

# Table of Contents

	<i>Page</i>
<b>Executive Summary</b> .....	1
<b>Improving Financial Performance</b> .....	5
Achieving Accountability—FY 2002 Financial Results .....	5
Strengthening Asset Management .....	6
Reducing Erroneous Payments .....	7
Strengthening Controls Over Federal Credit Cards .....	9
<b>Challenges to Improved Financial Performance</b> .....	11
Financial Reporting .....	11
Material Weaknesses .....	11
Improving Financial Performance at the Department of Defense.....	13
Improving Intragovernmental Transaction Processing .....	14
<b>The Chief Financial Officers Council</b> .....	17
<b>CFO Council Committees:</b>	
Financial Statement Acceleration.....	19
Human Capital.....	21
Financial Systems and E-Government.....	23
Best Practices.....	25
Budget and Performance Integration.....	26
Erroneous Payments .....	28
<b>Appendices:</b>	
Appendix A: Summary of FY 2002 Financial Statement Results by Agencies and Selected Components .....	31
Appendix B: Material Weaknesses Reported by Auditors and Federal Man- agers' Financial Integrity Act Tables.....	33
Appendix C: Government Corporations Required to Submit Audited Financial Statements to OMB .....	37
Appendix D: Executive Branch Management Scorecard Grades .....	39



# Executive Summary

## **Improving the Government's Financial Performance: Building on Progress**

The ultimate goal of the President's initiative to improve the Federal Government's financial performance is to instill first class financial management practices in departments and agencies throughout the Executive Branch. First class financial management exists when the financial impact of past, current and contemplated actions is integrated into operational execution and senior management decision making. Such an environment is characterized by maintaining the highest standards for accuracy, reliability, integrity, and efficiency in financial activities. Senior management must be informed by data that is timely, meaningful, consistent, and actionable. First class financial management requires the presence of efficient, focused business processes and robust financial management systems that are part of an organization's overall enterprise architecture.

While this ultimate goal has not yet been achieved in the Federal environment, there is progress to report. More importantly, this progress sets the foundation on which we can build measurable and sustainable successes in our efforts to improve the Government's financial performance.

### **Progress: Recent Achievements**

The achievements of agencies in the last year are impressive. More agencies than ever before—21—received unqualified or clean audit opinions on their audited financial statements. The Department of Agriculture (USDA) received the first clean opinion in its history and the Department of Education (Education) received its first unqualified audit opinion since 1997.

Many agencies accelerated their reporting to prepare for Fiscal Year (FY) 2004, when all agencies will be required to report their financial results 45 days after the end of the fiscal year, rather than the current statutory requirement of five months after the end of the fiscal year. The Department of the Treasury (Treasury) and the Social Security Administration (SSA) met the November 15 deadline two years ahead of schedule in 2002. The Department of Veterans Affairs (VA) was not far behind, having accelerated its reporting to mid-December. All agencies met the February 15 deadline for producing, for the first time, interim financial statements for the first quarter of FY 2003.

Agencies also showed substantial improvement in their internal controls. Many reduced their material weaknesses by large numbers. For the first time in 20 years, the Environmental Protection Agency (EPA) has no material weaknesses or reportable conditions. Agencies are also taking greater steps to measure and reduce erroneous payments. Having identified more than \$35 billion in erroneous payments in programs that make almost \$900 billion in payments each year, the Administration, pursuant to the Improper Payments Information Act (Public Law No. 107–300), is expanding the requirement to measure and reduce erroneous payments to all programs and activities administered by the Government.

The reduction of Federal civilian payroll providers from 22 to 2 partnerships is estimated to save the Government over \$1.2 billion over the next 10 years. Efforts to standardize over 30 payroll activities across the Government coupled with this reduction in payroll systems will yield even greater efficiencies and economies of scale.

A key component of our efforts to streamline and improve accountability for Federal grants is Grants.gov. Grants.gov, which will be fully deployed for government-wide use on October 1, 2003, will simplify the grants management process, and create a centralized, online process to find and apply for over \$360 billion in 600 grant programs from the 26 Federal grant-awarding agencies.

The primary tool agencies use to measure their success in improving their financial performance is the Executive Branch Management Scorecard. With clearly defined Standards for Success, agencies know what they need to do to “get to green” and their scores are updated quarterly. The March 31, 2003 scorecard shows improvement in the progress scores of the Department of Health and Human Services (HHS), the U.S. Agency for International Development (USAID), and the Small Business Administration (SBA). The National Science Foundation (NSF) remains the only agency with a green status score for the Improved Financial Performance initiative and the most recent scorecard update does not reflect any changes in current status. However, it is important to highlight the progress that agencies are making in order to move closer to green.

- Education received its first unqualified audit opinion since 1997 and resolved three Federal Managers’ Financial Integrity Act (FMFIA) weaknesses and one auditor-identified reportable condition.
- The EPA, in addition to resolving its material weaknesses, has done substantial systems integration work. This positions the agency to meet the requirement for systems-produced performance and financial information.
- The Department of Labor (DOL) has launched a new Chief Financial Officer (CFO)-led strategic initiative to integrate financial and performance information. This system will

provide data to managers routinely and promptly so that they can use it to make decisions and demonstrate program effectiveness.

- SSA plans to have its new accounting system operating by October 2003.
- General Services Administration (GSA) has resolved all its Federal Managers' Financial Integrity Act (FMFIA) material weaknesses during the quarter and substantially remediated two weaknesses transferred to the Department of Homeland Security (DHS).
- The Department of Commerce (DOC) is progressing well with its implementation of a new financial management system, the Common Administration Management System (CAMS).

## **Building on Progress: Initiatives to Improve the Government's Financial Performance**

The Executive Branch Management Scorecard clearly shows that agencies are making progress, in improving their financial performance, but this is just a start. The standards we have set are ambitious, and the challenges agencies face are immense. Over the coming year, we will continue to make dramatic improvements to the Government's financial management practices and be well on our way to bringing first class financial management practices to all departments and agencies.

More agencies will receive unqualified or clean opinions on their financial statements. For FY 2003, the Administration expects all but one of the major departments and agencies to receive clean opinions on their financial statements. Just as important, this progress positions us for the first government-wide audit in its history. We are targeting 80 percent of agencies to achieve a 50 percent reduction in material weaknesses and no more than 10 percent of agencies with Anti-Deficiency Act violations. More agencies than ever will have systems that comply with the Federal Financial Management Improvement Act (FFMIA).

By next year, we expect all grant making agencies to have employed the use of a single identifier to track their grants. A migration strategy to consolidate redundant financial management systems will be in place. An initial group of eight agencies will have completed migration to one of the two government-wide payroll providers. And we will be making \$3 billion to \$5 billion less in erroneous payments.

As agencies are gaining greater experience in meeting the criteria outlined for the Executive Branch Management Scorecard, they are expanding their ability to monitor financial management performance. The Chief Financial Officers Council has developed an Internet-based sys-

tem to report indicators that will be used to evaluate agencies' financial management performance more effectively. The report will be prepared monthly and will include metrics for such items as cash balance reconciliation, suspense clearing, accounts receivable and payable, travel and purchase card delinquencies, and electronic payments. For example, uncleared amounts in suspense that are over 60 days in age will be tracked both numerically and graphically. Performance goals will be developed for each measure to make the report an effective tool for promoting and communicating improved financial management.

The progress we have made and the improvements we have targeted for the coming months represent major improvements in the Government's financial performance. We are on the road to first class financial management in the Federal Government. There will be bumps along the way as agencies reengineer their policies and practices and employ new technologies to manage their financial operations. But the potential benefits to the American taxpayer are great, especially when compared to the status quo. The American people deserve first class financial management of their tax dollars, and we are working hard to give it to them.



Linda M. Springer  
Controller

# Improving Financial Performance

*We want to make sure when we spend money, that it meets needs. . . . that's what the American taxpayer expects. They expect results and I expect results.*

President George W. Bush

April 9, 2002

The President's Management Agenda, announced in August 2001, was launched to address what the President has called "the most apparent deficiencies where the opportunity to improve is greatest." One of those challenges lies in Federal financial management. The Federal Government's CFOs, individually and through the auspices of the CFO Council, share responsibility for the initiative to improve financial performance.

## Improved Financial Performance

- Timely and Reliable Financial Information
- Integrity in Financial Activities
- Sound and Dependable Financial Systems
- Reduced Erroneous Payments

The benefits of CFO efforts are not confined to financial performance. Timely, useful, and accurate financial information informs the decision-making processes of other initiatives as well. Cost and pricing data is essential to competitive sourcing and expanding electronic government. Leveraging the Federal Government's human capital requires the ability to

capture current costs and project future expenses. Budget and performance integration is perhaps the ultimate expression of cost accounting—integrated financial and performance information helps to establish what the American people received for their hard-earned tax dollars. Clearly, the work of the CFOs and their Council are pivotal in the realization of the goals of the President's Management Agenda.

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## Achieving Accountability—FY 2002 Financial Results

Recent accomplishments demonstrate the determination of agencies to succeed in the Improved Financial Performance initiative. One of the major changes the Administration instituted at the outset of this initiative was to accelerate the due date of agencies' financial statements to ensure the availability of financial information to inform the budget process. Financial information available five months after the fiscal year ends is of limited use to anyone. As a first step, 2002 financial statements were due February 1, 2003, or nearly a month earlier than the statutory due date of February 28.

Not only did all 24 agencies subject to the CFO Act meet this new, shorter deadline, but a record 21 of 24 major departments and agencies received unqualified, or clean, opinions on their FY 2002 financial audits. In addition, the agencies combined their financial statements with their performance reports to provide information about agency finances and program performance in one document. Just two weeks later, all agencies met the February 15 deadline for producing for the first time quarterly financial statements.

USDA, which had received a disclaimer for the previous six years, overcame significant financial management challenges to obtain its clean audit opinion. Education, Federal Emergency Management Agency (FEMA), and National Aeronautics and Space Administration (NASA) reclaimed the clean opinions they lost in the past. USAID also made substantial progress in receiving a qualified opinion—an improvement from six consecutive disclaimers. This achievement by agencies is even more remarkable when viewed in the current environment of enhanced scrutiny of financial management practices.

In addition to more reliable and timely financial reporting, a number of agencies made significant progress in improving their internal controls. For instance, for the first time in 20 years, the EPA has no material weaknesses. USDA and Treasury, along with EPA and SSA, resolved long-standing material weaknesses that had plagued their program and financial operations. A strong internal control environment enables effectiveness and efficiency by mitigating risk, producing more reliable performance and financial information, and ensuring compliance with laws and regulations by switching the emphasis from process to analysis.

Further support for the President's initiative to improve the Government's financial performance came in the form of Public Law 107-289, the Accountability of Tax Dollars Act of 2002. Signed by the President on November 7, 2002, this Act extends to virtually all Executive Agencies not already required to do so, a requirement to prepare and submit to the Congress and the Director of the Office of Management and Budget (OMB) an audited financial statement for the preceding fiscal year, beginning with FY 2003 reporting cycle. Agencies are now planning for the financial statement audits for FY 2003. The CFO Council and the President's Council on Integrity and Efficiency (PCIE)/Executive Council on Integrity and Efficiency (ECIE) will develop joint training to assist them. OMB is requiring these agencies to consolidate their audited financial statements and other financial and performance reports into combined Performance and Accountability Reports and meet the accelerated reporting dates for consistency and administrative convenience.

### **Strengthening Asset Management**

Another area of focus will be the Federal Government's asset management practices. According to its financial statements, the Federal Government owns \$325 billion in property, plant,

and equipment, \$219 billion in loans receivable, and \$192 billion in inventories and related property. But the assets reported on the balance sheet are only a small portion of the assets actually owned—the Department of Defense’s (DOD) property and the government’s immense land holdings do not show up on government financial statements but are disclosed as required supplementary stewardship information. For instance, the Federal Government holds title to 28 percent of the United States’ entire land mass. It owns sites and structures, monuments, memorials, cemeteries, as well as the items in its museums and libraries, including major works of art and historical documents. The Administration will demand that assets be justified and accounted for, and that plans be made for purchases, management, maintenance, and operation.

As one example, agency management of vehicle fleets will be monitored as part of agency asset management practices. The Government owns more than half a million cars and trucks and spends over \$2 billion annually to operate them. In April 2002, the Administration asked agencies to take a closer look at their motor vehicle fleets and to report any planned reductions and cheaper leasing arrangements by the end of the fiscal year. The military agencies and several civilian agencies, notably the Department of Energy (DOE), HHS, the Department of the Interior (DOI), and GSA projected reductions ranging from 5 percent to 15 percent. These reductions were offset, however, by equally significant increases in agencies with expanded law enforcement and security-related missions. For example, the new bureaus within the DHS estimated a 21 percent rise in their vehicle fleets. The Department of Justice (DOJ) projected that its fleet would increase nine percent from 2001 to 2004. Even with these increases, the number of government-owned vehicles will decline by more than 10,000, or two percent by 2004.

### **Reducing Erroneous Payments**

The President’s initiative to reduce erroneous payments initially focused on the Government’s major benefit programs. The Administration identified those programs that make payments in excess of \$2 billion annually, required those agencies to assess the risk of, estimate the extent of, and put in place a strategy to reduce erroneous payments. Based on the estimates of erroneous payments made in programs making almost \$1 trillion in payments annually, erroneous payments exceed \$35 billion a year. Error rates for those programs range from almost zero to more than 30 percent.

Agencies like the Office of Personnel Management (OPM), which manages the Federal Employee Health Benefit Program (1.14 percent error rate) and the Federal retirement benefit programs (.35 percent error rate), and DOD, which manages military retirement (.05 percent error rate), are to be commended for keeping their error rates low. Medicare (6.30 percent error

rate) and Food Stamps (8.66 percent error rate) have shown remarkable progress in reducing erroneous payments.

The error rate in the Earned Income Tax Credit (EITC) program is almost 30 percent. Almost one in every three dollars for this program is paid incorrectly. Having identified the three basic causes of erroneous EITC payments—income reporting errors; taxpayers claiming a qualifying child who was also the qualifying child of someone else with higher modified adjusted gross income; and married taxpayers who should have filed as “married-filing separately” rather than “single” or “head of household”—we are taking common sense steps to reduce errors in this program. For most EITC recipients, the process to apply for and receive the credit will be as simple as before. For others where the Internal Revenue Service (IRS) identifies a risk of erroneous information on a tax return, the IRS will require information from taxpayers sufficient to verify their eligibility for the credit.

Another area where the error rate is unacceptably high is in housing subsidies. The Department of Housing and Urban Development (HUD) overpays more than 2 billion dollars annually in low-income rent subsidies. The causes: incomplete reporting of tenant income; improper calculation of tenant rent contributions; and failure to fully collect all outstanding rent. HUD has committed to a goal of a 50 percent reduction in these erroneous payments by 2005, but it needs more tools to achieve this goal. HUD needs access to the National Directory of New Hires so it can verify tenant income. Congressman Sessions (R-Texas) recently introduced legislation—H.R. 1030—to grant HUD this authority. If enacted, the legislation is expected to garner more than \$5 billion in savings over 10 years.

The Administration has requested similar authorities from Congress for other programs. One proposal would grant the DOL access to the National Directory of New Hires so that it can verify the eligibility of unemployment insurance beneficiaries. Another proposal would grant Education the ability to verify the income reported on Federal student aid applications with income information reported to the IRS. Together, these proposals would prevent the waste of billions of dollars in erroneous payments over the next several years.

Many erroneous payments made by the Government are attributable to the programs that make more than \$200 billion in contract payments annually. Section 831 of the Defense Authorization Act for Fiscal Year 2002 added a new subchapter to the U.S. Code (31 USC §§3561–3567) that requires agencies that enter into contracts with a total value in excess of \$500,000,000 in a fiscal year to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities.

Federal agencies have tested the use of recovery auditing with success. Congress enacted the government-wide requirement to implement recovery auditing as a result of such testing. Recovery auditing is viewed by Congress and the Administration as a cost-effective way to identify and recover erroneous contract and other payments. OMB issued guidance to assist agencies to successfully implement recovery auditing and recovery activity as part of an overall program of effective internal control over contract payments.

It is remarkable that we now have error rates for programs that make almost \$1 trillion in payments annually. With the passage of the Improper Payments Information Act (Public Law 107-300), we are able to target more programs that make hundreds of billions of dollars in payments annually for which we have no adequate measure of erroneous payments. This law, which codifies and expands the President's initiative to reduce erroneous payments, requires agencies to identify those programs and activities in which there is a risk of erroneous payments; estimate the extent of erroneous payments in those programs and activities; and report to Congress all such programs and activities that make erroneous payments in excess of \$10 million. OMB recently issued guidance to agencies on how to comply with the requirements of the new law. The result of this law and guidance will be greater uniformity in the estimation and reporting of erroneous payments. For instance, agencies will be required to estimate the extent of erroneous payments based on a statistical sample with 90 percent confidence and 5 percent precision. And they will be required to report the extent of their erroneous payments in their annual Performance and Accountability Reports.

### **Stenghtening Controls over Federal Credit Cards**

The Federal Government sponsors more than 2.5 million credit cards to use in purchasing goods and services or for employees when traveling on official government business. Audits and press reports have highlighted abuses of these cards by Federal employees. For example, employees at one agency appear to have spent over \$4 million in inappropriate transactions with pawn shops, jewelry stores, and antique shops. In another case, the director and the head of audits and assessments at Los Alamos National Laboratory resigned amid charges that lab employees made nearly \$5 million in questionable credit card purchases.

As an initial step at improving controls over government-issued credit cards, DOD has targeted 300,000 infrequently used travel cards for cancellation, more than 10 percent of the total issued by the Federal Government. Education now prohibits official credit card use at about 300 types of businesses. HUD has reduced unpaid travel card account balances from \$389,000 to \$15,000. The Administration, the CFOs, and the Inspectors General will continue to monitor credit card usage by Federal employees, requiring quarterly reports by agencies of the number of cards in use, the controls in place to monitor them, and any abuses discovered.

Government agencies and employees also are paying their credit card bills more quickly. The Federal Government began 2002 with 10 percent of its individually billed travel accounts delinquent. That amount has been reduced to six percent, bringing total delinquent dollars for individually billed accounts down by over \$310 million.

# Challenges to Improved Financial Performance

Despite these sound gains over the past year, significant challenges remain in achieving the President's goal of Improved Financial Performance. Below is a discussion of the key challenges facing the CFO community.

## Financial Reporting

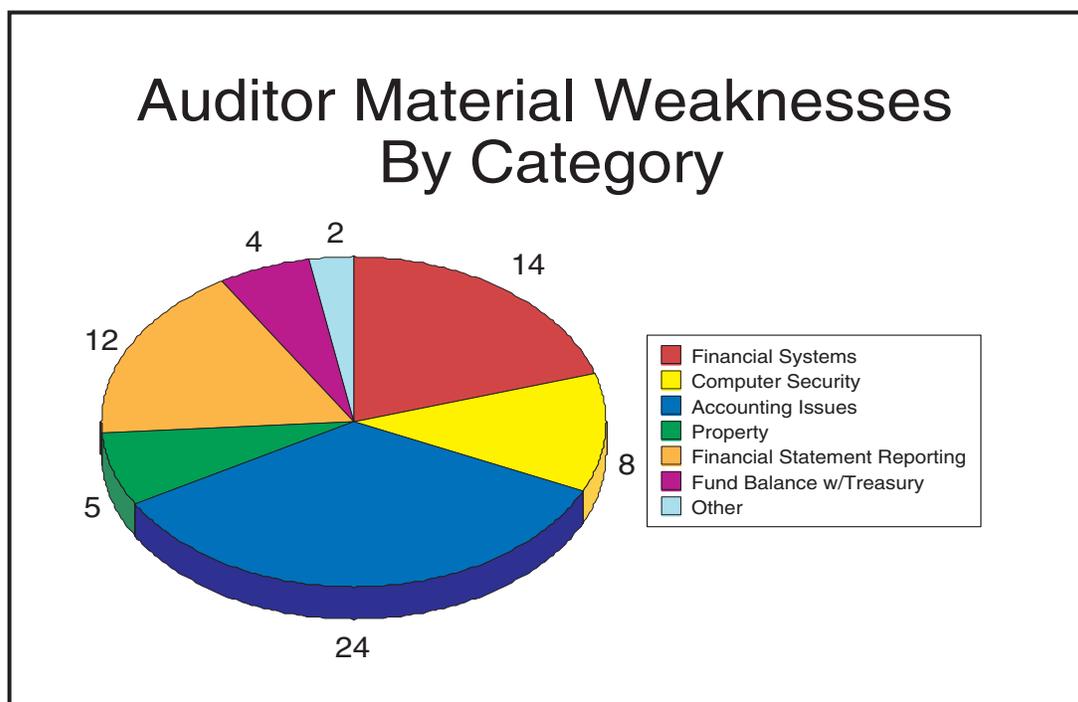
Only three agencies did not receive clean opinions this year, although USAID improved to qualified. The SBA auditor disclaimed an opinion on the agency's 2002 statements and rescinded its opinion on the 2001 statements after finding material errors in the accounting for loan asset sales and valuation of the Direct Disaster Loan portfolio. SBA is working on an aggressive corrective action plan to remedy its financial management challenges. While the DOD received a disclaimer again this year, it has launched a major initiative to clean up its poor financial management by completely redesigning its financial management systems.

For 2004, agencies will be required to produce audited financial statements by November 15. This acceleration means that agencies will no longer be able to use manual processes to prepare annual statements. They will need to change the way they collect and compile financial information so that it will be more timely, reliable, and useful. For 2003, OMB has challenged agencies to meet the 2004 deadline a year early. Agencies have been urged to set ambitious goals for submitting their 2003 results in advance of the February 1 deadline. For FY 2002, Treasury and SSA produced audited financial statements by November 15, implementing the FY 2004 due date two years early. The VA submitted its financial statements in December. Clearly this goal is within reach.

## Material Weaknesses

In spite of the clean opinions obtained by 21 of the 24 CFO Act agencies in FY 2002, many material weaknesses continue to exist. These weaknesses are highlighted by independent auditors citing weaknesses in internal control over financial reporting in their reports that accompany agencies' financial statements. Auditors cited 69 material weaknesses throughout the Federal Government in 2002. Of these, 35 percent are related to outstanding accounting issues and 20 percent are related to internal control weaknesses in agency financial systems.

The following chart shows the distribution of these weaknesses by category:



In addition to the material weaknesses related to financial reporting disclosed by the auditors, OMB requires the head of each executive agency, in accordance with the FMFIA of 1982, to report annually on whether there is reasonable assurance that the agency's controls are achieving their intended objectives and whether the agency's financial management systems conform to government-wide requirements.

Agency heads are required to identify material weaknesses related to agency programs and operations (pursuant to Section 2 of FMFIA) and nonconformances with government-wide financial systems requirements (pursuant to Section 4 of FMFIA). Section 2 seeks to assess agency internal controls necessary to ensure compliance with applicable laws; protect against loss from waste, fraud, and abuse; and to ensure certain receivables and expenditures are properly recorded. Section 4 nonconformances deal with weaknesses in Federal accounting systems.

From 2001 to 2002, the number of FMFIA weaknesses and nonconformances dropped by 22 percent to 326. Appendix B lists the number of auditor-reported material weaknesses, FMFIA material weaknesses and nonconformances by agency.

### FMFIA Issues Identified by Agency Heads

	Section 2 (Internal Control Weaknesses)	Section 4 (Systems Nonconformances)
Beginning in FY 2001.....	231	190 <sup>1</sup>
New.....	70	7
Resolved .....	70	9
Ending FY 2001 .....	231	188 <sup>1</sup>
New.....	49	3
Resolved .....	83	11
Consolidated .....	32	0
Reassessed .....	19	0
Ending FY 2002 .....	146	180 <sup>1</sup>

<sup>1</sup> As a result of the department-wide financial management enterprise architecture effort, DOD's 153 Section 4 weaknesses have been carried over from beginning FY 2001 to ending FY 2002. These weaknesses will be reevaluated when the project is completed.

### Improving Financial Performance at the Department of Defense

The largest impediment to removing the disclaimer on the government-wide financial statements remains DOD's financial management problems. These problems are pervasive, complex, long-standing, and deeply rooted in virtually all business operations throughout the Department.

To end the proliferation of stove-piped systems, DOD's CFO issued guidance on which types of system initiatives will be allowed to proceed. In the meantime, DOD launched a huge project to develop its financial management enterprise architecture, which will serve as the blueprint to construct future business and financial management infrastructure. DOD awarded a blanket purchase agreement for contractor support to develop the architecture, to propose new ways of conducting DOD business activities, and to offer solutions for modernizing the Department's financial practices and integrating its systems and business processes across all applicable business lines.

In November 2002, DOD received its "strawman" architecture. This is a significant step and represents an early, high-level look at DOD's transformed business processes, unconstrained by current law, policy, and regulation. DOD initiated a near-term transformation initiative to streamline the financial statement preparation process by completing workshops and site visits and recommending process improvements.

DOD also completed and delivered a comprehensive plan of action and milestones to improve its accounting processes for real property. Workshops to begin development of the real property processes began in December 2002. Finally, DOD reached agreement to merge its “Future Logistics Enterprise” architecture initiative with the Defense-wide Financial Management Enterprise Architecture. Both logistics and financial communities will develop architecture products to standardize and transform the DOD’s logistics business.

DOD delivered its operational, systems and technical view products for the draft Financial Management Enterprise Architecture in April 2003 and is beginning its Enterprise Architecture transition plan. Maintaining and even accelerating progress are critical to government-wide financial improvement. DOD is ahead of schedule to upgrade its real property management process and produce quarterly financial statements.

### **Improving Intragovernmental Transaction Processing**

After several years of effort, reconciling intragovernmental transactions among the many agencies has remained problematic and it is still not possible to eliminate such transactions for the consolidated Federal Government Financial Report. For the most part, this complex problem had been approached in a fragmented way, and issues had been addressed individually rather than in an integrated fashion.

On October 4, 2002, OMB took an important step in mitigating these issues with the issuance of business rules for intragovernmental transactions (M-03-01). This document lays out standards to harmonize disparate business practices and widely divergent data structures that have contributed to significant transaction differences. These rules became effective on January 1, 2003, unless otherwise specified. The rules were applicable on a “go forward” basis, which meant that it was not necessary to retroactively augment existing intragovernmental orders.

The exchange rules specify the standard data requirements for intragovernmental exchange activity, as well as the specific steps with which the activity is to be processed. For example, the rules stipulate that trading partners must obtain and use the Dun & Bradstreet (D&B) Data Universal Numbering System (DUNS) numbers, which are issued by Dun & Bradstreet (D&B), as business location identifiers. Agencies must have a DUNS number for each major component, and agencies are strongly encouraged to obtain a DUNS number for each regional or field location for its major components. DUNS numbers make it possible for agencies to identify business partners below the departmental level and to identify and eliminate intradepartmental transactions as well.

The process rules are modeled after the simplified acquisition process—order, acceptance, payment. Both parties are now required to use a common reference number, the buyer’s

intragovernmental order number. This reference number must be included on the seller's invoice so that the buyer can "match" the invoice to the order. Agencies are also required to record obligations upon acceptance and issuance of the order. This practice will enhance the quality of the budget execution data. A wider dissemination of order information will help streamline the acceptance and payment process and should reduce the number of payment disputes. There are now limitations on advance payments, and status reporting is now required whenever advance payments are made—including existing advances.



# The Chief Financial Officers Council

The CFO Act of 1990 created the CFO Council as a mechanism to advise and coordinate the activities of the agencies of its members on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and other financial management matters. The CFO Council consists of the CFOs and Deputy CFOs of the 24 major Federal departments and agencies covered by the CFO Act of 1990—collectively known as the “CFO Act agencies.” The Deputy Director for Management at OMB chairs the Council. Other members include the Controller, Office of Federal Financial Management, OMB, and the Fiscal Assistant Secretary of the Treasury. The CFOs of the DHS, the Executive Office of the President, and the Corporation for National and Community Service also participate in the CFO Council.

## **CFO Act agencies include:**

- Department of Agriculture
- Department of Commerce
- Department of Defense
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Housing and Urban Development
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of State
- Department of Transportation
- Department of the Treasury
- Department of Veterans Affairs
- Agency for International Development
- Environmental Protection Agency
- General Services Administration
- Federal Emergency Management Agency
- National Aeronautics and Space Administration
- National Science Foundation
- Nuclear Regulatory Commission
- Office of Personnel Management
- Small Business Administration
- Social Security Administration



## CFO Council Committees

The CFO Council accomplishes its goals through its committee structure, which reinforces the President's Management Agenda. Following is a description of each committee, its recent accomplishments, and plans for the future.

### **Financial Statement Acceleration**

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

The CFO Council's Financial Statement Acceleration Committee is in its second year of existence and its mission is straightforward—to facilitate the elimination of agency common and cross-agency barriers to issuing annual agency financial statements by November 15. A significant additional benefit of achieving this goal will be support for issuing the consolidated government-wide financial statements by December 15. The committee's limited financial needs are funded internally. The committee gratefully acknowledges the technical assistance it received this past year from the Private Sector Council on a specific issue.

Improved Financial Performance is a key element of the President's Management Agenda and the work of this committee is essential to "getting to green" on this element. Timely financial information is an essential element to better program management and more effective stewardship of the nation's resources. The Financial Statement Acceleration Committee is committed to helping agencies with this transition but has noted that there are no "magic potions" for meeting the new dates. The committee believes that its efforts are best served by increasing awareness of common problems and their solutions, providing a forum for their discussion and resolution, and providing a key interface with the audit community on the areas of mutual interest.

This past year the committee laid the foundation for accomplishing its mission. It catalogued impediments to producing financial statements on an accelerated schedule, and highlighted agency best practices from agency preparation schedules and agency open houses at the U.S. Postal Service, SSA, and Treasury. Additionally, attention was directed at a specific issue of using actuarial estimates in financial statements and tapping the experience of the private sector in this area.

Looking to the year ahead, the committee has identified the following three areas for attention.

1. Resolving reporting consistency issues between different central agency and financial reports (e.g., Federal Agencies Centralized Trial Balance System II with agency financial statements, form and content issues).

Agency financial data is reported and presented in a range of formats and uses. While these different reports purport to present the same information in a specific format, the timing differences between these reports and the different sources for the data often times lead to inconsistent reports. These inconsistencies are a hindrance to accelerated reporting since the differences must be identified and reconciled, also presenting a challenge to the auditors. The committee is working to identify the common sources of these differences in order to facilitate their resolution.

2. Improving data flows between agencies.

Every agency is dependant on other government agencies for key information in preparing its financial statements. Agencies must be able to get this information early enough in the financial statement process to be able to properly analyze it and effectively include it in their statements. The committee has identified the sources of this key data and will work with those entities to enhance the effectiveness of the data reporting. With regard to external third parties, this issue will be examined for the possibility of common solutions.

3. Bringing the Inspectors General and audit community fully into the committee's efforts.

Meeting accelerated financial statement dates is not possible without an effective working relationship with the entity's auditor. While the bulk of the work in accelerating statements is the province of the preparer in improving data quality and reengineering business processes, the auditor needs to fully understand these changes and coordinate the audit work with them. The Acceleration Committee will bring the audit community into these efforts and thereby facilitate the exchange of ideas and the identification of mutually satisfactory approaches and solutions. These efforts will include further steps to identify agency best practices and to explore new issue areas such as the effective use of estimates.

The committee's success will be measured in part by the level of awareness of the issues posed by meeting the accelerated timeframes and by the agencies' success in meeting the dates for the FY 2004 financial statements. The number of agencies that meet earlier dates for the FY 2003 statements and improvements in data quality will also be indicative of whether the committee's work has had a positive effect. The Financial Statement Acceleration Committee does not have a five-year plan. The benefits of its work must be realized much sooner than that. The ultimate measure of its success will be when the committee's efforts are no longer needed.

## Human Capital Committee

Chair: Angela M. Antonelli, Chief Financial Officer, Department of Housing and Urban Development

The CFO Act defined the need for a new class of financial managers within the Federal Government. Agency CFOs recognize their organizational success depends upon a highly talented and multi-disciplinary workforce. Indeed, our ability to deliver on any of our statutorily-defined goals depends on the qualifications, productivity, and motivation of our workforce. The CFO Council leads efforts to develop such a diversified corps of financial management professionals for the Federal Government through the Human Capital Committee.

The Human Capital Committee assists CFOs in performing their congressionally-mandated duties by facilitating the improvement of government-wide financial personnel policies and programs. The primary objective of the committee is to develop and maintain a high quality Federal financial management workforce to support the successful implementation of agency missions.

The Human Capital Committee facilitates improvement of government-wide financial personnel policies and programs to develop and maintain a high quality Federal financial management workforce by:

- Promoting effective financial management education and training within the Federal Government.
- Assisting agencies in recruiting and retaining highly qualified financial management personnel.

The committee uses many tools to achieve these two primary objectives. Plans and activities are already in progress to implement programs, which will facilitate substantial improvements in Federal financial personnel management. The committee will:

- Serve as a forum for CFOs to identify, discuss, and collectively address financial personnel challenges.
- Identify and publicize innovative financial management training programs currently conducted by Federal agencies.
- Develop a senior financial executive program to identify and train the next generation of senior financial managers.
- Identify and publicize financial personnel best practices among Federal agencies.

- Recommend improvements to government-wide financial personnel policies and programs, particularly those related to recruitment, retention, training, and promotion.

Beginning in the spring of 2002, the Human Capital Committee began to identify efforts to improve the opportunities for recruiting and training Federal financial managers. Actions taken or under development include:

- *Baseline Survey on Financial Training and Development Opportunities.* In December 2002, the committee launched a comprehensive baseline survey of financial training and development programs across all Federal agencies. The purpose of the survey is to determine employee awareness of financial management training opportunities. The survey is expected to be completed in early Spring 2003. The survey will provide valuable data to CFOs to improve their internal training programs and to the Human Capital Committee to consider additional developmental opportunities.
- *Financial Management Career Development Track for Presidential Management Interns.* The committee in partnership with OPM has signed a Memorandum of Agreement to promote Federal financial management as a career track for prospective Presidential Management Internship (PMI) candidates. Created in 1977, the PMI program recruits potential new Federal employees into a two-year internship program with developmental assignments. The focus of the PMI program has not been on those candidates with financial backgrounds, such as newly minted MBAs. The Human Capital Committee is working with OPM to employ the PMI program as another means of recruiting quality entry-level Federal financial personnel.
- *Financial Management Development Program.* The committee, working with agency CFOs, and Deputy CFOs, and others, is redesigning the former CFO Fellows program to more effectively serve the needs of the CFO community with a more focused Financial Executive Development Program (FEDP). The CFO Fellows program was discontinued in FY 2002 because of a lack of interest. The revitalized program is intended to identify and train future government financial executives.

The Human Capital Committee will not limit itself to only short-term goals. Over the next five years, the committee will advance the President's Management Agenda by:

- Identifying barriers to hiring, retaining, and training staff in Federal financial positions and formulating improved financial management personnel policies to overcome these barriers.
- Establishing a program to help agencies develop financial management human capital plans. This program will serve as a resource CFOs can use for examples of best practices, training resources available from government or private sector sources, recruiting tools and lessons learned.

- Taking financial training programs to new levels of excellence, which will maximize their potential to develop future senior Federal financial executives. Following the initial focus on developing a senior financial executive program, the Human Capital Committee will focus on entry-level orientation programs, junior staff training programs, and mid-level financial manager development programs.

Successful implementation of these initiatives will lead to a Federal financial management workforce that sets the standard for excellence and competes successfully with the private sector for the best available financial talent.

## **Financial Systems and E-Government Committee**

Chair: Don McCrory, Deputy Chief Financial Officer, National Science Foundation

The Financial Systems and E-Government Committee's objective is to facilitate improvements of Federal financial systems to ensure that such systems provide useful, complete, consistent, reliable, accurate, and timely financial information about the operations and condition of the Federal Government in support of the President's Management Agenda. To enable Federal agencies to "get to green" in financial performance, the committee is focusing on the following projects and initiatives:

- *Federal Financial Management Improvement Act of 1996 (FFMIA) Compliance.* Non-compliance with FFMIA continues to be an impediment to "getting to green" for many Federal departments. In fiscal year 2002, this committee reviewed the requirements and made suggestions to OMB to revise the implementation and compliance requirements for FFMIA to be more performance-based. The committee believes FFMIA should be re-focused on performance indicators to identify systems that provide useful and timely reporting of financial information to senior management for use in daily decision-making. We recommended OMB use the results of research and recommendations to help shape new compliance guidance within the pending revisions and consolidation of OMB's Federal financial management circulars.

In 2003, the committee will continue to work with OMB to refine guidance on FFMIA compliance, which focuses agencies on systems and results of timely, accurate, and useful data to improve financial management.

- *Collaboration and Sharing of Best Practices Related to Federal Financial Information Technology (IT) Applications.* The Federal Government has a wealth of knowledge and experience in the development and implementation of financial management applications. Increasingly, agencies are recognizing the benefits of E-Government through interagency collaboration for the development and implementation of different financial management applications. It is important to build controls and financial requirements

into these applications. This committee will support the collaboration for the sharing of information related to the use of financial applications within the Federal Government.

In 2003, the committee will identify opportunities across the government to support shared common systems used by financial management to support best practices and ideas for future cross-sharing collaboration.

- *Security of Financial Management Systems.* Virtually every agency now conducts business using various aspects of the electronic environment, such as the Internet, Intranets, and local and wide-area networks. The electronic environment has changed the way the public, industry, and state and local governments interact with the Federal Government. To meet public and private demands, agencies are offering more online services as well as electronic forms and transaction capabilities. Today's financial management environment depends on this technology, which presents new security challenges. The committee will work with the systems security committees of the other interagency management councils to ensure proper security is integral to all financial management systems, as well as those non-financial systems that impact financial data. Such security is essential to "getting to green" in both the Improved Financial Performance and Expanded E-Government initiatives.

In 2003, the committee will work to ensure the federal financial system certification process and testing for vendor financial management software have embedded engineering standards and processes that focus on building security into their financial systems products during design and development.

- *Electronic Government.* The committee continues to participate in the Expanded E-Government initiative that includes participation on the E-Government Management Council (which includes the CFO, the Chief Information Officers, the Procurement Executive, and the Human Resources Councils). The committee will be involved with the 24 crosscutting E-Government initiatives. Specific initiatives include E-Grants, E-Payroll, Integrated Human Resources, E-Travel, Integrated Acquisition Environment, Federal Enterprise Architecture, and Federal Asset Sales. As examples, the E-Grants initiative, led by the Department of Health and Human Services with 11 partner agencies, will create a single grants "portal" to increase awareness of grant opportunities, simplify the application process, and reduce the burden for grant administration. It is estimated that this effort will save \$1 billion in Federal funds currently devoted to the administration of grants. The E-Payroll initiative, led by the Office of Personnel Management, seeks to lessen the administrative burden on agencies by better defining, standardizing, and reengineering payroll processing. The Administration will consolidate the numerous Executive Branch civilian payroll systems now in place into two.

In 2003, the committee will continue to support and collaborate with the E- Government agency partner leaders to ensure financial systems can meet the President's Management Agenda for improved financial management.

- *Managing the Risk of Financial System Implementations.* Following the buy-in from department leaders, the project management team is the most critical part of any financial system implementation effort. Top-level project leadership expertise and communication are essential within federal organizations to lead successful financial system implementations, which are on time and within budget. As simple as it sounds, losing focus in this area is often a harbinger of many financial system failures. Many times, the project management is transitioned to the contractor/vendor who does not have the organizational expertise to lead changes in business processes and decision-making to ensure successful implementations. If departments are to deploy financial systems, which address the President Management Agenda for improved financial management across each agency with an eye towards conforming to an enterprise wide solution, then proper in-house project management is a central element to mitigate risk and ensure success.

In 2003, the committee will partner with Human Capital Committee and Chief Information Officers (CIO) Council to leverage private sector and university training opportunities for federal project management training and education to secure solid leadership of financial management systems implementations.

### **Best Practices Committee**

Co-Chair: Dr. Dov S. Zakheim, Under Secretary of Defense (Comptroller)/CFO, Department of Defense

Co-Chair: Christopher B. Burnham, Assistant Secretary, Bureau of Resource Management, Department of State

The primary mission of the Best Practices Committee is to enhance the CFO Council's ability to resolve common financial management problems across federal agencies through exposure to new ideas from "best practice" organizations and alternative perspectives of government and industry leaders.

During 2002, the committee:

- Sponsored guest speakers for three CFO Council meetings on the subjects of financial management enterprise architecture; cost accounting; and challenges facing CFOs in light of recent corporate accounting scandals.

- Accomplished the first phase of targeting best practices which was to develop a survey and distribute to all CFO Act agencies. CFOs were asked to identify and prioritize at least five specific areas of focus. Results were:
  1. Enterprise Financial Management Systems
  2. Performance Management Metrics
  3. Cost Accounting/Cost Measurement
  4. Financial Statement Reporting Improvements
  5. Travel Card Programs

The second phase of targeting best practices will be to continue to schedule speakers to discuss best practices in the specific areas of focus listed above. Additionally, the committee will arrange for guest speakers on other best practice topics as current issues dictate, particularly in areas that tie directly to the President's Management Agenda. The expansion of speakers on best practices will broaden the knowledge of practices that are working best in various commercial and government environments.

Over the next 5 years, the committee will survey CFO Council members in order to stay current on best practice areas of primary interest. The results of surveys, as well as routine feedback, will be used to arrange for guest speakers to address CFO Council members on best practices of primary interest across the financial management spectrum.

### **Budget and Performance Integration Committee**

Chair: Donna McLean, Assistant Secretary for the Office of Budget and Programs and Chief Financial Officer, Department of Transportation

This committee will identify recommendations that will lead to improved linkage between budgetary resources and program performance. The goal is to provide the executive branch, the Congress, and the public with useful, complete, consistent, reliable, accurate, and timely information that relates budgetary resources with performance outcomes. This is essential for:

- Effective oversight of government programs.
- Effective and efficient management of government programs.
- Informed decision-making about budget priorities.
- Public understanding of the performance of the government.

In completing its objectives, the committee will:

- Identify and evaluate budgeting, accounting, program management, performance measurement, and individual and organizational accountability principles, standards, and related requirements needed to improve the linkage and integration of budgetary resources to performance outcomes.
- Determine deficiencies and recommend solutions to existing budget, financial, and performance reporting structures and processes.
- Evaluate proposed guidance by OMB, the Office of Personnel Management, the General Accounting Office, the Department of the Treasury, the General Services Administration, and other organizations for impact on the budgetary, financial, and performance processes of Federal departments and agencies.
- Determine and provide support for methods that financial managers could use to promote cooperation among their organizations for improving the integration of budget, finance, and performance data.
- Interact with the President's Council on Management Improvement, President's Council on Integrity and Efficiency, CIO Council, and similar organizations and their respective work groups on matters involving committee responsibilities.
- Determine deficiencies and recommend solutions to existing budget, financial, and performance reporting structures and processes.

The committee will assist all Federal agencies in "getting to green" for integrating budgeting and performance for the FY 2004 budget. The principal vehicle for reaching this goal will be budget guidance in OMB Circular A-11, *Preparing and Submitting Budget Estimates*, which was developed by May 2002. This guidance provides a clear (but not the only) path to achieving this end. In addition, the committee will develop and implement, in conjunction with OMB, a training program for use by OMB examiners in developing individualized strategies for agencies within their areas of responsibility. The committee believes that many agencies can "get to green" for the Budget and Performance Integration initiative in FY 2003.

During FY 2002, the committee provided input to OMB's A-11 guidance regarding criteria and steps that demonstrate progress toward and achievement of a green rating for the integration of budget and performance measurement. Additionally, the committee supported development of a memorandum on impediments to the required acceleration of the schedule for submission of financial statements and performance/accountability reports.

During the next five years, the committee will support and enhance the process of effective budget and performance integration by annually recognizing agencies that have applied innova-

tive practices to the general task of integration. The committee will foster improved communication with outside expertise (consultant, university, and other) regarding the continuous process of budget and performance integration. In addition, it will identify and define next generation processes and practices for improving budget and performance integration by maintaining ongoing liaison with the CFO Act agencies. The committee will publicize and emphasize annual positive evaluations of agency Performance and Accountability reports issued by independent entities such as the Mercatus Institute and the Association of Government Accountants. The committee will also seek to recognize the executive leadership of those agencies achieving this kind of recognition.

The vision driving the committee's efforts will reflect "continuous quality improvement". Institutionalizing and furthering the spirit of the President's Management Agenda requires focusing beyond just getting to green. It must be based on instilling a sense of "value added" in the continued development and implementation of integrated performance/budget systems. Performance based budgeting needs to achieve the same level of acceptance as sound financial management and clean audit opinions as a benchmark of administrative excellence. The committee will seek to promote this vision through the efforts noted above and exploration of other means to promote adherence to budget performance integration as a benchmark of quality agency processes.

### **Erroneous Payments Committee**

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

Chartered initially in November 2001, the committee transitioned into a collaborative working group with the Inspectors General community in March 2002, and consequently established a revised charter soon thereafter. This joint working group, the Erroneous and Improper Payments Joint Initiative, is composed of both CFO and Inspectors General staff from more than a dozen federal agencies and departments.

This working group assisted the Congress in drafting the Erroneous Payments Information Act of 2002, now Public Law 107-300. The mission is to facilitate the reduction of erroneous and improper payments throughout the Federal Government. The following four documents were developed in less than nine months, and are posted on both the CFO Council and PCIE web sites:

- Position Paper on Erroneous Payments.
- Critique of Agency Methods for Identifying/Quantifying Erroneous Payments.
- Indicators of Erroneous Payments.

- Benchmarks on Recapturing or Preventing Erroneous Payments.

These documents are the result of smaller subgroups that were established early in the process, to provide a more efficient working environment for assigned tasks, and delineate several problems that increase the risk of improper payments across the government spectrum. These include a weak or incomplete program control environment; inherent risks in the regulatory and policy structure; and a lack of attention toward, as well as restrictions on, government-wide coordination and information-sharing.

The primary goal for 2003 will be providing guidance for agencies to implement the statutory and administrative requirements of the recovery auditing and erroneous payments legislation. The committee will build on these documents to further assist agencies to identify and monitor their erroneous payments.

The secondary goal will be to continue helping agencies refine methods for identifying programs that pose the highest risks and target their first efforts in those areas. Agencies need additional assistance in the area of goal/target setting, as well as establishing measurable indicators of success. Further goals include: implementing P.L. 107–300 by all CFO agencies using consistent methodologies; acting as a clearinghouse or forum for questions or concerns in this area; disseminating best practices that support an effective internal control environment; and continuing to provide the CFO and Inspectors General communities with expert analysis of particular situations or issues as they arise. Consistent measurement mechanisms are necessary to allow Government Performance and Results Act (GPRA) performance plans and yearly budget submissions to be comparable among agencies.

The goals established for 2003 promote the President’s Management Agenda by helping to achieve the elimination of fraud and error in programs expending Federal funds; and succeeding in possibly removing certain aid programs from GAO’s high-risk list. Curbing erroneous payments and identifying more efficient methods for recapturing them will be significant parts of these two goals.

It is imperative that goals tie directly to the Standards of Success outlined by the Executive Branch Management Scorecard. The committee can help all the CFO Council agencies to reach their goals, in at least the internal controls area of financial management. Tightening and improving preventative internal controls on the front-end, and improving detective tools on the back-end, will assist agencies in meeting the objective of reducing erroneous payments.

Goals:

- By the end of 2003, have risk assessments, evaluations, and action plans completed and begin implementation.

- By the end of 2004, complete implementation of action plans, measure accumulated results, and make changes and improvements where necessary.
- By the end of 2005, have 2 full cycles completed, with targeted erroneous payments reduction goals achieved by 50 percent of CFO Act agencies.

Goals will be achieved by:

- Assessing risks for programs that are complicated and therefore pose the highest threat of erroneous payments.
- Evaluating these assessments, determining inconsistencies in internal controls, and developing action plans to correct them.
- Implementing those action plans.
- Instituting ongoing measurement of results to determine if/when additional improvements need to be made.
- Continuing to monitor and improve.

Cost savings will be realized by making fewer improper payments, thereby not expending resources to recapture them. In addition, by making the correct payment to the correct entity timely, existing financial and human resources remain targeted on distributing needed benefits. Allowing agencies to use a portion of the erroneous payment they recover to pay for the administrative costs associated with identifying and monitoring erroneous payments would prove to be a great incentive for agencies to succeed in reducing erroneous payments.

The measures that will gauge progress of this initiative will be the percentage decrease in improper and erroneous payments both in individual agencies and government-wide. Reducing the number of programs on GAO's high-risk list will also demonstrate measurable progress.

# Appendix A: Summary of FY 2002 Financial Statement Results by Agencies and Selected Components

The 24 CFO Act agencies are required under the CFO Act to prepare audited financial statements under the CFO Act; OMB designates the individual agency components that must prepare audited financial statements.

## Fiscal Year 2002 Financial Statements

Agency	Type of Opinion
<i>CFO Act Agencies:</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 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
Department of Transportation (DOT).....	Unqualified
Department of the Treasury (Treasury).....	Unqualified
Department of Veterans Affairs (VA).....	Unqualified
Agency for International Development (USAID).....	Qualified
Environmental Protection Agency (EPA).....	Unqualified
Federal Emergency Management Agency (FEMA).....	Unqualified
General Services Administration (GSA) .....	Unqualified
National Aeronautics and Space Administration (NASA) .....	Unqualified
National Science Foundation (NSF).....	Unqualified
Nuclear Regulatory Commission (NRC).....	Unqualified
Office of Personnel Management (OPM) .....	Unqualified

**Fiscal Year 2002 Financial Statements**

Agency	Type of Opinion
<i><b>CFO Act Agencies:</b></i>	
Small Business Administration (SBA) .....	Disclaimer
Social Security Administration (SSA).....	Unqualified
<i><b>Agency Components:</b></i>	
Food and Nutrition Service (USDA).....	N/A*
Forest Service (USDA) .....	Unqualified
Rural Development Mission Area (USDA) .....	Unqualified
Department of Army General Funds (DOD) .....	Disclaimer
Department of Navy General Funds (DOD).....	Disclaimer
Department of Air Force General Funds (DOD).....	Disclaimer
Military Retirement Trust Fund (DOD) .....	Unqualified
U.S. Army Corp of Engineers Civil Works Program (DOD) .....	Disclaimer
Department of Army Working Capital Fund (DOD).....	Disclaimer
Department of Navy Working Capital Fund (DOD).....	Disclaimer
Department of Air Force Working Capital Fund (DOD) .....	Disclaimer
Centers for Medicare and Medicaid Services (HHS) .....	Unqualified
Federal Aviation Administration (DOT).....	Unqualified
Highway Trust Fund (DOT) .....	Unqualified
Bureau of Alcohol, Tobacco and Firearms (Treasury) .....	N/A*
Internal Revenue Service (Treasury) .....	Unqualified
United States Customs Service (Treasury).....	N/A*
Civil Service Retirement and Disability Fund (OPM) .....	Unqualified
Federal Employees Health Benefits Program (OPM).....	Unqualified
Federal Employees Life Insurance Program (OPM).....	Unqualified

\* Component received OMB waiver from audit for FY 2002.

## **Appendix B: Material Weaknesses Reported by Auditors and Federal Managers' Financial Integrity Act Tables**

OMB audit guidance requires auditors to disclose material weaknesses in internal control over financial reporting. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 and OMB implementing guidance require the head of each executive agency to report annually on whether there is reasonable assurance that the agency's controls are achieving their intended objectives and whether the agency's financial management systems conform to government-wide requirements. Agency heads are required to identify material weaknesses related to agency programs and operations (pursuant to Section 2 of FMFIA) and nonconformances with government-wide financial systems requirements (pursuant to Section 4 of FMFIA). Reporting of material weaknesses under FMFIA is not limited to weaknesses over financial reporting.

These tables include the number of material weaknesses identified by auditors, material weaknesses reported by Agency heads pursuant to Section 2 of the FMFIA, and financial system nonconformances reported by Agency Heads pursuant to Section 4 of the FMFIA.

## Fiscal Year 2002: Auditor-Reported Material Weaknesses

	Beginning	New	Resolved	Consolidated	Ending
Agriculture	7	3	3	1	6
Commerce	1	0	0	0	1
Defense	15	0	0	0	15
Education	1	0	0	0	1
Energy	0	0	0	0	0
HHS	2	0	0	0	2
HUD	5	0	0	2	3
Interior	6	1	1	0	6
Justice	3	0	0	1	2
Labor	0	0	0	0	0
State	1	0	0	0	1
DOT	2	4	1	0	5
Treasury	2	2	0	0	4
VA	6	0	3	1	2
AID	3	5	1	0	7
EPA	0	0	0	0	0
FEMA	6	0	0	0	6
GSA	0	0	0	0	0
NASA	1	1	0	0	2
NSF	0	0	0	0	0
NRC	2	1	2	0	1
OPM	0	0	0	0	0
SBA	1	4	0	0	5
SSA	0	0	0	0	0
<b>TOTALS</b>	<b>64</b>	<b>21</b>	<b>11</b>	<b>5</b>	<b>69</b>

**Fiscal Year 2002: Section 2 Reporting in Agency  
FMFIA Reports**

Agency	Adequate and Effective Management Controls*		Number of Material Weaknesses					
	Yes	Yes, with Material Weaknesses	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture		X	28	2	10	0	3	17
Commerce		X	2	0	1	0	0	1
Defense		X	115	25	44	25	1	70
Education		X	5	0	2	0	0	3
Energy		X	13	0	2	0	11	0
HHS		X	2	0	1	0	0	1
HUD		X	1	0	0	0	0	1
Interior		X	17	2	5	0	3	11
Justice		X	8	4	2	0	0	10
Labor	X		0	0	0	0	0	0
State		X	3	0	3	0	0	0
DOT		X	1	3	0	0	0	4
Treasury		X	20	6	5	6	0	15
VA		X	3	0	1	0	1	1
AID		X	4	0	1	0	0	3
EPA		X	4	0	4	0	0	0
FEMA	X		0	6	0	1	0	5
GSA		X	3	0	0	0	0	3
NASA		X	1	1	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	1	0	1	0	0	0
<b>TOTAL</b>	<b>6</b>	<b>18</b>	<b>231</b>	<b>49</b>	<b>83</b>	<b>32</b>	<b>19</b>	<b>146</b>

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

**Fiscal Year 2002: Section 4 Reporting in Agency  
FMFIA (or Accountability) Reports**

Agency	System Conform to Requirements			Number of Nonconformances					
	Yes	Yes, with Nonconformances*	No	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture			X	4	0	2	0	0	2
Commerce		X		1	0	0	0	0	1
Defense		X		153 <sup>1</sup>	0	0	0	0	153 <sup>1</sup>
Education		X		2	0	1	0	0	1
Energy	X			0	0	0	0	0	0
HHS			X	2	0	0	0	0	1
HUD			X	1	0	0	0	0	2
Interior			X	2	0	0	0	3	1
Justice		X		1	1	1	0	0	4
Labor	X			4	0	0	0	0	0
State			X	0	0	0	0	0	1
DOT		X		1	0	0	0	0	5
Treasury			X	9	1	5	0	0	3
VA		X		3	0	0	0	0	0
AID			X	0	0	0	0	0	0
EPA	X			4	0	0	0	0	2
FEMA		X		0	0	0	0	0	2
GSA		X		2	0	0	0	0	0
NASA	X			0	0	0	0	0	0
NSF	X			0	0	0	0	0	0
NRC	X			0	0	0	0	0	0
OPM		X		2	0	2	0	0	0
SBA	X			0	1	0	0	0	1
SSA	X	X		0	0	0	0	0	0
<b>TOTAL</b>	<b>8</b>	<b>9</b>	<b>7</b>	<b>188</b>	<b>3</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>180</b>

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

<sup>1</sup> As a result of the department-wide financial management enterprise architecture effort, DOD's 153 Section 4 weaknesses have been carried over from beginning FY 2001 to ending FY 2002. These weaknesses will be reevaluated when the project is completed.

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

Community Development Financial Institutions Fund .....	Unqualified
Corporation for National and Community Service .....	Unqualified
Export-Import Bank of the United States (EX/IM) .....	Unqualified
Federal Crop Insurance Corporation.....	Unqualified
Federal Deposit Insurance Corporation .....	Unqualified
Federal Home Loan Banks.....	Unqualified
Federal Housing Administration Fund.....	Unqualified
Federal Prison Industries, Incorporated .....	Unqualified
Financing Corporation .....	Unqualified
Government National Mortgage Association .....	Unqualified
National Credit Union Administration Central Liquidity Facility.....	Unqualified
Overseas Private Investment Corporation.....	Unqualified
Pension Benefit Guaranty Corporation .....	Unqualified
Resolution Funding Corporation .....	Unqualified
Rural Telephone Bank .....	Unqualified
Saint Lawrence Seaway Development Corporation.....	Unqualified
Tennessee Valley Authority.....	Unqualified



## **Appendix D: Executive Branch Management Scorecard**

The Office of Management and Budget (OMB), in consultation with the agencies, professional associations, and academe, established Standards for Success for each initiative. Each quarter, OMB grades each agency on its current status as well as its progress toward meeting the standards. Status and progress are rated using the familiar stoplight colors of red, yellow, and green. The Executive Branch Management Scorecard shows that several agencies have improved their scores for current status for financial performance, and nearly all of the major agencies are green on progress. They are well on their way toward achieving ambitious standards for success in the financial management arena.

# Improved Financial Performance

## Explanation of Current Status Score

		
<p>Agency:</p> <ul style="list-style-type: none"> <li>• Receives an unqualified audit opinion on its annual financial statements;</li> <li>• Meets financial statement reporting;</li> <li>• Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act</li> <li>• Produces accurate financial information on demand;</li> <li>• Routinely assesses performance and financial information which its managers use to make day-to-day decisions;</li> <li>• Has no Anti-Deficiency Act violations, has no material auditor-reported internal control weaknesses;</li> <li>• Has no material non-compliance with laws or regulations, agency head provides an unqualified statement of assurance in its annual accountability report.</li> </ul>	<p>Agency:</p> <ul style="list-style-type: none"> <li>• Produces accurate financial information on demand <b>OR</b></li> <li>• Routinely assesses performance and financial information which its managers use to make day-to-day decisions;</li> </ul> <p style="text-align: center;"><b><u>AND</u></b></p> <ul style="list-style-type: none"> <li>• Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act;</li> <li>• Has no Anti-Deficiency Act Violations;</li> <li>• Has no repeat material auditor-reported internal control weaknesses; auditor expresses an opinion on the annual financial statements; meets financial reporting deadlines; and has no material non-compliance with laws or regulations;</li> <li>• Provides an unqualified statement of assurance in its annual accountability report.</li> </ul>	<p>Agency:</p> <ul style="list-style-type: none"> <li>• Cannot report in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act;</li> <li>• Commits chronic or significant Anti-Deficiency Act Violations;</li> <li>• Has repeat material auditor-reported internal control weaknesses;</li> <li>• Gets a disclaimer of opinion on its annual financial statement;</li> <li>• Does not meet financial reporting deadlines;</li> <li>• Is in material non-compliance with laws or regulations; <b>OR</b></li> <li>• Provides a qualified statement of assurance in its annual accountability report.</li> </ul>

## Explanation of Progress Score

		
<p>Green—Implementation is proceeding according to plans.</p>	<p>Yellow—Slippage in implementation schedule, quality of deliverables, or other issues requiring adjustments by agency in order to achieve initiative on a timely basis.</p>	<p>Red—Initiative in serious jeopardy. Unlikely to realize objectives without significant management intervention.</p>

## Executive Branch Management Scorecard Financial Management (Baseline--Current)

	Current Status					Progress				
	FY02 Q2	FY02 Q3	FY02 Q4	FY03 Q1	FY03 Q2	FY02 Q2	FY02 Q3	FY02 Q4	FY03 Q1	FY03 Q2
AGRICULTURE .....	●	●	●	●	●	●	●	●	●	●
COMMERCE .....	●	●	●	●	●	●	●	●	●	●
DEFENSE .....	●	●	●	●	●	●	●	●	●	●
EDUCATION .....	●	●	●	●	●	●	●	●	●	●
ENERGY .....	●	●	●	●	●	●	●	●	●	●
EPA .....	●	●	●	●	●	●	●	●	●	●
HHS .....	●	●	●	●	●	●	●	●	●	●
HUD .....	●	●	●	●	●	●	●	●	●	●
INTERIOR .....	●	●	●	●	●	●	●	●	●	●
JUSTICE .....	●	●	●	●	●	●	●	●	●	●
LABOR .....	●	●	●	●	●	●	●	●	●	●
STATE .....	●	●	●	●	●	●	●	●	●	●
DOT .....	●	●	●	●	●	●	●	●	●	●
TREASURY .....	●	●	●	●	●	●	●	●	●	●
VA .....	●	●	●	●	●	●	●	●	●	●
AID .....	●	●	●	●	●	●	●	●	●	●
Corps of Eng .....	●	●	●	●	●	●	●	●	●	●
FEMA .....	●	●	●	●	—	●	●	●	●	—
GSA .....	●	●	●	●	●	●	●	●	●	●
NASA .....	●	●	●	●	●	●	●	●	●	●
NSF .....	●	●	●	●	●	●	●	●	●	●
OMB .....	●	●	●	●	●	●	●	●	●	●
OPM .....	●	●	●	●	●	●	●	●	●	●
SBA .....	●	●	●	●	●	●	●	●	●	●
SMITHSONIAN .....	●	●	●	●	●	●	●	●	●	●
SSA .....	●	●	●	●	●	●	●	●	●	●