuring the integrity and transparency of agencies' financial data and internal controls so that taxpayer resources are protected from waste, fraud, and mismanagement.



Since there were no major changes in key legislation or in the AICPA and GAO financial audit guidance, the Yellow Book, OMB's Audit Bulletin was not revised this year. Instead, the Bulletin was amended to reflect certain audit and financial reporting changes that were relevant to the Federal financial management community. To this end, OMB issued "Memorandum No. 08-24, Technical Amendments to OMB Bulletin No. 7-04, *Audit Requirements for Federal Financial Statements*," on August 25, 2008. Among other things, the Bulletin was amended to reflect provisions that are no longer applicable and for changes that coincide with revisions to OMB Circular A-136. Examples of specific amendments include:

- Clarification that the Agreed-Upon Procedures on Intragovernmental Material Differences did not apply to FY 2008 and beyond.
- Clarification that provisions that relate to the internal control over performance measures no longer apply.
- Updates to reflect the continuation of OMB's Performance and Accountability Report (PAR) Pilot for FY 2008.
- Changes to reflect the use and application, within the Bulletin, of the summary of "unadjusted" misstatements to the summary of "uncorrected" misstatements for consistency with the terminology used in revised OMB Circular A-136.

The Technical Amendments to OMB Bulletin No. 7-04 are available on the Web at <http://www.whitehouse.gov/omb/financial/index.html>.

For FY 2009, OMB will continue to monitor legislation, and the AICPA and GAO financial audit guidance, as well as any relevant changes in the Federal financial management community. By doing so, OFFM will determine if the Bulletin should be completely revised, amended, or remain "as is."

Conclusion

Over the past five years, the Federal government has made significant progress in financial management. Overall, Federal agencies have achieved more clean audit opinions, fewer auditor-identified material weaknesses, more timely financial reporting, and have improved transparency and results on excess real property and improper payments. While these results demonstrate the improvement in performance on key financial management metrics, significant challenges remain.

The reform and core activities highlighted in this report are intended to position agencies to achieve greater success in those areas. The reform activities, in particular, reflect the current priorities for improving financial management based on the key challenges and opportunities in today's environment. OFFM will continue to monitor and assess the financial management environment. As it changes, reform initiatives may evolve into the day-to-day core activities and core activities may take on new or greater significance to become reform initiatives. Moreover, a regular re-evaluation of the reform priorities will be results-oriented and guided by the objectives of future Administrations and will focus on results.

OFFM has been organized to most effectively implement the principles of the reform and core activities included in this report. Through the Framework, every CFO across the Federal government shares common goals for improving financial performance. In addition, a closely knit financial management community exists to respond to long-standing and arising financial challenges. Looking ahead, OMB, Federal CFOs, and the financial management community will strive to achieve sound financial performance, which is embodied by transparency, compliance, and strategic management. These principles will continue to guide the Government's efforts because improved financial management is critically important to the Federal financial management community, as both Federal agencies and managers and as the public.

APPENDICES

Appendix A: Summary of FY 2008 Audited Financial Statement Results by Agency and Selected Components

In FY 2008, agencies subject to the CFO Act were required to prepare annual financial statements subject to audit. OMB also designates those individual entity components that must prepare audited financial statements.

<i>CFO Act Agency:</i>	<i>FY 2008 Audit Opinion</i>
Department of Agriculture (USDA)	Unqualified
Department of Commerce (DOC)	Unqualified
Department of Defense (DOD)	Disclaimer
Department of Education (Education)	Unqualified
Department of Energy (DOE)	Unqualified
Department of Health and Human Services (HHS)	Unqualified
Department of Homeland Security (DHS)	Disclaimer
Department of Housing and Urban Development (HUD)	Unqualified
Department of the Interior (DOI)	Unqualified
Department of Labor (DOL)	Unqualified
Department of Justice (DOJ)	Unqualified
Department of State (State)	Unqualified ⁹
Department of Transportation (DOT)	Unqualified
Department of the Treasury (Treasury)	Unqualified
Department of Veterans Affairs (VA)	Unqualified
Agency for International Development (USAID)	Unqualified
Environmental Protection Agency (EPA)	Unqualified
General Services Administration (GSA)	Unqualified
National Aeronautics and Space Administration (NASA)	Disclaimer
National Science Foundation (NSF)	Unqualified
Nuclear Regulatory Commission (NRC)	Unqualified
Office of Personnel Management (OPM)	Unqualified

⁹ The Department of State received a disclaimer of opinion on the financial statements published on November 15. The Department subsequently reissued its financial statements on December 17, 2008 with an unqualified opinion.

<i>CFO Act Agency:</i>	<i>FY 2008 Audit Opinion</i>
Small Business Administration (SBA)	Unqualified
Social Security Administration (SSA)	Unqualified

<i>Agency Components:</i>	<i>FY 2008 Opinion</i>
Food and Nutrition Service (USDA)	Unqualified
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)	Unqualified
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
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

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 FMFIA 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 the 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 non-conformances with government-wide financial systems requirements (pursuant to Section 4 of FMFIA). Reporting 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 non-conformances reported by agency heads under Section 4 of FMFIA.

Table Definitions:

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

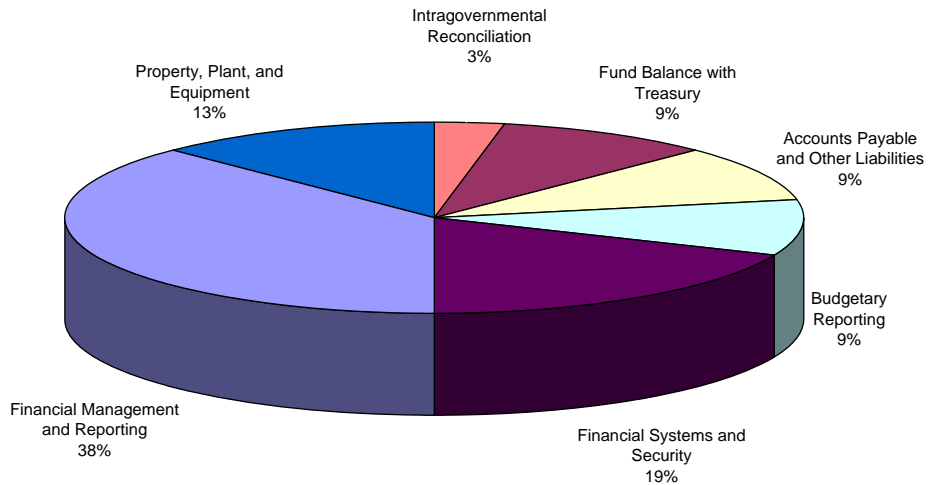
**Fiscal Year 2008:
Auditor-Identified Material Weaknesses**

	Beginning	New	Resolved	Consolidated	Ending
Agriculture	2	0	0	0	2
Commerce	0	0	0	0	0
Defense	13	0	0	0	13
Education	0	0	0	0	0
Energy	0	0	0	0	0
HHS	4	0	0	2	2
Homeland	7	0	1	0	6
HUD	2	0	2	0	0
Interior	0	1	0	0	1
Justice	0	0	0	0	0
Labor	0	0	0	0	0
State	2	0	2	0	0
DOT	1	0	1	0	0
Treasury	1	0	0	0	1
VA	4	0	1	0	3
AID	0	1	0	0	1
EPA	0	0	0	0	0
GSA	0	1	0	0	1
NASA	2	0	0	0	2
NSF	0	0	0	0	0
NRC	1	0	1	0	0
OPM	0	0	0	0	0
SBA	0	0	0	0	0
SSA	0	0	0	0	0
Totals	39	3	8	2	32

FY 2008 Auditor-Identified Material Weaknesses by Category

As a whole, the Government is improving controls over financial reporting and operations. For the fifth year in a row, auditor reported material weaknesses have declined, with a 50% decrease in weaknesses since 2001.

A material weakness is a significant deficiency, or combination of significant deficiencies, in internal controls that increases the odds that a material misstatement of the financial statements will go undetected or not be prevented. The existence of material weaknesses does not necessarily mean the financial statements are unreliable. However, they are indicators and their existence suggests the likelihood that the financial statements include material misstatements has increased.



Key Challenges

This year great strides were made in the area of Financial Systems and Security, which was reduced by almost 50 percent. However, challenges still remain. Nearly 70 percent of the material weaknesses are attributable to three agencies and are predominately in the areas of Financial Management and Reporting and Financial Systems and Security. These key areas continue to be a challenge across all agencies and OFFM will work with the agencies to reduce material weaknesses.

Financial Management and Reporting material weaknesses were found in seven agencies, primarily as a result of control issues over the financial reporting process. Auditors found the controls over the financial statement preparation needed to be improved in various areas including oversight, data integrity, reconciliations, updating of policies and procedures, and training. By improving controls over the reporting process agencies are better positioned to prepare reliable, useful, and timely financial information for decision making.

Financial Systems and Security material weaknesses were found in five agencies and primarily were a result of control issues in Information Technology (IT) security. Auditors found the controls over IT security needed to be improved in areas such as updating risk assessments, providing IT security training, strengthening password controls, and enhancing controls over system software modification. By improving IT security agencies can prevent unauthorized access to and increase the reliability of financial information.

**Fiscal Year 2008:
FMFIA Section 2 – Consolidated Totals**

	Adequate and Effective Management Controls		Number of Material Weaknesses					
	Section 2 Operational	Section 2 Financial Reporting	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture	Unqualified	Qualified	4	0	0	1	0	3
Commerce	Qualified	Unqualified	1	0	0	0	0	1
Defense	No Assurance	No Assurance	18	4	4	0	2	16
Education	Qualified	Unqualified	2	0	1	0	0	1
Energy	Unqualified	Unqualified	0	0	0	0	0	0
HHS	Qualified	Qualified	2	0	0	0	0	2
Homeland	Qualified	No Assurance	19	4	2	0	5	16
HUD	Unqualified	Unqualified	0	0	0	0	0	0
Interior	Unqualified	Qualified	0	1	0	0	0	1
Justice	Qualified	Unqualified	2	0	0	0	0	2
Labor	Unqualified	Unqualified	1	0	1	0	0	0
State	Unqualified	Unqualified	2	0	2	0	0	0
DOT	Qualified	Unqualified	2	1	2	0	0	1
Treasury	Qualified	Qualified	6	0	2	0	0	4
VA	Qualified	Qualified	1	0	0	0	1	1
AID	Unqualified	Unqualified	1	0	1	0	0	0
EPA	Unqualified	Unqualified	0	0	0	0	0	0
GSA	Qualified	Qualified	0	1	0	0	0	1
NASA	Unqualified	Qualified	3	0	1	0	0	2
NSF	Unqualified	Unqualified	0	0	0	0	0	0
NRC	Unqualified	Unqualified	1	0	1	0	0	0
OPM	Qualified	Unqualified	0	1	0	0	0	1
SBA	Unqualified	Unqualified	0	0	0	0	0	0
SSA	Unqualified	Unqualified	0	0	0	0	0	0
TOTAL			65	13	17	1	8	52

**Fiscal Year 2008:
FMFIA Section 2 – Operational**

	Adequate and Effective Management Controls			Number of Material Weaknesses					
	Unqualified	Qualified	No Assurance	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture	X			0	0	0	0	0	0
Commerce		X		1	0	0	0	0	1
Defense		X		9	1	4	0	2	4
Education		X		2	0	1	0	0	1
Energy	X			0	0	0	0	0	0
HHS		X		1	0	0	0	0	1
Homeland		X		10	4	1	0	3	10
HUD	X			0	0	0	0	0	0
Interior	X			0	0	0	0	0	0
Justice		X		2	0	0	0	0	2
Labor	X			1	0	1	0	0	0
State	X			1	0	1	0	0	0
DOT		X		1	1	1	0	0	1
Treasury		X		5	0	2	0	0	3
VA		X		0	1	0	0	0	1
AID	X			1	0	1	0	0	0
EPA	X			0	0	0	0	0	0
GSA		X		0	0	0	0	0	0
NASA	X			1	0	1	0	0	0
NSF	X			0	0	0	0	0	0
NRC	X			1	0	1	0	0	0
OPM		X		0	1	0	0	0	1
SBA	X			0	0	0	0	0	0
SSA	X			0	0	0	0	0	0
TOTAL	13	11	0	36	8	14	0	5	25

**Fiscal Year 2008:
FMFIA Section 2 – Financial Reporting**

	Adequate and Effective Management Controls			Number of Material Weaknesses					
	Unqualified	Qualified	No Assurance	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture		X		4	0	0	1	0	3
Commerce	X			0	0	0	0	0	0
Defense			X	9	3	0	0	0	12
Education	X			0	0	0	0	0	0
Energy	X			0	0	0	0	0	0
HHS		X		1	0	0	0	0	1
Homeland			X	9	0	1	0	2	6
HUD	X			0	0	0	0	0	0
Interior		X		0	1	0	0	0	1
Justice	X			0	0	0	0	0	0
Labor	X			0	0	0	0	0	0
State	X			1	0	1	0	0	0
DOT	X			1	0	1	0	0	0
Treasury		X		1	0	0	0	0	1
VA		X		1	0	0	0	1	0
AID	X			0	0	0	0	0	0
EPA	X			0	0	0	0	0	0
GSA		X		0	1	0	0	0	1
NASA		X		2	0	0	0	0	2
NSF	X			0	0	0	0	0	0
NRC	X			0	0	0	0	0	0
OPM	X			0	0	0	0	0	0
SBA	X			0	0	0	0	0	0
SSA	X			0	0	0	0	0	0
TOTAL	15	7	2	29	5	3	1	3	27

**Fiscal Year 2008:
FMFIA Section 4 – Financial Management Systems**

	Systems Conform to Requirements			Number of Non-conformances					
	Yes	Yes, with Non-conformances	No	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture		X		1	0	0	0	0	1
Commerce	X			0	0	0	0	0	0
Defense			X	1	0	0	0	0	1
Education	X			0	0	0	0	0	0
Energy	X			0	0	0	0	0	0
HHS			X	2	0	0	0	0	2
Homeland			X	3	0	0	0	0	3
HUD	X			0	0	0	0	0	0
Interior	X			0	0	0	0	0	0
Justice	X			0	0	0	0	0	0
Labor	X			0	0	0	0	0	0
State	X			1	0	1	0	0	0
DOT	X			1	0	0	0	0	1
Treasury	X			0	0	0	0	0	0
VA		X		3	0	1	0	0	2
AID	X			0	0	0	0	0	0
EPA	X			0	0	0	0	0	0
GSA		X		0	1	0	0	0	1
NASA			X	2	0	1	0	0	1
NSF	X			0	0	0	0	0	0
NRC	X			0	0	0	0	0	0
OPM	X			0	0	0	0	0	0
SBA	X			0	0	0	0	0	0
SSA	X			0	0	0	0	0	0
TOTAL	17	3	4	14	1	3	0	0	12

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

<i>Government Corporation:</i>	<i>FY 2008 Audit Opinion</i>
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	Unqualified
National Credit Union Administration Central Liquidity Facility	Not Received ¹
Overseas Private Investment Corporation	Unqualified
Pension Benefit Guaranty Corporation	Unqualified
Resolution Funding Corporation	Not Received ¹
Saint Lawrence Seaway Development Corporation	Unqualified
Tennessee Valley Authority	Not Received

¹ The entity has a calendar year-end; the financial statements were not due as of the printing of this report.

Appendix D: Accountability of Tax Dollars Act Agencies Required to Submit Audited Financial Statements to OMB

<i>Agency:</i>	<i>FY 2008 Audit Opinion</i>
Advisory Council on Historic Preservation	Not Received
African Development Fund	Unqualified
American Battle Monuments Commission	Not Received
Appalachian Regional Commission	Not Received
Architectural and Transportation Barriers Compliance Board	Unqualified
Armed Forces Retirement Home	Unqualified
Barry Goldwater Scholarship and Excellence in Education Fund	Unqualified
Broadcasting Board of Governors	Unqualified
Christopher Columbus Fellowship Foundation	Unqualified
Central Intelligence Agency	Disclaimer
Chemical Safety and Hazard Investigation Board	Unqualified
Commission on Civil Rights	Not Received
Commission of Fine Arts	Not Received
Commission for the Preservation of America's Heritage Abroad	Not Received
Committee for Purchase from People Who Are Blind or Severely Disabled	Not Received
Commodities Futures Trading Commission	Unqualified
Consumer Product Safety Commission	Unqualified
Court Services and Offender Supervision Agency for DC	Not Received ¹

<i>Agency:</i>	<i>FY 2008 Audit Opinion</i>
Defense Nuclear Facilities Safety Board	Unqualified
Delta Regional Authority	Not Received
Denali Commission	Not Received
Election Assistance Commission	Disclaimer
Equal Employment Opportunity Commission	Unqualified
Farm Credit Administration	Unqualified
Farm Credit System Insurance Corporation	Not Received ¹
Federal Communications Commission	Unqualified
Federal Election Commission	Unqualified
Federal Financial Institutions Examination Council Appraisal Subcommittee	Not Received
Federal Housing Finance Board	Unqualified
Federal Labor Relations Authority	Not Received
Federal Maritime Commission	Unqualified
Federal Mediation and Conciliation Service	Unqualified
Federal Mine Safety and Health Review Commission	Unqualified
Federal Retirement Thrift Investment Board	Not Received ¹
Federal Trade Commission	Unqualified
Harry S. Truman Scholarship Foundation	Unqualified
Institute of American Indian and Alaska Native Culture and Arts Development	Not Received
Institute of Museum and Library Services	Unqualified

<i>Agency:</i>	<i>FY 2008 Audit Opinion</i>
Inter-American Foundation	Unqualified
James Madison Memorial Fellowship Foundation	Unqualified
Japan-U.S. Friendship Commission	Unqualified
Marine Mammal Commission	Not Received
Merit Systems Protection Board	Unqualified
Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation	Unqualified
National Archives and Records Administration	Unqualified
National Capital Planning Commission	Unqualified
National Commission on Libraries and Information Science	N/A ²
National Council on Disability	Not Received
National Credit Union Administration	Not Received ¹
National Endowment for the Arts	Unqualified
National Endowment for the Humanities	Unqualified
National Labor Relations Board	Unqualified
National Mediation Board	Unqualified
National Transportation Safety Board	Unqualified
Nuclear Waste Technical Review Board	Unqualified
Occupational Safety and Health Review Commission	Unqualified
Office of Government Ethics	Unqualified
Office of Navajo and Hopi Indian Relocation Commission	Unqualified
Office of Special Counsel	Unqualified

<i>Agency:</i>	<i>FY 2008 Audit Opinion</i>
Peace Corps	Unqualified
Postal Regulatory Commission	Not Received
Presidio Trust	Qualified
Railroad Retirement Board	Unqualified
Securities and Exchange Commission	Unqualified
Selective Service System	Unqualified
Smithsonian Institution	Not Received
SI/John F. Kennedy Center for the Performing Arts	Not Received
SI/National Gallery of Arts	Not Received
SI/Woodrow Wilson International Center for Scholars	Unqualified
Trade and Development Agency	Unqualified
U.S. Court of Appeals for Veterans Claims	Unqualified
U.S. Holocaust Memorial Museum	Not Received

1 The entity has a calendar year-end; the financial statements were not due as of the printing of this report.

2 The National Commission on Libraries and Information Science

Appendix E: Compliance with the Federal Financial Management Improvement Act of 1996

Under the FFMIA, Federal agencies are required to maintain financial management systems that substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. FFMIA provides that both the head of the agency and the independent auditor publish a determination of compliance on an annual basis. The table below indicates the FY 2008 compliance findings for each CFO Act agency.

	Agency Head	Auditor
Agriculture	No	No
Commerce	Yes	Yes
Defense	No	No
Education	Yes	No
Energy	Yes	Yes
HHS	No	No
Homeland	No	No
HUD	Yes	No
Interior	Yes	No
Justice	Yes	Yes
Labor	Yes	Yes
State	Yes	No
DOT	Yes	No
Treasury	No	No
VA	No	No
AID	Yes	Yes
EPA	Yes	Yes
GSA	No	No
NASA	No	No
NSF	Yes	Yes
NRC	No	No
OPM	Yes	Yes
SBA	Yes	Yes
SSA	Yes	Yes
TOTAL	15	10

Appendix F: Debt Collection Deficiencies and Corrective Actions

Agency	Deficiency	Corrective Actions to be Taken or Recently Completed
Agriculture (USDA)	A few small agencies within USDA, representing 0.01 percent of delinquent debt, have not been compliant with the requirement to write off delinquent debt greater than 2 years old if there are no estimated material collections.	USDA established a departmental waiver program and continues to coordinate write-off plans across the Department identifying agency-specific action items. Delinquent debt greater than 2 years old without waivers was reduced by 69 percent from fiscal year 2007 to FY 2008.
Health and Human Services (HHS)	The Centers for Medicare and Medicaid Services have not been reporting all eligible discharged/closed-out debt to the Internal Revenue Service (IRS).	HHS is currently making the systems changes necessary to report in accordance with IRS regulations. Changes to the Healthcare Integrated General Ledger Accounting System (HIGLAS) are anticipated to be completed in 2009.
Homeland Security (DHS)	DHS previously identified a need to develop comprehensive debt collection procedures. DHS components have issued policies; however, corrective actions completed to date have not been fully effective in ensuring that all eligible debts are referred to the appropriate program (e.g., Treasury Offset Program).	DHS developed a working group tasked with reviewing and commenting on pre-published debt management policy initiatives and conducting periodic debt collection workshops. The working group arranged for training for DHS headquarters and relevant components. In addition, the Department DCIA policy is being finalized for issuance by March 31, 2009.
State(DOS)	Detailed procedures for recording the write-off of debts in the accounting system are not fully developed.	The Department implemented their Global Financial Management Systems (GFMS) to replace an obsolete domestic financial management system. The write-off capability was included in GFMS. Further, the Accounts Receivable Division drafted write-off instructions that are being reviewed. These instructions are scheduled to be implemented in 2009.
Labor (DOL)	Historically, the Mine Safety and Health Administration (MSHA) had not referred aged delinquent debt to Treasury for collection and DOL agencies had not complied with the requirement to write off delinquent debt greater than 2 years old if there were no estimated material collections.	DOL issued a revised policy on debt collection and provided training, in conjunction with Department of Treasury, to all DOL bureaus. In 2008 MSHA debt required for referral was \$20.5 million and actual referral to Treasury was \$17.4 million. DOL as a whole had 94 percent referred to Treasury.
Defense (DOD)	In 2006, DOD identified a deficiency in that the Taxpayer Identification Number (TIN) was not provided on all certified vouchers submitted to a disbursing office for payment.	Improvements have been made to address the deficiencies including validating TIN; encouraging contractors to register with the Central Contractor Registration; and training accounts payable personnel. Additional efforts in FY 2009 will close the deficiency through enhanced capabilities of TIN related systems.

Appendix G: About the Office of Federal Financial Management

Mission: *To promote and support first class financial management in the Executive Branch of the Federal government.*

History: The Office of Federal Financial Management (OFFM) was created within the Office of Management and Budget (OMB) by the Chief Financial Officers (CFO) Act of 1990. OFFM, led by the OMB Controller under the direction of the Deputy Director for Management, is responsible for the financial management policy of the Federal government. OFFM 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.

Branches: Financial Standards and Grants
Financial Analysis and Systems

Key Policy Areas: Agency and Government-wide Financial Reporting
Federal Asset Management
Financial Management Systems
Grants Management
Improper Payments
Performance Measurement
President's Management Agenda
Single Audit
Travel and Purchase Cards

On the Web: www.whitehouse.gov/omb/financial