Federal Financial Management Report 2008

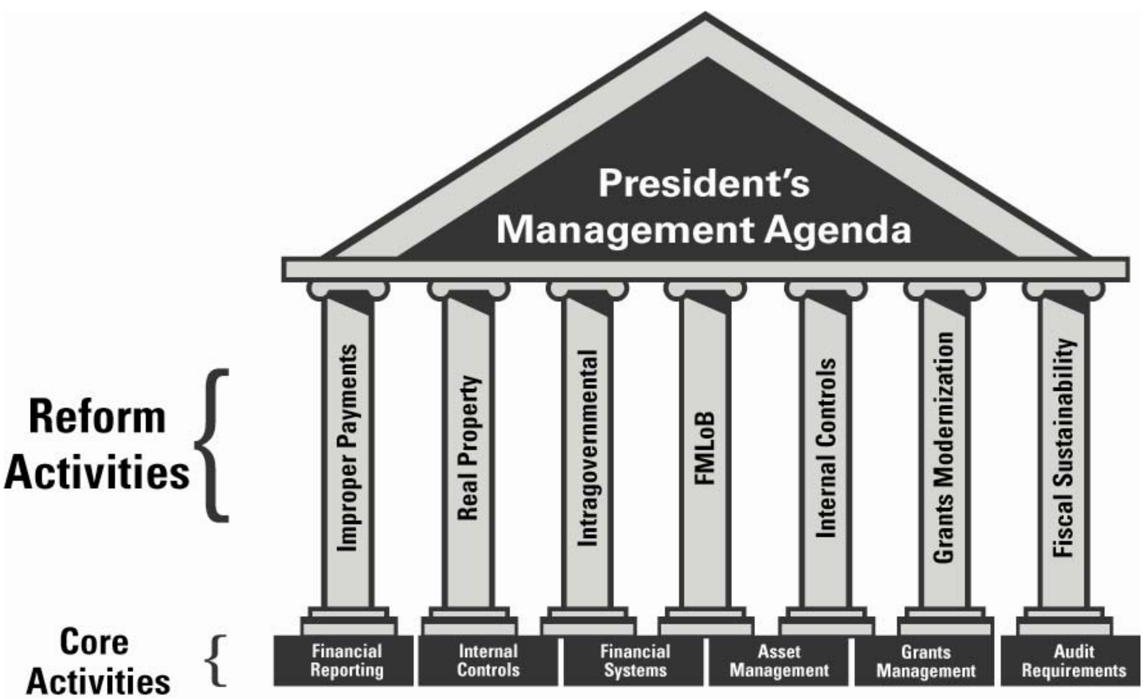
Executive Office of the President
Office of Management and Budget

Table of Contents

Executive Summary

The Office of Federal Financial Management within the Office of Management and Budget has developed a "Framework for Improving Financial Performance" to provide direction and clarity on how the President's improvement goals for financial management will be met. This "Framework" is the subject of this *Federal Financial Management Report 2008* ("the Report") and also fulfills the Office of Federal Financial Management's requirement, under section 301(a) of the Chief Financial Officers Act of 1990 (CFO Act) (Pub. L. No. 101-576) (codified at 31 U.S.C. 3512(a)), for providing Congress and the financial management community with a Government-wide "Five-Year" financial management plan and status report.

The Framework (as depicted in the accompanying diagram) is intended to provide the public with a simple tool for identifying: (1) the ultimate objective (or "apex") of the Government's financial management improvement efforts (i.e., the financial management goals of the President's Management Agenda); (2) the priority projects currently underway in the Federal financial community to help support and facilitate the President's Management Agenda's goals (i.e., current Government-wide financial management ***reform activities***); and (3) the day-to-day financial management activities or ***core activities*** that help ensure a strong foundation is in place for achieving Federal agencies' success.



FRAMEWORK OVERVIEW

The President's Management Agenda – How We Define and Measure Financial Management Success. The President's Management Agenda provides Federal agencies with a concise set of clear and measurable financial management performance goals that allow Federal managers, Congress, and the public to gauge whether taxpayer funds are being properly accounted for and wisely spent. These performance measures include, among others, the achievement of clean audit opinions, elimination of material weaknesses in internal control, timely financial reporting, disposal of excess real property, and elimination of improper payments. These measures allow the American public to assess whether taxpayer dollars are properly accounted for and wisely spent.

Reform Activities – Priority Financial Management Initiatives that Support the President's Management Agenda's Objectives. In support of the President's Management Agenda, the Federal financial community has undertaken a series of improvement efforts intended to strengthen key areas of financial management and thus help ensure the President's Management Agenda success. These activities include improving and/or strengthening: internal controls, financial systems, payment accuracy, real property management, grants management, and financial reporting for the Government as a whole.

Core Activities – The Foundation of Effective Financial Management. The core activities represent the universe of day-to-day actions that the Federal financial community undertakes to effectively manage the resources of the Federal Government. The core activities further represent each major area wherein the Office of Federal Financial Management has the responsibility to issue Government-wide policies and requirements. Some core activities (e.g., internal controls) contain critical components or areas that are also represented in the reform activities portion of the Framework. This is because the Office of Federal Financial Management, working with the Federal financial community, has determined that this core activity required some degree of reform to enhance or strengthen the activity on a "go-forward" basis. In this way, the reform activities (or columns) serve to both support the President's Management Agenda's success and strengthen the foundation of Federal financial activities.

FY 2007 RESULTS

As noted above, the financial management-related initiatives of the President's Management Agenda provide a series of critical financial management goals that, if attained, provide the public with confidence that taxpayer dollars are being properly accounted for and wisely spent. In FY 2007, Federal agencies either maintained or improved on prior year performance levels for all key outcome measures. Specific FY 2007 results are as follows:

> *Clean Audit Opinions*. Nineteen of twenty-four CFO Act agencies, representing more than 80% of all Federal outlays, achieved a clean audit opinion. This represents the same number of agencies that achieved a clean audit opinion in fiscal years 2005 and 2006. With these results, the Federal Government is well positioned to achieve its FY 2012 target of 22 CFO Act agencies achieving a clean opinion.

Material Weaknesses. The total number of auditor-reported material weaknesses declined from 41 to 39 for FY 2007. This marks the fourth year in a row that material weaknesses declined, with a more than 35% decline in weaknesses since 2001. Additionally, five new agencies received clean audit opinions with no material weaknesses: the Departments of Justice, the Interior, Energy, the Small Business Administration, and the U.S. Agency for International Development. This brings the total number of agencies realizing this important accomplishment to 13, up from just seven in 2001.

The decrease in weaknesses this year is more notable in light of recent changes to Government auditing standards that lowered materiality thresholds and have the potential effect of characterizing more audit findings as "material weaknesses." In other words, while auditing standards are getting tougher, Federal agencies kept pace by decreasing the number of material weaknesses. These results exceed the Government-wide performance target of a 10% annual reduction in repeat material weaknesses. See Appendix B of this Report for a more detailed breakdown and description of material weaknesses in FY 2007.

Timely Reporting. For the third consecutive year, every major Federal agency met the Government-wide performance target to issue 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 4.4% to 3.1%. The largest portion of this reduction is attributable to the Medicare Fee-for-Service program, which reduced its error rate for the third consecutive year, representing more than a 60% drop in errors since FY 2004. With these results, the Federal Government is well positioned to achieve its FY 2012 target to reduce improper payments in the programs that were originally reported in FY 2004 to 2.5%.

Excess Real Property. The Federal Government disposed of more than $2.5 billion in excess real property in FY 2007 and has disposed of over $7 billion in real property since FY 2004. With these results, the Federal Government is well positioned to achieve its FY 2012 target to dispose of a cumulative $12 billion in excess real property since the initiative was first launched in 2004.

LOOKING FORWARD

The reform and core activities highlighted in this Report are intended to position agencies to achieve the President's Management Agenda objectives described above. The reform activities, in particular, reflect the Administration's current priorities for improving financial management, based on the key challenges and opportunities in today's environment. The Office of Federal Financial Management will continue monitoring the financial management environment and as it changes, certain core activities may take on new significance and become reform initiatives, or the standards for current initiatives may change. Moreover, a regular re-evaluation of the Administration's reform priorities will be guided by the President's Management Agenda with a focus on results.

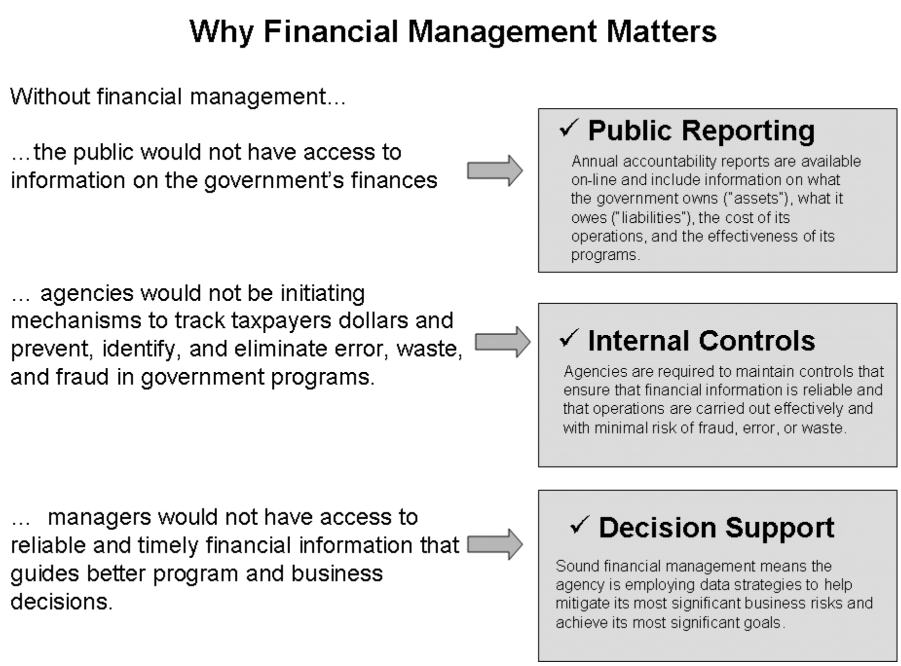
Introduction

The Office of Management and Budget's (OMB) Office of Federal Financial Management (OFFM) is responsible for the financial management policy of the Federal Government and is led by the OMB Controller under the direction of the OMB Deputy Director for Management. OFFM's mission is to promote and support first-class financial management in the executive branch of the Federal Government. To accomplish this mission, OFFM's objectives[1] are 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 President's Management Agenda (PMA); and

(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.

Why does financial management matter? In short, it matters to all of us as ***public*** taxpayers and as Federal ***agencies*** and ***managers***. As illustrated in the below diagram, sound financial management embodies the basic tenets of public reporting (i.e., transparency), internal controls, and decision support.



With the tenets of public reporting, internal controls, and decision support, in mind, OFFM has developed a "Framework for Improving Financial Performance" to not only provide direction

[1] See Appendix H for a complete description of OFFM's strategic objectives.

and clarity on how its objectives will be met. This "Framework" is the subject of this Report and also fulfills OFFM's requirement, under the Chief Financial Officers Act of 1990 (CFO Act), for providing Congress and the financial management community with a Government-wide "Five-Year" financial management plan.

PMA

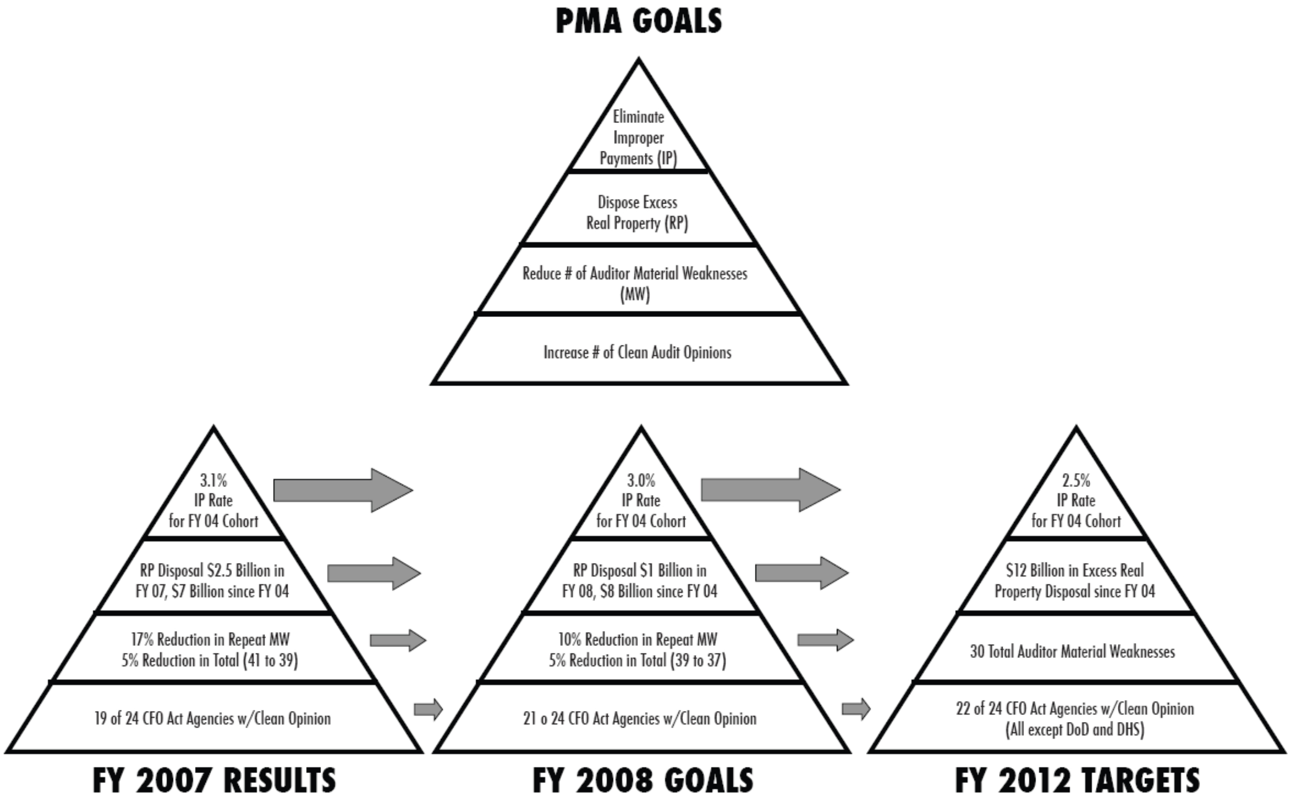
The PMA provides Federal agencies with a concise set of clear and measurable financial management performance goals that allow Federal managers, Congress, and the public to gauge whether taxpayer funds are being properly accounted for and wisely spent. The first three columns of the "Framework for Improving Financial Performance" represent key financial management-related initiatives that are also monitored through the PMA. Like all of the reform activities, each has clearly defined goals. Progress on these goals is tracked and publicly reported at www.results.gov to provide transparency and hold the Federal Government accountable for continued progress. As noted throughout this Report, Federal agencies are making significant progress on each of these areas. However, work still remains to meet the President's vision.

Eliminating Improper Payments - Agencies are improving the accuracy of Federal payments by strengthening controls over the payment process, ensuring that dollars are properly accounted for, and are going to the right person in the correct amount. Since 2004, the Federal Government has established an impressive track record of making improper payment measurements transparent to the public and then taking quick and effective action to eliminate them. More than 70 programs that were designated as high-risk for improper payments have been measured since 2004. By the end of 2008, almost 100% of programs that were previously designated as high-risk will be measured. Further, agencies have reduced the improper payment error rate in the programs originally measured and reported from 4.4% (FY 2004) to 3.1% (FY 2007). The goal for FY 2008 and subsequent years is an annual improper payment reduction of .1%.

Right-sizing the Government's Real Property - Agencies have established a comprehensive inventory of all the Government's real property assets. From this inventory, we know where our excess and surplus property is and are taking aggressive action to eliminate those properties from the Federal books. Since 2004, we have identified and disposed of more than $7 billion in unneeded property. The goal for FY 2008 is to dispose of an additional $1 billion in excess real property and to dispose of a cumulative $12 billion by 2012.

Improving Financial Reporting - Agencies have improved the quality of their financial reporting. Nineteen of 24 major agencies received clean audit opinions and agencies reduced the number of material weaknesses reported from 62 in FY 2001 to 39 in FY 2007. The respective goals for FYs 2008 and 2012 are for 21 and 22 agencies to receive clean audit opinions and to reduce material weaknesses to 37 and 30.

The following diagrams illustrate the key FY 2007 results, 2008 goals and 2012 targets for the financial management-related PMA initiatives.



Reform Activities

To support the PMA, the Federal financial community has undertaken a series of improvement efforts intended to strengthen key areas of financial management and thus help ensure the PMA's success. The *Reform Activities* include the following seven initiatives:

1. Eliminating Improper Payments,
2. Rightsizing the Government's Real Property,
3. Improving Intragovernmental Reporting,
4. Implementing the Financial Management Line of Business,
5. Strengthening Internal Controls,
6. Modernizing Grants Management, and
7. Improving Fiscal Sustainability Reporting.

This Report discusses these activities in greater detail, highlighting for each initiative, the Strategic Goal, FY 2012 Targets, Interim Objectives, FY 2008 Priority Actions, and Status Update.

<u>Core Activities</u>

The *Core Activities* represent the foundation for holding the overall structure 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, and
6. Improving Audit Requirements.

Of note, some of these core activities (e.g., internal controls) contain critical components or areas that are also represented in the reform activities portion of the Framework. This is because OFFM, working with the Federal financial community, has determined that this core activity required some degree of reform to enhance or strengthen the activity on a "go-forward" basis. In this way, the reform activities serve to both support the PMA's success and strengthen the foundation of Federal financial activities. This Report includes a detailed discussion of each *Core Activity*.

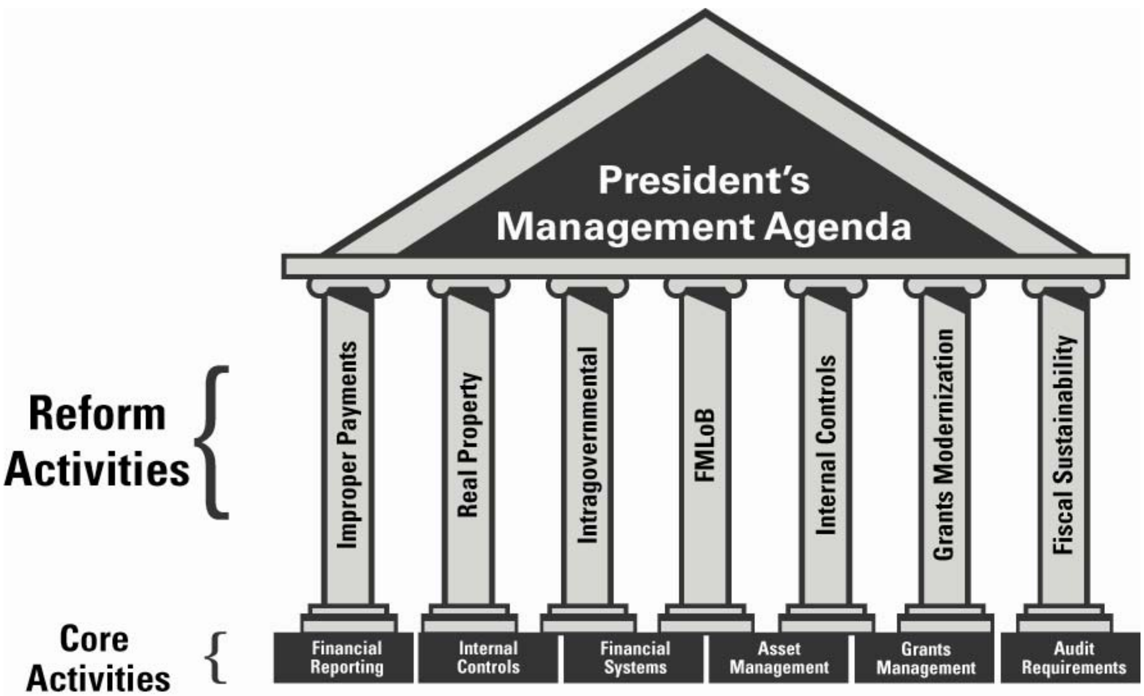
Finally, Appendices A through H provide supplementary information for a complete representation of the Governmental-wide "Five-Year" financial management plan and status report for FY 2007.

<u>The Chief Financial Officers Council and the President's Council on Integrity and Efficiency</u>

OFFM's ongoing work with the Chief Financial Officers Council (CFOC) and the President's Council on Integrity and Efficiency (PCIE) is critical to ensuring that the Framework described in this Report is carried out effectively. The CFOC was established, specifically by the CFO Act, as a mechanism for advising and coordinating the activities of its member agencies on matters such as improved quality of financial information, financial data and information standards, consolidation and modernization of financial systems, internal controls, legislation affecting financial operations and organizations, and other financial management efforts. Presently, the CFOC has six "Transformation Teams" that assist in carrying out the Framework's efforts: (1) Central Reporting, (2) Improper Payments, (3) Grants Governance, (4) Performance Metrics, (5) Financial Standardization, and (6) Financial Systems Integration Office (FSIO). In addition, the Audit Committee of the PCIE plays a critical role in helping OFFM to develop and oversee financial management policies and requirements that help facilitate accurate, reliable, and timely financial reporting.

A Framework for Improving Financial Performance

The Framework is intended to provide the public with a simple tool for identifying: (1) the ultimate objective (or "apex") of the Government's financial management improvement efforts (i.e., the financial management goals of the PMA); (2) the priority projects currently under-way in the Federal financial community to help support and facilitate the PMA success (i.e., current Government-wide financial management reform activities); and (3) the day-to-day financial management activities or core activities that help ensure a strong foundation is in place for achieving Federal agencies' success.



After re-evaluating the reform activities that were identified in 2007, the Office of Federal Financial Management determined that three of the seven 2007 reform activities should be clarified to narrow the reform activity and to better focus on achieving longer-term success in specific key areas. To this end for 2008, the respective 2007 reform activities for the Financial Report of the U.S. Government, Grants Management, and Social Insurance Reporting were changed to focus specifically on Intragovernmental transactions,[2] Grants Modernization, and Fiscal Sustainability Reporting. For these, as well as all other reform activities, this Report highlights a strategic goal, a performance target for fiscal year (FY) 2012 (i.e., a 5-year target), interim or short-term objectives, planned actions for the upcoming year, and a status update for the past year.

[2] These are transactions between Federal entities.

Eliminating Improper Payments

Improper payments occur when Federal funds go to the wrong recipient, the recipient receives the incorrect amount of funds, documentation is not available to support a payment, or the recipient uses the funds in an improper manner. The Improper Payment Information Act of 2002 (IPIA) (Pub. L. No. 107-300) 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 PMA objective to identify and eliminate improper payments.

STRATEGIC GOAL:

- Reduce the Government-wide improper payment dollar amount and rate.

FY 2012 TARGET(S):

- Reduce improper payment rate of programs that reported in the baseline year of FY 2004 from 4.4% to 2.5%.

INTERIM OBJECTIVES:

- 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.
- Ensure adequate return on investment for all program integrity efforts.

FY 2008 PRIORITY ACTIONS:

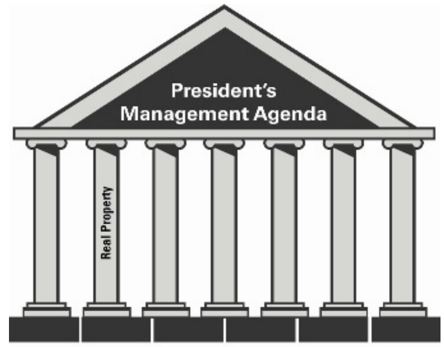
- Complete root cause analysis for all reporting programs.
- Prepare rigorous return-on-investment analyses for program integrity activities.
- Work with the Congress to enact the President's legislative reforms to eliminate errors.
- Expand reporting of contract improper payments and risk assessments of contract payments.
- Collaborate with external stakeholders to further develop 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.
- Decreased improper payment rate in the programs originally reporting in the baseline year (FY 2004) from 4.4% to 3.1%.
- Decreased the Government-wide improper payment rate for all programs that reported an error rate in FY 2006 from 2.9% to 2.7%.

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 PMA objectives to identify and dispose of excess Federal real estate.



STRATEGIC GOAL:

- Right-size the Federal real property inventory.

FY 2012 TARGET(S):

- Dispose of $12 billion in unneeded Federal real property.

INTERIM OBJECTIVES:

- 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.

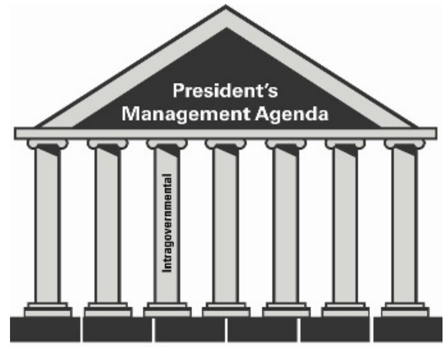
FY 2008 PRIORITY ACTIONS:

- Enact the President's legislative proposal to allow Executive agencies to retain a portion of the net proceeds of sales which would be directed toward the agency's real property capital asset needs.
- Facilitate inter and intra-agency coordination on real property efforts such as facility security and historic preservation.
- Ensure that agencies are using asset-specific performance data in their decision-making process.
- Implement a common Federal screening format to increase information sharing among Executive agencies on unneeded assets.
- Initiate review of the Federal Real Property Profile focusing on opportunities for Government-wide performance improvements (e.g., lease or asset consolidation).

STATUS UPDATE:

- Reported to the Government-wide database, inventory, and performance data on more than 1.2 million assets valued at $1.5 trillion.
- Disposed of approximately $7 billion in unneeded real property assets since FY 2004.
- Identified more than 21,000 excess and surplus assets suitable for disposition with annual operating costs of $132 million.

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 eleven consecutive years. One of the reasons is the Government's inability to adequately account for and reconcile intragovernmental transactions between departments and agencies. This reform activity supports the PMA objectives for ensuring strong accounting practices through the achievement of a clean audit, the elimination of material weaknesses, and producing timely financial information to help guide decision-making.

STRATEGIC GOAL:

- Receive an unqualified or "clean" audit opinion on the Financial Report's consolidated financial statements.

FY 2012 TARGET(S):

- Reduce the intragovernmental transactions material weakness to an immaterial level.

INTERIM OBJECTIVES:

- Downgrade the intragovernmental transactions material weakness to a significant deficiency.
- Facilitate more systemic quarterly reconciliations.

FY 2008 PRIORITY ACTIONS:

- Implement an Intragovernmental Dispute Resolution Committee.
- Define recommended systems changes, if needed.
- Reconvene discussions with CFOs and publish "Watch List" more widely for resolution of largest imbalances.
- Complete work on a standardized interagency agreement template.

STATUS UPDATE:

- Updated and published standard intragovernmental business rules that are effective for all agencies (via OMB Memorandum M-07-03 & Treasury's Bulletin No. 2007-03).
- Drafted 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 $5 billion decrease in intragovernmental imbalances.

Implementing the Financial Management Line of Business (FMLoB)

The FMLoB is 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 in Federal financial operations. This reform activity supports PMA objectives 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:

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

FY 2012 TARGET(S):

- Require Federal and commercial shared service providers to implement core financial management software with (adopted) standard financial management business processes.

INTERIM OBJECTIVES:

- Define and implement a common Government-wide accounting classification (CGAC) structure.
- Define and implement standard core financial business processes.
- Adopt CGAC and standard core financial business process adopted (inherently) in the certified core financial management software.
- Implement common financial management performance metrics across the Federal Government.

FY 2008 PRIORITY ACTIONS:

- Complete development of business process standards including the reimbursables, receivables, and reporting processes.
- Revise certified software policy to require CGAC and business process standards to be inherent in the core financial management software.
- Update Migration Policy Guidance to include financial system acquisition best practices.
- Develop performance metrics for the cost of financial management activities.

STATUS UPDATE:

- Published the final CGAC structure.
- Finalized business process standards for the funds control and payment management processes.
- Developed and began collecting common information technology performance metrics.

Strengthening Internal Controls

Effective internal control over financial reporting is the foundation 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 PMA objectives for ensuring strong accounting practices as evidenced by the achievement of a clean audits and the elimination of material weaknesses (MW).

STRATEGIC GOAL:

- Improve effectiveness of internal control over financial reporting.

FY 2012 TARGET(S):

- Achieve full compliance with A-123, Appendix A by all CFO Act agencies.
- Eliminate 20% of all current Government-wide auditor-identified MW.
- Implement full integration of the assessment process with other internal control reviews (e.g., Federal Information Security Management Act of 2002, Pub. L. No. 107-347 (FISMA), IPIA, etc.)

INTERIM OBJECTIVES:

- Use A-123, Appendix A assessment results to improve MW corrective action plans, and enhance internal control based on lessons learned and best practices.

FY 2008 PRIORITY ACTIONS:

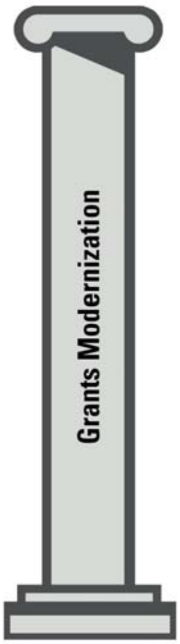
- Facilitate forum between the financial, acquisition, and information technology communities to discuss overall internal control frameworks and to better integrate and leverage existing internal control reviews.
- Update OMB guidance, as necessary, based on lessons learned.
- Receive updated corrective action plans from agencies that reflect lessons learned from FY 2007 A-123, Appendix A implementation and achieve consensus between management, Inspectors General, and OMB.

STATUS UPDATE:

- Completed second year of A-123, Appendix A implementation in all 24 CFO agencies.
- Implemented a full scope Appendix A assessment (testing all key processes) in 17 of the 24 CFO Act agencies.
- Implemented a multi-year phased-in assessment (testing a portion of the key processes) and received plans for testing the remaining processes within three years for the remaining 7 of the 24 CFO Act agencies.

Modernizing Grants Management

Each year, the Federal Government provides over $450 billion of grants to more than 60,000 grantees—State, local and tribal Governments, colleges and universities and non-profit organizations. These dollars are awarded though more than 1,000 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 PMA objective to use financial information to manage costs and ensure Federal dollars are wisely and effectively spent.



STRATEGIC GOAL:

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

FY 2012 TARGET(S):

- Expand searchable public website to include sub-grant awards.
- Complete migration by major grant-making agencies to the Grants Management Line of Business (GMLoB) consortia.
- Make available FIND and APPLY capabilities on Grants.gov for 100% of all discretionary grants.

INTERIM OBJECTIVES:

- Develop searchable public website for grants awards.
- Complete required grant streamlining activities under the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107).
- Commence migration of grant systems to GMLoB consortia.

FY 2008 PRIORITY ACTIONS:

- Expand and maintain the searchable public website for sub-grant awards under the Federal Funding Accountability and Transparency Act of 2006, Pub. L. No. 109-282 (Transparency Act).
- Complete Pub. L. No. 106-107 activities, including single location for grants administration policies, standard grant forms.
- Develop revisions to OMB Circular No. A-133 to improve the quality of Single audits.

STATUS UPDATE:

- Developed a searchable public website for grant awards under the Transparency Act with public access available on December 13, 2007. Initiated the pilot project for collecting and reporting sub-grantee data.
- Implemented 100% FIND and 75% APPLY functionality on Grants.gov.
- Developed and proposed consolidated standard grant forms for the reporting on financial and performance information, property, and inventions by grantees.

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 Government Accountability Office, and the Federal Accounting Standards Advisory Board (FASAB) to improve fiscal sustainability reporting[3] in the Financial Report. This will help readers of the Financial Report assess long-term fiscal sustainability, and alert lawmakers and the public of the impending fiscal crisis that will occur if no action is taken. This reform activity supports PMA objectives for producing timely and reliable financial information to help guide decision-making.

STRATEGIC GOAL:

- Report comprehensive fiscal sustainability data, including social insurance and other programs, that facilitate and guide reform efforts to address the long-term fiscal imbalance.

FY 2012 TARGET(S):

- 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.

INTERIM OBJECTIVES:

- Develop a "Statement of Fiscal Sustainability" and include as a principal statement within the Government-wide Financial Report.

FY 2008 PRIORITY ACTIONS:

- Launch pilot project to develop a prototype Statement of Fiscal Sustainability.

STATUS UPDATE:

- Achieved clean audit opinion on all agency-level Statements of Social Insurance (SOSI) for the second straight year and for the first time achieved a clean audit opinion on the Government-wide SOSI.
- Audited SOSI published for the second year at the agency and Government-wide levels.
- Received broad array of comments and viewpoints on FASAB's Social Insurance Preliminary Views document.
- Launched a FASAB Sustainability Task Force that began work on improved sustainability reporting.

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[3] The FASAB Sustainability Task Force has not yet defined fiscal sustainability reporting. However, fiscal sustainability reporting, as used here, is meant to align with the FASAB's financial reporting objective, 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 2007, OFFM continued to improve Federal financial reporting in three key areas: (1) Government-wide financial reporting requirements (OMB Circular No. 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 No. A-136, Financial Reporting Requirements

OMB, in conjunction with the CFO Council, provides updates to OMB 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 CFO Act agencies represented. Circular No. A-136 establishes a central reference point for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the CFO Act[4], the Accountability of Tax Dollars Act of 2002 ("ATDA")[5] (Pub. L. 107-289), and Annual Management Reports under the Government Corporations Control Act[6] (codified at 31 U.S.C. 9101 et seq.). This Circular is available on the OMB home page (by clicking the "Circulars" link) on the Internet, which is currently located at http://www.whitehouse.gov/OMB/.

Significant achievements in FY 2007 include an earlier issuance of the revised Circular No. A-136 and the establishment of a pilot to streamline PAR reporting. The PAR pilot allows agencies to select an alternative reporting format. Under the new format, an Agency Financial Report (AFR) is required on November 15, an Annual Performance Report (APR) is transmitted to OMB with the Congressional Budget Justification (CBJ), and a "Highlights" document that contains performance and brief financial information in a user-friendly format is published on the Friday prior to the release of the President's Budget.

[4] Pub. L. No. 101 – 576
[5] Pub. L. No. 107 – 289
[6] 31 U.S.C. § 9101 et seq.

Accounting Standards

The FASAB was established as an advisory board under the Federal Advisory Committee Act 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., a "stamp of approval" for accounting).

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 2007, FASAB issued Statement of Federal Financial Accounting Concepts 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*; Technical Release 7, *Clarification of Standards Relating to the National Aeronautics and Space Administration's Space Exploration Equipment*; and Interpretation 7: *Items Held for Remanufacture*. The AAPC completed the *Implementation Guide for SFFAS 29: Heritage Assets and Stewardship Land* and the *Clarification of Standards Related to Inter-Entity Cost*.

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*. The Report contains the consolidated, audited financial statements of the Government as a whole. The 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 *2007 Financial Report* was published on December 17, 2007 and is located on the Internet at http://www.fms.treas.gov/fr/index.html. The Treasury issued the *Financial Report,* for FY 2007, as an important piece of the Government's effort to increase public awareness of the Government's current and future spending obligations. For the past four years, OMB has required the Treasury to issue the Report on December 15 (or the first business day after the weekend when the due date falls on a Saturday or Sunday), rather than on the March 31 statutory deadline, to provide financial information early enough to be useful in the budget process.

In FY 2006, the SOSI became a principal financial statement. It was audited as part of the consolidated financial statements (CFS). This year, after designing its audit to provide a separate opinion on this statement, GAO issued a clean opinion on the 2007 SOSI. Nevertheless, for the 11th consecutive year, the GAO issued a disclaimer of opinion on the *Financial Report's* CFS. A disclaimer of an audit opinion means that sufficient information was not available for the auditor to form an opinion about the reliability of the information in the financial statements. Even so, 19 of the 24 most significant Federal agencies included in the Report received unqualified or "clean" audit opinions on their financial statements.

During FY 2008, OMB, working with Treasury, will continue to focus on the elimination of intragovernmental imbalances, one of the three primary material weaknesses that contribute to the disclaimer of an opinion on the CFS; the other two primary material weaknesses are challenges that involve the Federal Government's process for preparing and consolidating the CFS and certain financial management challenges at the Department of Defense. Other significant goals for FY 2008 include collaborating with Treasury to address mutual corrective actions for eliminating material weaknesses, prioritize compilation findings, establish a plan to meet major milestones, and meet with GAO routinely to review other audit-related issues.

II. Strengthening Internal Controls

The OMB Circular No. A-123 (Circular No. A-123), *Management's Responsibility for Internal Control*, is the policy document that implements the requirements of the 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 No. 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 Government-wide.

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 2007 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 2007, these transactions totaled more than $27 billion, with $18.7 billion (nearly 70%) spent through purchase cards alone. This program continues to demonstrate the improved efficiencies of charge card use, through an estimated $1.8 billion in annual cost avoidance, as compared to prior, paper-based procurement processes. Other benefits of the program include refunds paid to agencies that were in excess of $174 million in FY 2007, as well as access to reduced-price airfares under the GSA City Pairs Program. FY 2007 usage of the City Pairs Program saved the Government a projected $3 billion over regularly priced airfares.

OFFM provides oversight of Federal charge card programs through Appendix B to OMB Circular No. 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, and assists agencies with strengthening their programs when appropriate. 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.

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

Appendix C implements the requirements of the IPIA. It consolidates previous guidance documents that had been issued as OMB memoranda under Circular No. A-123. Appendix C addresses all categories of improper payments that include, but are not limited to, programmatic disbursements, benefit entitlements, loan guarantees, contract and other types of administrative payments. Appendix C also encompasses the requirements mandated under Section 831 of the Defense Authorization Act for Fiscal Year 2002 (Pub. L. No. 107-107), that added a new subchapter to the U.S. Code (31 USC §§3561-3567). This law is more commonly known as the Recovery Auditing Act.

III. Improving Financial Systems

In FY 2007, OMB continued its efforts to ensure that agencies are in substantial compliance with 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, 14 agency heads reported that their agencies were in substantial compliance with FFMIA, two more than in FY 2006 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 the PMA's initiative on Improving Financial Performance. Substantial compliance with FFMIA is one of the initiative's standards of success and agencies must report substantial compliance before they can receive the passing rating of "Green." By monitoring an agency's progress toward FFMIA compliance on a quarterly basis, at the PMA status meetings, each agency has been more focused on actively resolving non-compliances.

In addition to OMB's oversight of agencies' FFMIA compliance effort, OMB has also developed the FMLoB initiative 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 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. To meet the goal, the initiative established projects to define and develop uniform business standards (i.e., 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. Most recently, the Department of Agriculture selected a commercial shared service provider, and the Environmental Protection Agency, the Department of Housing and Urban Development, and the Office of Personnel Management issued solicitations for FMLoB shared services. By focusing on developing financial standards and incorporating them into Federal software, the FMLoB initiative will ensure that all agencies that use financial systems with standard configurations meet FFMIA Section 803(a) requirements.

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 objective of this Administration. The Government owns approximately 1.2 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 the United States' land. The Administration continues to require that Federal real property assets be accounted for, and that effective plans be made for the acquisition, management, and the disposition of assets.

The Administration has taken specific steps to improve the management of real property on a Government-wide level by implementing the requirements of Executive Order 13327, "Federal Real Property Asset Management," signed on February 4, 2004. This Order directed all major agencies to establish the position of a Senior Real Property Officer (SRPO), who is accountable for the effective management of agency 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, the Administration is using the PMA to track and hold agencies accountable for achieving the goals and objectives of the Real Property Asset Management initiative. Specifically, agencies are being held accountable for the improved accuracy of their real property inventory and performance measurement data reporting and the implementation of specific actions, which will lead to the disposal of unneeded assets, improve the condition of mission critical assets, and ensure that assets are managed at the right cost.

Debt Collection

The Debt Collection Improvement Act of 1996 (DCIA) (section 31001 of Pub. L. No. 104-134) established a framework for improved federal debt collection Government-wide by centralizing the management of delinquent obligations in the Department of the Treasury and providing agencies with more effective debt collection tools, such as centralized administrative offsets and administrative wage garnishments. The DCIA requires agencies to take prompt action to recover debts, aggressively monitor all accounts, properly screen potential borrowers in the case of credit programs, and resolve the outstanding debt through a variety of options, including referring the debt to the Department of Justice for litigation and the Department of the Treasury for administrative offset and cross-servicing. Compliance with DCIA yields significant and measurable savings for the taxpayer.

DCIA requires OMB to report annually on any deficiencies in the standards and policies of Federal agencies for compromising, writing down, forgiving, and discharging indebtedness, and progress made in improving those standards and policies.

OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables* (Circular No. A-129) requires agencies to submit an annual report providing 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 No. A-129; and (4) intended actions to improve debt collection policies and practices. For FY 2007 these reports were due by December 31, 2007, and OMB has received report submissions from the 24 CFO Act agencies.

Overall, agencies have strong policies and procedures in place consistent with the requirements of DCIA and Circular No. A-129, and continue to strive to improve their debt collection practices. In FY 2006 several agencies updated their internal policies and procedures to ensure compliance with DCIA, Circular No. A-129, or the Federal Claims Collections Standards (FCCS) as a result of their internal reviews of existing processes. A number of agencies have reported that they are still working to come into compliance with specific aspects of the DCIA, Circular No. A-129, or the FCCS. See Appendix G: Debt Collection Deficiencies and Corrective Actions, which includes a table of notable deficiencies and corrective actions that were reported to OMB.

OMB will continue to work with the agencies as well as the Financial Management Service's Debt Management Service within the Department of the Treasury to ensure that agencies are in compliance with the DCIA, Circular No. A-129, and the Federal Claims Collections Standards.

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 Federal grants are free from fraud and waste. Each year, the Federal Government provides over $450 billion in grants to State, local and Tribal Governments, colleges and universities, and other non-profit organizations—roughly one-sixth of the Federal budget.

A significant goal of the Administration was to streamline grant processes and reduce the administrative burden on grantees in accordance with the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107). The purpose of this Act was to improve the effectiveness and performance of Federal grant programs, simplify grant application and reporting requirements, improve the delivery of services to the public, and facilitate greater coordination among those responsible for delivering such services. To implement the Act, OFFM worked with the Grants Governance Transformation Team (more commonly known as the Grants Policy Committee) of the Chief Financial Officers Council to achieve the following: a single portal for use in finding and applying for financial assistance opportunities; a limited number of standard application forms; a revised approach to issuing and locating OMB guidance and agency implementing regulations that apply to grant award and administration; greater consistency across the different sets of OMB cost principles; and a standard funding opportunity announcement format that makes it easier for potential applicants to find the information they need to decide whether to apply and to submit responsive applications.

In 2004, OMB Circular No. A-123 was revised to emphasize the need for integrated and coordinated internal control assessments covering all internal control related activities, including grants management. Thus, agencies must test key controls to document their effectiveness. These internal control reviews, at the grantee level, combined with the revised OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular No. A-133) requirements have resulted in grantees being more proactive in ensuring that their programs comply with applicable laws and regulations.

Future efforts to streamline the grants management process 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 payoffs 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 payment; enhancing the quality of Single Audits under OMB Circular No. A-133; and establishing training and certification standards for Federal grants managers.

VI. Improving Audit Requirements

OMB provides audit requirements to implement the audit provisions of several key pieces of legislation, such as the Inspector General Act of 1978 (5 U.S.C. App.), FMFIA, CFO Act, Government Management Reform Act of 1994 (GMRA) (Pub. L. No. 103-356), and the FFMIA. The periodic review and improvement of audit requirements is 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.

On September 4, 2007, OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* was released and rescinded the OMB's previous audit requirements, Bulletin No. 06-03. The audit requirements are periodically revised to provide new procedural guidelines to enhance and update the minimum requirements for audits of Federal financial statements. Bulletin No. 07-04 was updated by OFFM in conjunction with the Financial Statement Audit Network of the PCIE. The changes in the Bulletin apply to audits of financial statements of all executive departments, agencies, and Government corporations.

The most significant change in the Bulletin relates to the removal (effective starting in fiscal year 2008) of the requirement that the auditor test the internal controls related to the performance information in the Management's Discussion and Analysis of the financial statements. OMB has had this requirement since OMB Bulletin No. 93-06 (January 8, 1993). In the 1993 issuance, OMB signaled that it intended "to expand the auditor's responsibilities in this area in future years." With this issuance, OMB will begin the steps necessary to make this intention a reality. Consequently, OMB will develop a separate framework for independent audit review of performance data and the internal controls that support valid and reliable reporting of such data starting in fiscal year 2008.

Other noteworthy changes to the Bulletin included: (1) expanded requirements for previously-issued and restated financial statements; (2) a requirement for following the AICPA's Codification of Statements on Auditing Standards (AU) § 552, *Reporting on Condensed Financial Statements and Selected Financial Data* when reporting on a "Highlights" or similar document; and (3) a deletion of the citation of the FFMIA, from the Bulletin's Appendix E (General Laws). This change clarifies that auditors are only required to test and report on an entity's compliance with FFMIA.

Conclusion

Over the *past* 5 years, the Federal Government has made significant progress in achieving the President's vision for improving financial management. Overall, Federal agencies have achieved more clean audit opinions, fewer auditor-identified material weaknesses, more timely financial reporting, more disposals of excess real estate, and have made fewer improper payments. Over the *next* 5 years, the Federal Government is well positioned to build on that progress by improving results in all of these key performance areas of the PMA.

The reform and core activities highlighted in this Report are intended to position agencies to achieve the objectives described above. The reform activities, in particular, reflect the Administration's current priorities for improving financial management, based on the key challenges and opportunities in today's environment. OFFM will continue monitoring the financial management environment and as it changes, certain core activities may take on new significance and become reform initiatives or the standards for current initiatives may change as was done for three of the seven 2008 reform activities. Moreover, a regular re-evaluation of the Administration's reform priorities will be guided by the PMA with a focus on results.

OFFM has been organized to most effectively implement the PMA principles and the reform and core activities included in this Report. As a result of the PMA, every CFO across the Federal Government now shares common goals for improving financial performance, and a financial management community exists that works closely with one another to respond to long-standing and arising financial challenges. As OMB, Federal CFOs, and the financial management community look toward the next 5 years of financial management improvements, the principles of the PMA will continue to guide our efforts because financial management and its basic tenets of public reporting (i.e., transparency), internal controls, and decision support matters to all of us, as public taxpayers and Federal agencies and managers.

APPENDICES

Appendix A: Summary of FY 2007 Audited Financial Statement Results by Agency and Selected Components

In FY 2007, 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.

CFO Act Agency:	*FY 2007 Audit Opinion*
Department of Agriculture (USDA)	Qualified
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)	Disclaimer
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

CFO Act Agency:	*FY 2007 Audit Opinion*
Small Business Administration (SBA)	Unqualified
Social Security Administration (SSA)	Unqualified
Agency Component:	
Food and Nutrition Service (USDA)	Unqualified
Forest Service (USDA)	Unqualified
Rural Development (USDA)	Qualified
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
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 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 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:

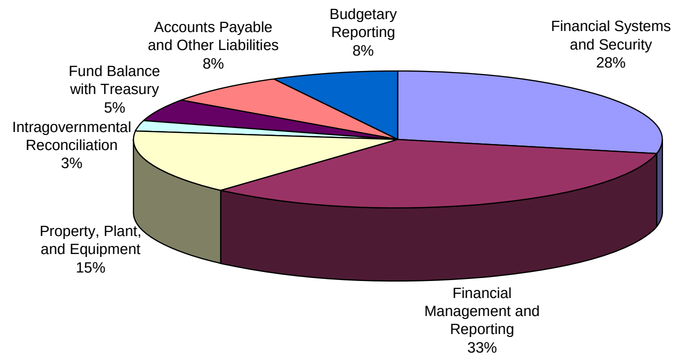
- **Beginning –** the number of material weaknesses (beginning balance) reported in the Independent Auditor's Report for the prior fiscal year.
- **New –** the number of new material weaknesses reported in the Independent Auditor's Report for the current fiscal year which could include reportable conditions 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 2007:
Auditor-Reported Material Weaknesses

	Beginning	New	Resolved	Consolidated	Ending
Agriculture	2	0	0	0	2
Commerce	0	0	0	0	0
Defense	12	1	0	0	13
Education	0	0	0	0	0
Energy	1	0	1	0	0
HHS	2	2	0	0	4
Homeland	10	0	0	3	7
HUD	0	2	0	0	2
Interior	1	0	1	0	0
Justice	1	0	1	0	0
Labor	0	0	0	0	0
State	0	2	0	0	2
DOT	2	0	1	0	1
Treasury	1	0	0	0	1
VA	3	1	0	0	4
AID	1	0	1	0	0
EPA	0	0	0	0	0
GSA	0	0	0	0	0
NASA	2	0	0	0	2
NSF	0	0	0	0	0
NRC	2	0	1	0	1
OPM	0	0	0	0	0
SBA	1	0	1	0	0
SSA	0	0	0	0	0
Totals	**41**	**8**	**7**	**3**	**39**

FY 2007 Auditor-Reported Material Weaknesses by Category

As a whole, the Government is improving controls over financial reporting and operations. For the fourth year in a row, auditor-reported material weaknesses have declined, with a more than 35% decrease in weaknesses since 2001.



A material weakness is a significant deficiency, or combination of significant deficiencies, that increases the odds that a material misstatement of the financial statements will go undetected or not be prevented. Material weaknesses can be viewed in terms of car maintenance. If a car never had the oil changed, the odds that the car would not function properly over time would increase. If in addition to neglecting oil changes the filters and essential fluids are not monitored the odds that the car will break down increase substantially. Just as these significant deficiencies present a material weakness in the proper performance of the car, the failure to correct auditor-reported material weaknesses increases the risk that financial systems and processes will break down leading to unreliable financial information for management decisions as well as costly fraud, waste, and abuse.

Key Challenges

Looking forward, OFFM will work with agencies to continue to reduce material weaknesses by targeting the key areas of Financial Systems and Security, Financial Management and Reporting, and Budgetary Reporting.

Information Technology (IT) security significant deficiencies were found in 19 agencies, seven of which were material weaknesses under Financial Systems and Security. Auditors found the controls over IT security needed to be improved in various areas, including 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.

Funds control significant deficiencies were found in 10 agencies, six of which were material weaknesses under Financial Management and Reporting and Budgetary Reporting. Auditors found agencies were not properly monitoring funds to ensure appropriate transactions were deobligated in a timely manner. In a sense, agencies were reserving money for a specific use but not following up to see if the funds were used. By regularly reviewing transactions for potential deobligations, funds could be made available for use elsewhere and account balances such as undelivered orders would not be overstated.

Fiscal Year 2007:
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	Qualified	Qualified	4	2	1	0	1	4
Commerce	Qualified	Unqualified	1	0	0	0	0	1
Defense	Qualified	No Assurance	34	6	12	3	7	18
Education	Qualified	Unqualified	2	1	1	0	0	2
Energy	Unqualified	Qualified	1	0	1	0	0	0
HHS	Qualified	Qualified	3	1	1	1	0	2
Homeland	Qualified	No Assurance	13	11	0	2	3	19
HUD	Unqualified	Unqualified	0	0	0	0	0	0
Interior	Unqualified	Unqualified	0	0	0	0	0	0
Justice	Qualified	Unqualified	2	1	1	0	0	2
Labor	Qualified	Unqualified	1	0	0	0	0	1
State	Qualified	Qualified	0	2	0	0	0	2
DOT	Qualified	Qualified	2	1	1	0	0	2
Treasury	Qualified	Qualified	6	0	0	0	0	6
VA	Qualified	Qualified	1	1	0	0	1	1
AID	Qualified	Qualified	4	0	3	0	0	1
EPA	Unqualified	Unqualified	0	0	0	0	0	0
GSA	Unqualified	Unqualified	0	0	0	0	0	0
NASA	Qualified	Qualified	3	0	0	0	0	3
NSF	Unqualified	Qualified	0	0	0	0	0	0
NRC	Qualified	Unqualified	2	0	0	1	0	1
OPM	Unqualified	Unqualified	0	0	0	0	0	0
SBA	Unqualified	Unqualified	1	0	1	0	0	0
SSA	Unqualified	Unqualified	0	0	0	0	0	0
TOTAL			**80**	**26**	**22**	**7**	**12**	**65**

Fiscal Year 2007:
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		29	2	12	3	7	9
Education		X		2	1	1	0	0	2
Energy	X			0	0	0	0	0	0
HHS		X		1	1	0	1	0	1
Homeland		X		3	10	0	0	3	10
HUD	X			0	0	0	0	0	0
Interior	X			0	0	0	0	0	0
Justice		X		1	1	0	0	0	2
Labor		X		1	0	0	0	0	1
State		X		0	1	0	0	0	1
DOT		X		0	1	0	0	0	1
Treasury		X		5	0	0	0	0	5
VA		X		1	0	0	0	1	0
AID		X		2	0	1	0	0	1
EPA	X			0	0	0	0	0	0
GSA	X			0	0	0	0	0	0
NASA		X		1	0	0	0	0	1
NSF	X			0	0	0	0	0	0
NRC		X		2	0	0	1	0	1
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	**9**	**15**	**0**	**49**	**17**	**14**	**5**	**11**	**36**

Fiscal Year 2007:
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	2	1	0	1	4
Commerce	X			0	0	0	0	0	0
Defense			X	5	4	0	0	0	9
Education	X			0	0	0	0	0	0
Energy		X*		1	0	1	0	0	0
HHS		X		2	0	1	0	0	1
Homeland			X	10	1	0	2	0	9
HUD	X			0	0	0	0	0	0
Interior	X			0	0	0	0	0	0
Justice	X			1	0	1	0	0	0
Labor	X			0	0	0	0	0	0
State		X		0	1	0	0		1
DOT		X		2	0	1	0	0	1
Treasury		X		1	0	0	0	0	1
VA		X*		0	1	0	0	0	1
AID		X*		2	0	2	0	0	0
EPA	X			0	0	0	0	0	0
GSA	X			0	0	0	0	0	0
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			1	0	1	0	0	0
SSA	X			0	0	0	0	0	0
TOTAL	**12**	**10**	**2**	**31**	**9**	**8**	**2**	**1**	**29**

* Qualified due to a scope limitation. The entity is implementing Circular No. A-123, Appendix A requirements over multiple years.

Fiscal Year 2007:
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		0	1	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	1		1	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			2	0	1	0	1	0
Labor	**X**			0	0	0	0	0	0
State		X		0	1	0	0	0	1
DOT		X		1	0	0	0	0	1
Treasury		X		1	0	0	0	1	0
VA		X		2	1	0	0	0	3
AID	X			0	0	0	0	0	0
EPA		X		0	0	0	0	0	0
GSA	X			0	0	0	0	0	0
NASA		X		1	1	0	0	0	2
NSF	X			0	0	0	0	0	0
NRC	**X**			1	0	1	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	**14**	**8**	**2**	**14**	**5**	**2**	**1**	**2**	**14**

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

Government Corporation:	*FY 2007 Audit Opinion*
Commodity Credit Corporation	Unqualified
Community Development Financial Institutions Fund	Disclaimer
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]
Rural Telephone Bank	N/A[2]
Saint Lawrence Seaway Development Corporation	Unqualified
Tennessee Valley Authority	Unqualified

[1] The entity has a calendar year-end; the financial statements were not due as of the printing of this Report.
[2] The Rural Telephone Bank has completed its mission and is no longer in existence.

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

Agency:	*FY 2007 Audit Opinion*
Advisory Council on Historic Preservation	Qualified
African Development Fund	Unqualified
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	Not Received
Broadcasting Board of Governors	Unqualified
Christopher Columbus Fellowship Foundation	Not Received
Central Intelligence Agency	Disclaimer
Chemical Safety and Hazard Investigation Board	Unqualified
Commission on Civil Rights	Unqualified
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	Unqualified
Commodities Futures Trading Commission	Unqualified
Consumer Product Safety Commission	Unqualified
Court Services and Offender Supervision Agency for DC	Not Received[1]
Defense Nuclear Facilities Safety Board	Unqualified

Agency:	*FY 2007 Audit Opinion*
Delta Regional Authority	Unqualified
Denali Commission	Unqualified
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 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
Inter-American Foundation	Unqualified
James Madison Memorial Fellowship Foundation	Not Received
Japan-U.S. Friendship Commission	Unqualified

Agency:	*FY 2007 Audit Opinion*
Marine Mammal Commission	Unqualified
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	Not Received
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
Peace Corps	Unqualified
Presidio Trust	Qualified
Railroad Retirement Board	Unqualified

Agency:	*FY 2007 Audit Opinion*
Securities and Exchange Commission	Unqualified
Selective Service System	Disclaimer
Smithsonian Institution	Not Received
SI/John F. Kennedy Center for the Performing Arts	Unqualified
SI/National Gallery of Art	Unqualified
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	Unqualified
U.S. Interagency Council on Homelessness	Unqualified
U.S. International Trade Commission	Unqualified
Vietnam Education Foundation	Unqualified
White House Commission on the National Moment of Remembrance	Unqualified

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

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

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 2007 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	YES
Justice	YES	YES
Labor	YES	YES
State	YES	NO
DOT	NO	NO
Treasury	NO	NO
VA	NO	NO
AID	YES	YES
EPA	NO	NO
GSA	YES	YES
NASA	NO	NO
NSF	YES	YES
NRC	NO	NO
OPM	YES	YES
SBA	YES	YES
SSA	YES	YES
TOTAL YES	**14**	**11**

Appendix F: Executive Branch Management Scorecard

OMB, in consultation with Federal agencies, professional associations, and academics, has established Standards for Success for each Government-wide initiative of the PMA. For the Improving Financial Performance initiative, a limited number of clear, meaningful, and attainable financial goals were established that every Federal agency must meet. Each individual goal is an indicator of financial management excellence, and reflects standards established either by law or Administrative action.

Each quarter, agencies receive ratings reflecting both their current status in meeting the standards and the progress they are making. The ratings use a familiar Red, Yellow, and Green stoplight format, and every agency CFO is responsible for moving their agency toward Green. Agencies who do not meet individual goals must prepare action plans for meeting them as well as demonstrate ongoing progress in achieving results.

The “Yellow” standards reflect the core competencies of Federal financial management: achieving a clean audit, resolving material weaknesses in a timely manner, having in place a financial system that meets Federal standards, meeting reporting deadlines, and complying with laws and regulations. The standards ensure the financial data produced by Federal agencies is both timely and reliable.

The “Green” standards measure the ultimate objective of financial management reform: ensuring that financial information is available for managers on demand and that information is actively being used to drive results in key areas of operations.

Agencies must present evidence to OMB that the standards have been met, and OMB assesses many factors including: the goals that agencies are looking to achieve, how agencies are using data strategically to drive the goals, and how agencies will measure the results to know the desired goals were achieved. In order to maintain ‘Green’ status, agencies need to have a plan to continually expand their efforts so that all managers have the financial information needed to operate their programs.

The following charts show the current Standards for Success for the Improving Financial Performance Scorecard, as well as the current Status and Progress scores for each agency. The fourth quarter results provided here present the agencies’ ratings as of September 30, 2007. These ratings were before the publication of the fiscal year 2007 audited financial statements.

The President's Management Agenda
Improving Financial Performance Standards for Success
(as of 4th Quarter FY 2007)

Explanation of Current Status Score

Agency:
- Meets all Yellow Standards for Success;
- Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations;
- Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations.
- Reports in its audited financial statements that its systems are in compliance with the Federal Financial Management Improvement Act;
- Has no repeat material auditor-reported internal control weaknesses; **AND**
- Has no repeat material weakness reported under Section 2 Over Financial Reporting and no repeat non-conformances reported under 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 unqualified opinion on its audited annual financial statements;
- Meets financial reporting deadlines;
- Has no chronic or significant Anti-Deficiency Act Violations;
- Has no more than one repeat material auditor-reported internal control weaknesses;
- Has no material non-compliance with laws or regulations; **AND**
- Has no more than one repeat material weaknesses reported under Section 2 over Financial Reporting and no more than one non-conformance reported under 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 more than one repeat material auditor reported internal control weaknesses;
- Is in material non-compliance with laws or regulations; **OR**
- Has more than one repeat material weaknesses reported under Section 2 over Financial Reporting and more than one non-conformance reported under Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.

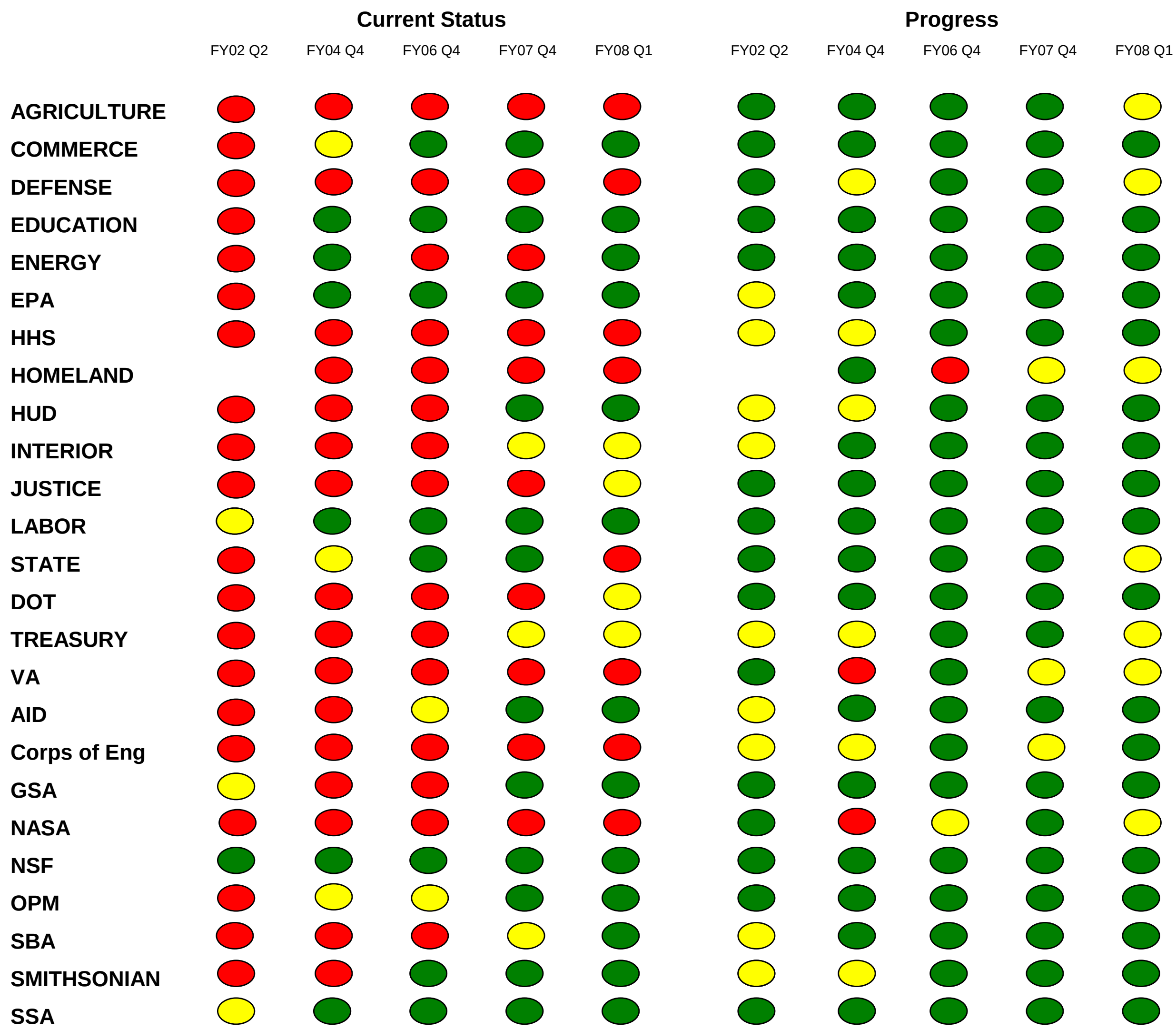
Explanation of Progress Score

Green – 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)



Appendix G: Debt Collection Deficiencies and Corrective Actions

Agency	*Deficiency*	*Corrective Actions to be Taken or Recently Completed*
Agriculture (USDA)	Some agencies within USDA have not been compliant with the requirement to write off delinquent debt more 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 agency identifying bureau-specific action items.
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) on Form 1099C.	HHS is currently implementing the system changes necessary to report all eligible discharged/closed-out debt to the IRS on Form 1099C. HHS anticipates the completion of system changes in 2008 with the issuance of Form 1099C in January 2009.
Social Security Administration (SSA)	SSA previously reported that the Old-Age and Survivors Insurance and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs have not been compliant with the requirement to write-off delinquent debt greater than 2 years old, if there are no estimated material collections.	SSA has completed all of the necessary actions to ensure compliance for both the OASDI and SSI programs.
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 has developed a working group tasked with reviewing and commenting on pre-published debt management policy initiatives and conducting periodic debt collection workshops. DHS' FY 2008 internal control audit will continue to examine debt collection procedures.
State (DOS)	Detailed procedures for recording the write-off of debts in the accounting system are not fully developed.	These procedures will be finalized after the implementation of a new domestic financial management system. The implementation date is still to be determined.
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.	MSHA has referred 93% of eligible debts to Treasury for collection. DOL agencies have improved the write-off of debt greater than 2 years old in accordance with OMB Circular No. A-129.
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.	In 2007, DOD reports that a valid TIN is captured in more than 90% of commercial payments.
Justice (DOJ)	The FBI previously identified problems with treating debt in a uniform manner. The Executive Office for United States Attorneys (EOUSA) previously identified problems with the recording of interest and penalties during the pendency of bankruptcy cases.	The FBI compiled a Debt Collection Manual and a 2007 policy initiative which consolidates FBI debt collection matter in a single unit. EOUSA resolved the identified recording problems.

Appendix H: The Office of Federal Financial Management's Strategic Objectives

***Objective 1*: Provide effective leadership on Government-wide financial management improvement initiatives that result in successful outcomes for the financial management-related initiatives of the PMA.**

- ***Improper Payments***. Coordinate and implement the PMA initiative on improper payments to ensure that agencies are taking the necessary steps to report improper payment measurements on all high-risk programs and reduce Government-wide improper payments. By 2012:
  - Close reporting gap on high-risk programs.
  - Reduce improper payment rate for programs originally reported in FY 2004 to 2.5%.

- ***Financial Performance*.** Coordinate and implement the PMA initiative on financial performance to ensure that agencies achieve all financial management compliance indicators and use financial data strategically to drive results. By 2012:
  - All agencies continue to meet the 45-day deadline reporting deadline.
  - 10% reduction in repeat material weaknesses annually, with the Government-wide weakness total at 30 or fewer.
  - 22 out of 24 major agencies achieve a clean audit opinion.

- ***Real Property***. Coordinate and implement the PMA initiative on real property asset management to ensure that agencies are meeting right-sizing goals including the disposition of unneeded assets. By 2012:
  - Achieve $1 to $3 billion in real property disposals annually with a cumulative total of $12 billion in disposals between 2004 and 2012.

***Objective 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.**

- ***Financial Systems Oversight***. Implement the FMLoB initiative, achieving lower-risk and lower-cost results in financial system modernizations and activities through leveraging of shared service providers and other standardization efforts. Also, coordinate the oversight of Federal financial systems implementations to ensure that agencies are implementing and maintaining financial systems that are in compliance with OMB requirements and the FFMIA.

- ***Strengthening Internal Controls***. Improve the effectiveness of Government-wide internal controls, such that all CFO Act agencies are compliant with Circular No. A-123 with no scope limitations.

- ***Government-wide Financial Reporting***. Contribute to the achievement of a clean audit opinion on all the Government-wide financial statements by helping to develop and implement solutions that eliminate existing material weaknesses and prevent the occurrence of new weaknesses. Achieve a 20% annual reduction in intragovernmental imbalances listed on the CFOC's Watch List.

- ***Grants***. Implement Government-wide solutions that increase transparency of grant activities, lower administrative costs, and simplify application and reporting.