

FEDERAL FINANCIAL  
MANAGEMENT REPORT  
2007



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET



# Table of Contents

<b>A MESSAGE FROM THE CONTROLLER OF THE OFFICE OF MANAGEMENT AND BUDGET .....</b>	<b>ii</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>INTRODUCTION .....</b>	<b>4</b>
<b>THE FINANCIAL MANAGEMENT-RELATED INITIATIVES OF THE PRESIDENT’S MANAGEMENT AGENDA.....</b>	<b>7</b>
<b>ELIMINATING IMPROPER PAYMENTS .....</b>	<b>10</b>
<b>RIGHT-SIZING THE GOVERNMENT’S REAL PROPERTY .....</b>	<b>11</b>
<b>IMPROVING THE FINANCIAL REPORT OF THE UNITED STATES GOVERNMENT.....</b>	<b>12</b>
<b>THE FINANCIAL MANAGEMENT LINE OF BUSINESS (FMLOB).....</b>	<b>13</b>
<b>STRENGTHENING INTERNAL CONTROLS.....</b>	<b>14</b>
<b>STRENGTHENING GRANTS MANAGEMENT .....</b>	<b>15</b>
<b>STRENGTHENING SOCIAL INSURANCE REPORTING .....</b>	<b>16</b>
<b>THE FRAMEWORK’S FOUNDATION: CORE ACTIVITIES .....</b>	<b>17</b>
<i>I. Improving Financial Reporting.....</i>	<i>17</i>
<i>II. Strengthening Internal Controls .....</i>	<i>20</i>
<i>III. Improving Financial Systems.....</i>	<i>22</i>
<i>IV. Improving Asset Management.....</i>	<i>23</i>
<i>V. Managing Grants .....</i>	<i>25</i>
<i>VI. Improving Auditing Standards.....</i>	<i>26</i>
<b>CONCLUSION .....</b>	<b>27</b>
<b>APPENDICES.....</b>	<b>28</b>
APPENDIX A: SUMMARY OF FY 2006 AUDITED FINANCIAL STATEMENT RESULTS BY AGENCY AND SELECTED COMPONENTS.....	29
APPENDIX B: MATERIAL WEAKNESSES REPORTED BY AUDITORS AND FEDERAL MANAGERS’ FINANCIAL INTEGRITY ACT TABLES .....	31
APPENDIX C: GOVERNMENT CORPORATIONS REQUIRED TO SUBMIT AUDITED FINANCIAL STATEMENTS TO OMB .....	38
APPENDIX D: ACCOUNTABILITY OF TAX DOLLARS ACT AGENCIES REQUIRED TO SUBMIT AUDITED FINANCIAL STATEMENTS TO OMB .....	39
APPENDIX E: COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA) .....	43
APPENDIX F: EXECUTIVE BRANCH MANAGEMENT SCORECARD .....	44
APPENDIX G: DEBT COLLECTION DEFICIENCIES AND CORRECTIVE ACTIONS .....	47
APPENDIX H: THE OFFICE OF FEDERAL FINANCIAL MANAGEMENT’S STRATEGIC OBJECTIVES .....	48



## **A MESSAGE FROM THE CONTROLLER OF THE OFFICE OF MANAGEMENT AND BUDGET**

There may be no more important responsibility of government than to act as an effective steward of the taxpayers' money. It is therefore no surprise that the President has made improving financial performance one of his top management priorities. With the launch of the President's Management Agenda (PMA) in 2001, the President issued a "call to action" for Federal managers to achieve a series of critical financial management goals that, if attained, would tell American citizens that the "the people's money" is being properly accounted for and wisely spent. I am proud to report that the Federal financial community has been equal to this task, achieving significant progress on all the key indicators of success for the PMA initiatives related to financial management. Specifically, in FY 2006:

- Nineteen major agencies, representing more than 75% of all Federal outlays, achieved a clean audit opinion.
- The number of auditor-reported material weaknesses was reduced by approximately 15% (from 48 reported in FY 2005 to 41 reported this past year).
- For the second consecutive year, every major Federal agency issued their audited financial statements within 45 days of the close of the fiscal year. Prior to 2001, Federal agencies took as long as five months to complete their financial reports.
- Improper payments declined to \$36.3 billion for those programs that originally reported a total of \$45.1 billion in FY 2004. This represents an approximate \$9 billion improvement in 2 years.
- The Federal government has disposed of \$3.5 billion in excess real property since FY 2004.

While I believe that American citizens can be proud of this progress, I also believe they should not be satisfied with it. Much remains to be done before the government can say that it has achieved the level of financial management excellence for which we are striving. Federal managers must continue to mobilize resources and re-dedicate efforts to strengthen accounting practices, implement stronger internal controls, issue financial reports more timely, eliminate instances of error and waste, and use financial data to manage costs. As we set out to achieve new and better levels of performance, it is critical that the Federal financial community orient itself around a common set of priorities, an agreed upon plan for action, and a clear and consistent roadmap for improvement.

Thus, on behalf of the President, the Office of Management and Budget, and the Chief Financial Officers Council, I am pleased to present the *2007 Federal Financial Management Report – A*

*Framework for Improving Financial Performance.* This report, in a user-friendly and transparent format, provides the strategic goals and targets for improvement that the Federal financial community has established and outlines the prioritized actions that we will undertake to ensure success. I am confident that we will achieve the many challenging milestones in this plan, and in doing so, meet the President's vision for improving financial performance in the Federal government.



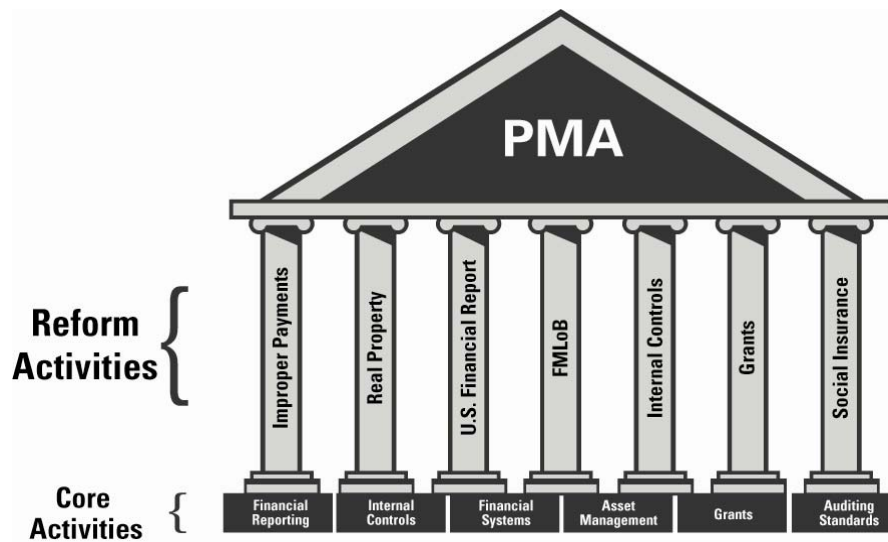
*Linda M. Combs*  
*Controller*



# Executive Summary

The Office of Federal Financial Management (OFFM) within the Office of Management and Budget (OMB) 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 Report and also fulfills OFFM’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 *PMA*); (2) the priority projects currently underway in the Federal financial community to help support and facilitate PMA 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 the PMA’s success.



## FRAMEWORK OVERVIEW

*The PMA – How We Define and Measure Financial Management Success.* 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. These performance measures include, among others, the achievement of clean audit opinions, the elimination of material weaknesses in internal control, timely financial reporting, the disposal of excess real property, the elimination of improper payments, and the reduction in government costs through the strategic use of

financial data. 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 PMA Objectives.* 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. 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. For each reform activity, this Report highlights a strategic goal, a performance target for fiscal year (FY) 2011 (i.e., a 5 year target), interim or short-term objectives, planned actions for the upcoming year, and recent accomplishments.

*Core Activities – The Foundation of Effective Financial Management.* The core activities represent the universe of day-to-day actions that the Federal financial community must take to effectively manage the resources of the Federal government. The core activities further represent each major area wherein OFFM 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 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 (or columns) serve to both support the PMA’s success and strengthen the foundation of Federal financial activities.

## **FY 2006 RESULTS**

As noted above, the financial management-related initiatives of the PMA 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 2006, Federal agencies either maintained or improved on prior year performance levels for all key outcome measures. Specific FY 2006 results are as follows:

*Clean Audit Opinions.* Nineteen of twenty-four CFO Act agencies, representing more than 75% of all Federal outlays, achieved a clean audit opinion. This represents the same number of agencies that achieved a clean audit opinion in FY 2005. The FY 2006 results place the Federal government on a good track to achieve its FY 2011 target of 22 CFO Act agencies achieving a clean opinion.

*Material Weaknesses.* The number of auditor-reported material weaknesses was reduced by approximately 15% (from 48 reported in FY 2005 to 41 reported this past year). This result exceeds the government-wide performance target of a 10% annual reduction in repeat auditor-identified material weaknesses. See Appendix B of this Report for a more detailed breakdown and description of auditor-reported material weaknesses in FY 2006.

*Timely Reporting.* For the second 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. The government-wide performance target is to achieve this same result in all future years.

*Improper Payments.* Improper payments declined to \$36.3 billion for those programs that originally reported a total of \$45.1 billion in FY 2004. This represents an approximately \$9 billion improvement in 2 years. These results place the Federal government on a good track to achieve its FY 2011 target to eliminate \$20 billion in improper payments in the programs that were originally reported in FY 2004.

*Excess Real Property.* The Federal government disposed of \$1.5 billion in excess real property in FY 2006 and has disposed of a total of \$3.5 billion in real property since FY 2004. This result puts the Federal government on a good track to achieve its FY 2011 target to dispose of \$11 billion in excess real property.

## **LOOKING FORWARD**

The reform and core activities highlighted in this Report are intended to position agencies to achieve the PMA 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. As the environment changes, certain core activities may take on new significance and become reform initiatives or the standards for current initiatives may change. A regular re-evaluation of the Administration's reform priorities will be guided by the PMA with a focus on results.

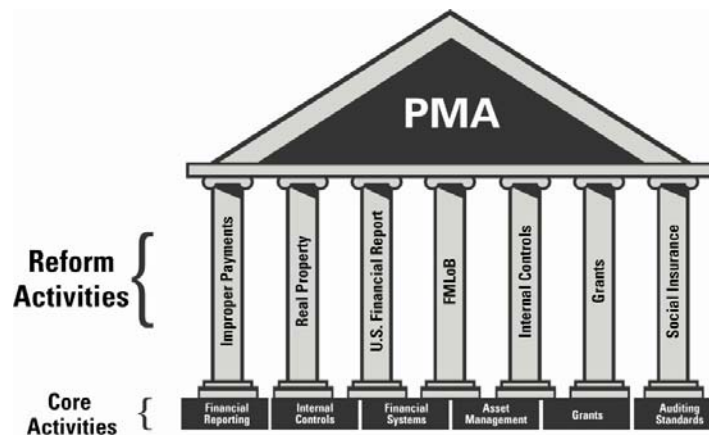
OFFM has been organized to most effectively implement the PMA principles and the reform and core activities included in this report. As a result of the PMA, every CFO across the Federal Government now shares common goals for improving financial performance, and a financial management community exists 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 PMA will continue to guide our efforts.

# Introduction

OMB's 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<sup>1</sup> are to:

- (1) Achieve successful goals for the financial management-related initiatives of the President's Management Agenda (PMA);
- (2) Coordinate and lead government-wide financial management reforms that support and facilitate PMA improvement goals; and
- (3) Issue government-wide financial management policies and requirements that are user-friendly, transparent, consistently complied with by Federal agencies, and facilitate the achievement of PMA goals without undue burden on agency and taxpayer resources.

OFFM has developed a "Framework for Improving Financial Performance" to provide direction and clarity on how the above 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.



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 the PMA's success.

<sup>1</sup> For a complete description of OFFM's strategic objectives, see Appendix H.

## **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. These performance measures include the achievement of a clean audit opinion, the elimination of material weaknesses in internal control, timely financial reporting, the elimination of improper payments, the disposal of excess real property, and the reduction in government costs through the strategic use of financial data. As noted throughout this Report, Federal agencies are making significant progress on each of these areas. However, much work remains until the President's vision for improved financial management is fully achieved.

## **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 (as represented by the 7 columns in the diagram on the previous page):

1. Eliminating Improper Payments,
2. Rightsizing the Government's Real Property,
3. Improving the Financial Report of the U.S. Government,
4. Managing the Financial Management Line of Business,
5. Strengthening Internal Controls,
6. Strengthening Grants Management, and
7. Strengthening Social Insurance Reporting.

This Report discusses these activities (or columns) in greater detail, highlighting for each initiative, the Strategic Goal, FY 2011 Targets, Interim Objectives, FY 2007 Priority Actions, and Recent Accomplishments.

## **Core Activities**

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. Managing Grants, and
6. Improving Auditing Standards.

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 (or columns) 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-H are included to provide supplementary information for a complete representation of the governmental-wide “Five-Year” financial management plan and status report for FY 2006.

### ***The Chief Financial Officer Council and the President’s Council on Integrity and Efficiency***

OFFM’s ongoing work with the Chief Financial Officer Council (CFOC) and the President’s Council on Integrity and Efficiency (PCIE) is critical to ensure that the Framework described above 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 seven “Transformation Teams” that assist in carrying out the Framework’s efforts: (1) Central Reporting, (2) Improper Payments, (3) Grants Governance, (4) Financial Systems Modernization, (5) Performance Metrics, (6) Financial Standardization, and (7) 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.

## The Financial Management-Related Initiatives of the President's Management Agenda



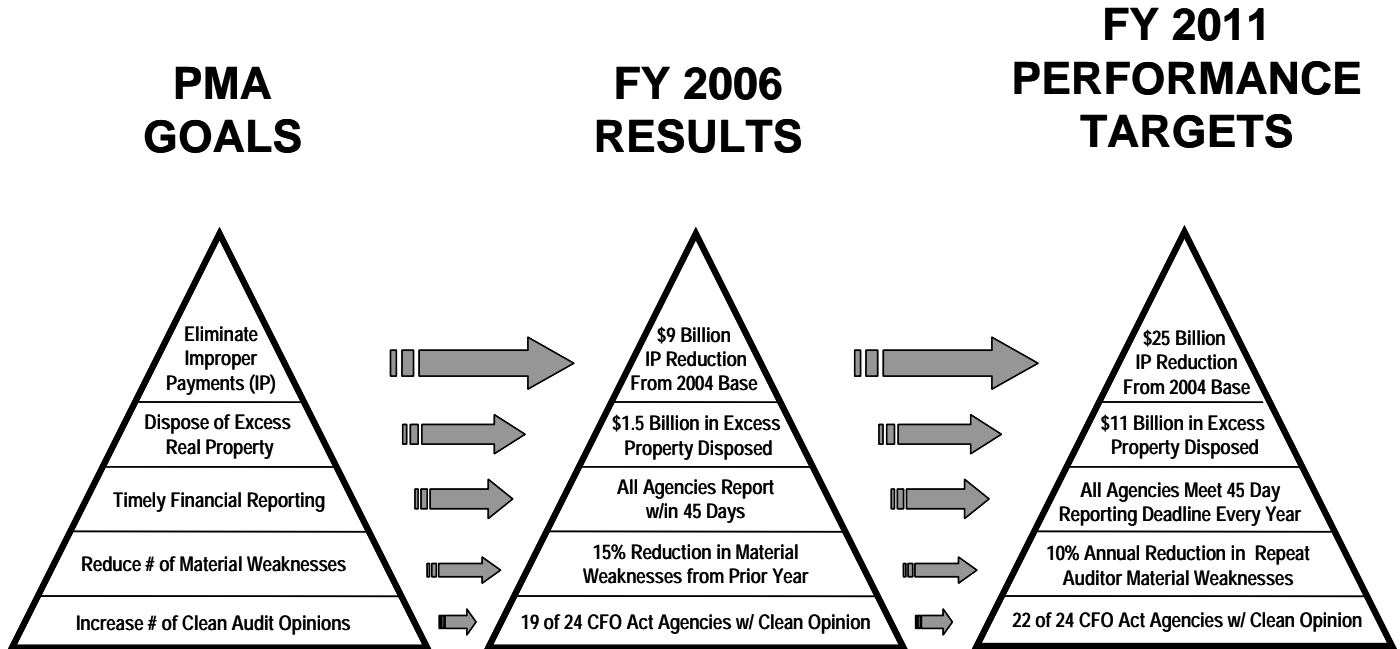
When the CFO Act was signed into law more than 15 years ago, the Federal Government was responding to numerous financial management challenges. The Comptroller General at the time had testified that billions of dollars were “at risk” in the Federal Government’s programs due to inadequate financial management systems and controls, and agencies generally could not give assurance that their financial statements were accurate and reliable. The CFO Act was a direct response to these deficiencies and was aimed toward reforming financial management practices within the Federal Government. In short, the Act called for stronger financial leadership, more disciplined financial controls, improved financial management systems, and accurate and timely financial information for decision-making. Federal CFOs are now in charge of implementing a number of management reforms, including the Federal Managers’ Financial Integrity Act of 1982 (FMFIA) (Pub. L. No. 97-255), intended to strengthen internal controls and accounting systems, and the Federal Financial Management Improvement Act of 1996 (FFMIA) (Pub. L. No. 104-208), intended to improve financial management systems. If implemented effectively, the reform environment created by law, administrative action, and executive order provides a solid foundation for continual improvements in the Federal government’s stewardship of the public’s tax dollars.

The primary instrument used by the Administration to implement the principles of the CFO Act and other Federal financial management laws is the PMA. The PMA is most clearly embodied in the “Improving Financial Performance” initiative. Under this initiative, the President identified a limited number of clear, meaningful, and attainable financial goals 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.

As a primary goal, every agency CFO is responsible for meeting standards that reflect a sound foundation 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. These standards ensure that Federal agencies are properly accounting for taxpayer dollars and can produce financial information that is both timely and reliable. Federal agencies must achieve these standards to move from “red” to “yellow” status on the PMA stop light scorecard system. CFOs must build on these standards, and ensure that financial information is available for managers on demand and is actively being used to drive results in key areas of operations. Federal agencies must demonstrate that financial information is being used effectively to manage costs to move achieve a “green” status score.

In addition to the Improving Financial Performance Initiative, the President has also established additional PMA initiatives to eliminate improper payments and right-size the Federal Government’s real estate. Under these initiatives, agencies achieve “yellow” status by putting the right tools in place to measure improper payments and identify excess real estate. Agencies

move to “green” status when improper payment reduction and real estate disposal targets are achieved. The accompanying diagram demonstrates the key goals for the financial management-related PMA initiatives, with the corresponding FY 2006 results and 5 year performance targets.



The reform and core activities highlighted in the remainder of this Report are intended to position agencies to achieve the PMA goals and targets described above. For example, OMB Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A (Internal Control over Financial Reporting) provides guidance for improved agency internal controls, and gives agency managers and stakeholders greater assurance that Federal financial statements are accurate and reliable. The Financial Management Line of Business (FMLoB) is improving the effectiveness and efficiency of the financial services and financial systems available to agency managers, allowing them to focus their efforts on utilizing information, instead of producing it. The Federal Real Property Asset Management initiative requires agencies to develop and use inventory information to ensure property inventories are maintained at the right size, cost, and condition to support agencies’ missions and objectives.

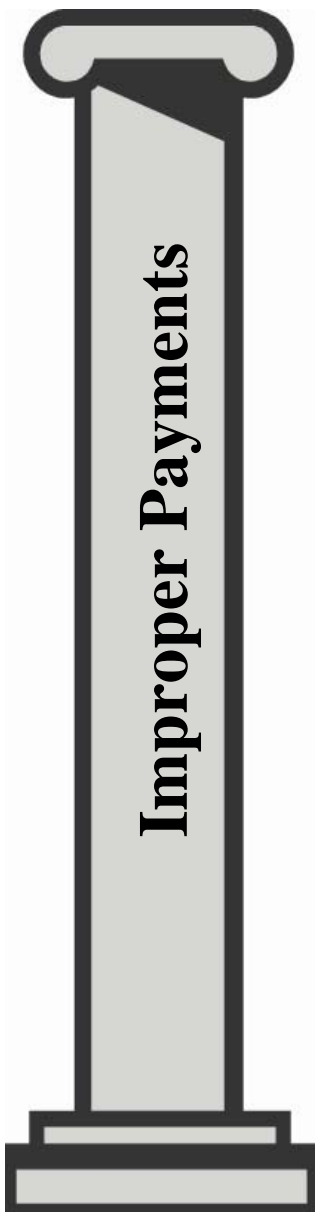
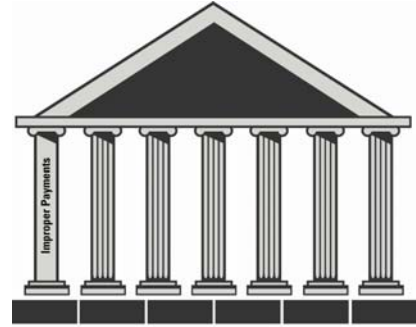
These examples, and the others discussed in this report, reflect the Administration’s reform priorities, based on the key challenges and opportunities in the current environment. As the environment changes, certain core activities may take on new significance and become reform initiatives or the standards for current initiatives may change. 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 PMA will continue to guide our efforts.

# 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 2011 TARGET(S):**

- Reduce improper payment total of programs that reported in the baseline year of FY 2004 from \$45.1 billion by \$20 billion.

## **INTERIM OBJECTIVES:**

- Identify the causes of improper payments and develop program specific corrective action plans.
- 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.

## **FY 2007 PRIORITY ACTIONS:**

- Have measurement plans in place for FY 2008 reporting for all programs at a significant risk of improper payments.
- Conduct State partnership project to enhance program integrity efforts in Federally-funded, State-administered programs such as Medicaid.
- Expand recovery auditing to ensure full participation for all mandated agencies.

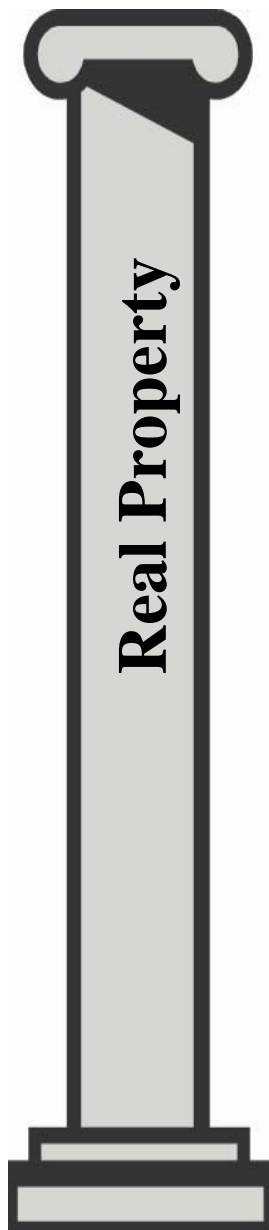
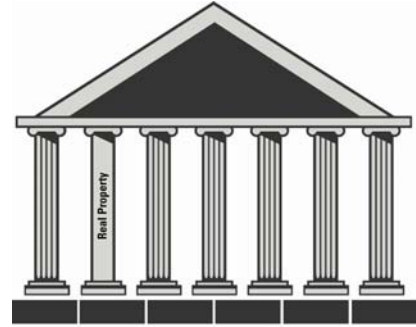
## **RECENT ACCOMPLISHMENT(S):**

- Decreased improper payments approximately \$9 billion over the past three years in the programs originally reporting in the baseline year (FY 2004).
- Implemented action plans to ensure 100% error measurement reporting for all high risk programs.
- Decreased the government-wide improper payment rate down to 2.9% from 3.2% reported in FY 2005, and from 3.9% reported in FY 2004.



# 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 2011 TARGET(S):**

- Dispose of \$11 billion in unneeded Federal real property.

## **INTERIM OBJECTIVES:**

- Capture inventory data/performance metrics on all constructed assets.
- Implement agency-specific Asset Management Plans.
- Dispose of unneeded Federal real property.
- Obtain legislative authority to reform asset management and disposition, including the retention of sales proceeds.

## **FY 2007 PRIORITY ACTIONS:**

- Enact the President's legislative proposal to allow Executive agencies to retain a portion of the net proceeds of sale 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 using asset-specific performance data in their decision-making process.
- Increase information sharing among Executive agencies on unneeded assets.

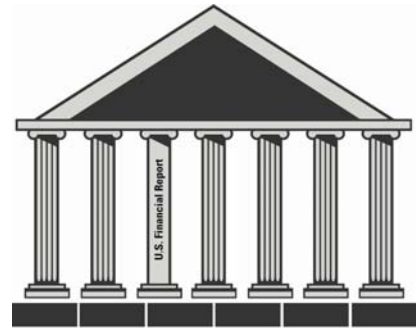
## **RECENT ACCOMPLISHMENT(S):**

- Reported to the Government-wide database, inventory, and performance data on more than 1.2 million assets.
- Disposed of more than \$4.2 billion in unneeded real property assets since FY 2004.
- Established the Performance Assessment Tool using performance measure data to assist agencies in their efforts to right-size real property assets.

# Improving the Financial Report of the United States Government

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. This report contains important financial data that provide the public with an important view of the Federal government's finances. Improvements are necessary to ensure

that some of the key information contained in the Report meets audit scrutiny for reliability and accuracy. 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 2011 TARGET(S):**

- Eliminate one-third of current material weaknesses.

## **INTERIM OBJECTIVES:**

- Downgrade intra-governmental transactions material weakness.
- Achieve an opinion on the Department of Defense’s balance sheet.
- Improve Agency-Treasury reporting.

## **FY 2007 PRIORITY ACTIONS:**

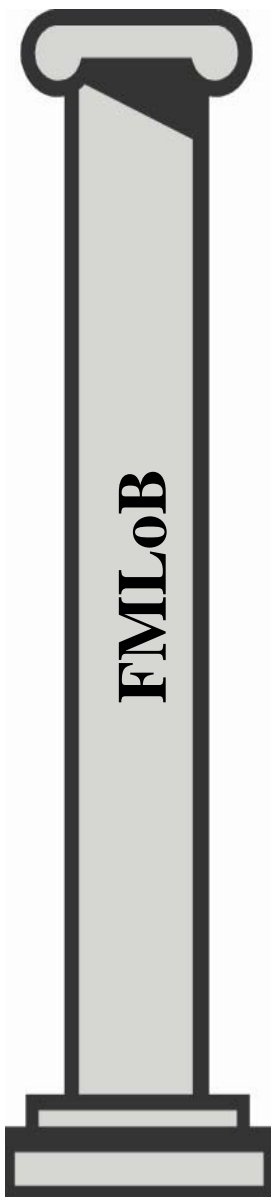
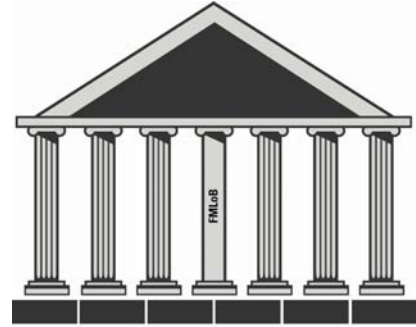
- For intra-governmental transactions, implement Dispute Resolution Committee, develop performance metric, and initiate intra-governmental Payment and Collection (IPAC) System improvements for intra-governmental transactions.
- Work collaboratively with Treasury to revise and develop corrective action plans for material weaknesses.
- Continue education and preparation for Treasury’s Government Wide Accounting (GWA) initiative.

## **RECENT ACCOMPLISHMENT(S):**

- Updated and published standard intra-governmental business rules that are effective for all agencies (via OMB Memorandum M-07-03 & Treasury’s Bulletin No. 2007-03).

# The Financial Management Line of Business (FMLoB)

The FMLoB is enhancing the fundamental means by which the government collects and reports financial information. It is standardizing financial business processes and data, and achieving efficiencies through the economies of scale that accompany the use of shared service solutions. This reform activity supports PMA objectives by significantly improving the financial data government managers need to make timely and successful decisions and reducing the cost of Government operations.



## **STRATEGIC GOAL:**

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

## **FY 2011 TARGET(S):**

- Migrate majority of agencies to shared service providers and implementing FMLoB standardization elements.

## **INTERIM OBJECTIVES:**

- Issue migration planning guidance.
- Implement common performance metrics.
- Define and implement common accounting code.
- Define and implement standard business processes.

## **FY 2007 PRIORITY ACTIONS:**

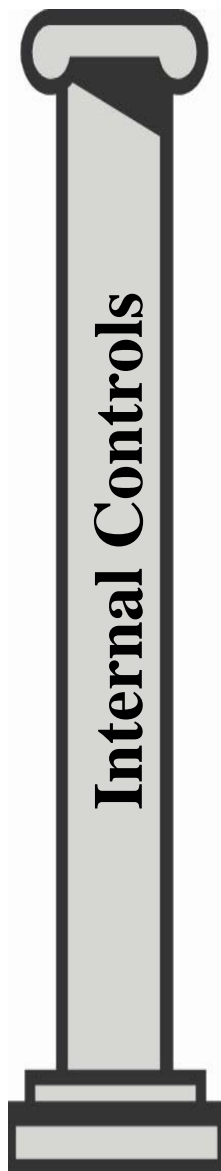
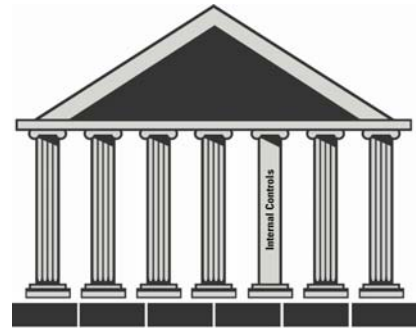
- Define standard interfaces to core financial systems.
- Define additional standard business processes.
- Finalize information technology measures and pilot collection.
- Address FMLoB policy questions.

## **RECENT ACCOMPLISHMENT(S):**

- Issued first version of Migration Planning Guidance government-wide.
- Published competition guidance for shared service providers and agencies.
- Released exposure draft for common Government-wide accounting code.

# 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.



## **STRATEGIC GOAL:**

- Improve effectiveness of internal control over financial reporting.

## **FY 2011 TARGET(S):**

- Achieve full compliance with A-123, Appendix A by all CFO Act agencies.
- Eliminate 50% of all current government-wide material weaknesses.
- 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:**

- Utilize A-123 assessment results to improve material weakness corrective action plans.
- Obtain consensus between management, the Office of Inspector General, and OMB on material weakness corrective action plans.
- Enhance internal control based on lessons learned and best practices.

## **FY 2007 PRIORITY ACTIONS:**

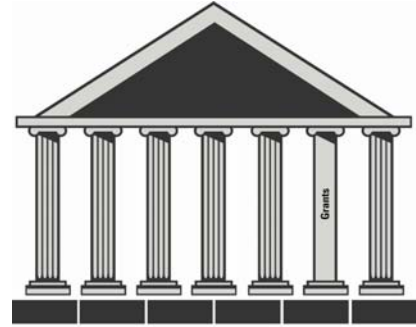
- Facilitate forum on lessons learned from FY 2006 implementation of A-123.
- Update OMB guidance, as necessary, based on lessons learned.
- Receive update corrective action plans from agencies that reflect lessons learned from FY 2006 implementation of A-123.

## **RECENT ACCOMPLISHMENT(S):**

- Completed first year of A-123 implementation in all 24 CFO agencies.
- Implemented a full scope A-123 assessment (testing all key processes) in 16 of the 24 CFO Act agencies.
- Implemented a multi-year phased-in assessment (testing a portion of the key processes) and provided plans for testing the remaining processes within three years in 8 of the 24 CFO Act agencies.

# Strengthening 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 through 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 2011 TARGET(S):**

- Develop searchable public website for grants and sub-grants awards.
- Migrate all major grant-making agencies migrated to Grants Management Line of Business (GMLoB) consortia.
- Make available FIND and APPLY capabilities on Grants.gov for 100% of all discretionary grants.

## **INTERIM OBJECTIVES:**

- Make award data accessible on searchable public website, consistent with the Federal Funding Accountability and Transparency Act of 2006 (FFATA) (Pub. L. 109-282).
- Complete required activities under the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107), Grants Streamlining.
- Commence migration of major grant-making agencies to GMLoB consortia.

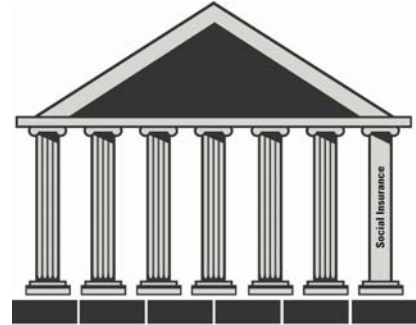
## **FY 2007 PRIORITY ACTIONS:**

- Complete action items for FFATA implementation, including agreed upon data definitions and pilot launch of award data.
- Complete Pub. L. No. 106-107 activities, including single location for grants administration policies, single catalog for all assistance programs, standard award announcement format.

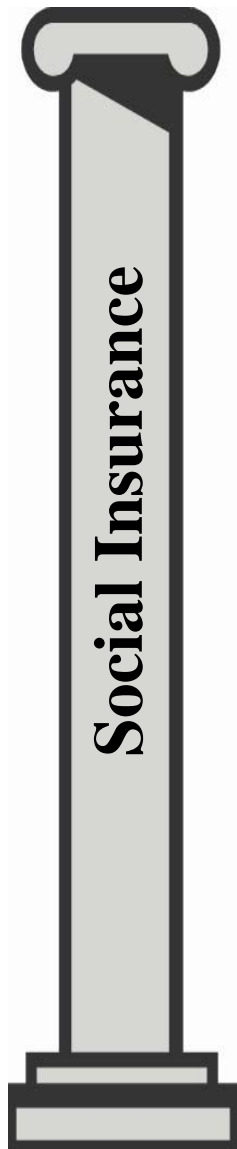
## **RECENT ACCOMPLISHMENT(S):**

- Defined action plan for FFATA implementation.
- Implemented 100% FIND and 75% APPLY functionality on Grants.gov.
- Consolidated standard grant forms designed for the reporting of financial, performance, property and invention by grantees.

# Strengthening Social Insurance 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 and expand on current social insurance reporting through additional disclosures in the Financial Report. These disclosures will help 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:**

- Disclosure of comprehensive social insurance and sustainability data that facilitates and guides reform efforts to address the long-term fiscal imbalance.

## **FY 2011 TARGET(S):**

- Provide Social Insurance disclosures in the Financial Report used by lawmakers and the public to inform debate on entitlement reform.

## **INTERIM OBJECTIVES:**

- Receive clean opinion on Statement of Social Insurance (SOSI) Financial Report.
- Develop a “Statement of Fiscal Sustainability” and include as a principal statement within the Financial Report.

## **FY 2007 PRIORITY ACTIONS:**

- Solicit comments on the FASAB Social Insurance Preliminary Views document, obtaining a broad and diverse array of viewpoints and input.
- Launch FASAB Sustainability Task Force to begin work on improved sustainability reporting.

## **RECENT ACCOMPLISHMENT(S):**

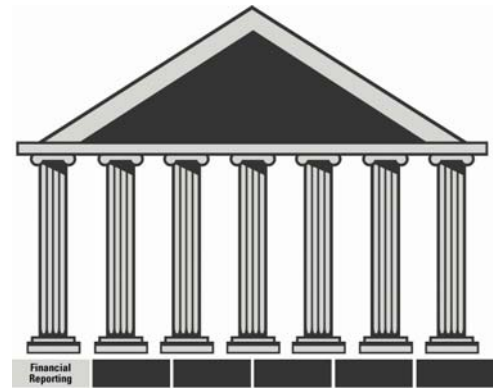
- Audited SOSI published for the first time at the agency and Government-wide level.
- Achieved clean audit opinion on all agency-level SOSIs.
- Released proposed “Statement of Fiscal Sustainability” for public comment.

# 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 2006, 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 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<sup>2</sup>, the Accountability of Tax Dollars Act of 2002 (“ATDA”)<sup>3</sup> (Pub. L. 107-289), and Annual Management Reports under the Government Corporations Control Act<sup>4</sup> (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/>.

Accelerated due dates for PAR reporting became effective in FY 2004. Agencies are required to submit their PARs to OMB and the Congress no later than 45 days after the end of the fiscal year. Circular No. A-136 made this 45-day deadline a permanent annual requirement for all executive agencies.

Annual revisions to Circular No. A-136 are implemented by OMB in coordination with the CFO Council in order to provide clarifications and minor reporting changes for the current fiscal year, as well as advanced guidance on upcoming changes to Statements of Federal Financial Accounting Standards from the FASAB. Significant goals for FY 2007 are to issue Circular No.

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<sup>2</sup> Pub. L. No. 101 – 576

<sup>3</sup> Pub. L. No. 107 – 289

<sup>4</sup> 31 U.S.C. § 9101 et seq.



A-136 revisions earlier in the fiscal year and to facilitate streamlined PAR reported so that information is easier to read and understand by a variety of users (i.e., Congress, the public, etc.) and the cost of PAR development is reduced.

## **Accounting Standards**

To facilitate the standard setting process, the FASAB was established as an advisory board under the Federal Advisory Committee Act by the Comptroller General, the Secretary of the Treasury, and the Director of OMB. The Board is made up of 10 members—4 government members (OMB, GAO, Treasury, and the Congressional Budget Office) and 6 non-Federal members from private industry and academia. 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).

OFFM maintains an active and ongoing involvement with FASAB, serving as the OMB representative on FASAB. OFFM staff act as liaisons to FASAB and as such, identify critical accounting standards’ issues and seek input from relevant agencies and OMB offices. An OFFM representative also 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.

## **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. It is published on the Web and widely distributed.

The *2006 Financial Report* was published on December 15, 2006. The Treasury first issued the *Financial Report*, for FY 1997, as an important piece of our effort to increase public awareness of the government’s future spending obligations. For the past three years, OMB has required the Treasury to issue the Report on December 15, rather than on the March 31 statutory deadline, to provide financial information early enough to be useful in the budget process.

For the 10<sup>th</sup> consecutive year, the GAO issued a disclaimer of opinion on the *Financial Report’s* consolidated financial statements. 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.



In FY 2006, OMB undertook the following collaborative efforts to not only address the audit concerns that continue to prevent the GAO from expressing an opinion on the Report's financial statements, but to continue improving transparent government-wide financial reporting: (1) worked with the Treasury and the CFO Council to revise the Business Rules for Intragovernmental Transactions, (2) proposed a "Statement of Fiscal Sustainability" with the Treasury and the GAO for Report's Social Insurance reporting, and (3) provided valuable short- and long-term measures about the Government's finances.

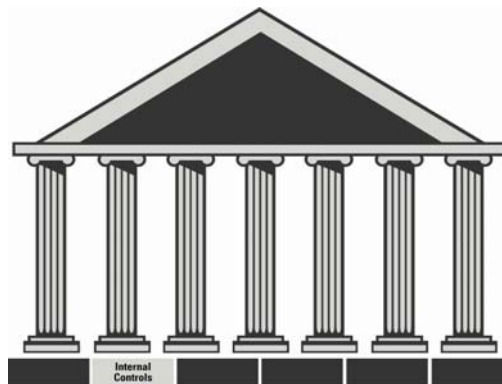
The Business Rules for Intragovernmental Transactions were revised and became effective on October 1, 2006 to address the Federal Government's inability to adequately account for and reconcile intragovernmental activity and balances between agencies. The Rules were revised, expanded, and strengthened to cover other types of intragovernmental activities not addressed in the original business rules. The new rules—located in the Treasury Financial Manual, Volume 1, Bulletin 2007-3 (<http://www.fms.treas.gov/tfm/vol1/bull.html>)—are mandatory for all Departments and Agencies. As a part of the new business rules, an Intragovernmental Dispute Resolution Committee has been established to help facilitate the resolution of accounting, reporting, and timing differences or contractual disputes between Federal entities. All Departments and Agencies are expected to actively participate in the reconciliation and dispute resolution process.

OMB plans to monitor agencies' progress regarding the use of the Rules to account for and reconcile their intragovernmental activity and balances. Moreover, the CFO Council's Performance Metric team will develop a metric to monitor and drive results based on the Rules. OMB will also continue working with Treasury and the CFO Council to improve government-wide financial reporting and to resolve the *Financial Report's* other material weaknesses.

Also in FY 2006, the OMB, Treasury, and GAO FASAB members developed a "Statement of Fiscal Sustainability" to improve and expand on current social insurance reporting through additional disclosures in the *Financial Report*. These disclosures will help alert lawmakers and the public of the impending fiscal crisis that will occur if no action is taken. Finally, the Treasury and OMB were instrumental in demonstrating that both the deficit total (short-term measure) in the President's Budget and the net operating cost total (long-term measure) in the *Financial Report* complement each other by providing valuable information that together provide a full picture of the Government's finances.

## 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](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 2006 assessment can be found in Appendix B of this Federal Financial Management Report. The FAQ document can be found at ([http://www.whitehouse.gov/omb/circulars/a123/faq\\_a123\\_appx\\_a.pdf](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 sponsors more than 2.9 million credit cards to use in purchasing goods and services, or for employees when traveling on official government business. These transactions represent \$26.5 billion dollars spent through the use of purchase, fleet, or travel cards, with nearly \$17.8 billion spent in the purchase card program alone in FY 2006. These programs continue to demonstrate the improved efficiencies of charge card use, through administrative savings, refunds earned and streamlined processes.

OFFM provides oversight of Federal charge card programs. In August 2005, OMB issued Appendix B to OMB Circular No. A-123. Appendix B 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

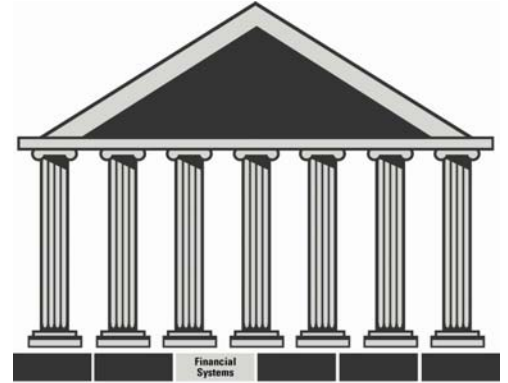
annual basis, depending on the size of the agency. OFFM works with agencies to strengthen their charge card programs when appropriate. OFFM also works closely with the GSA SmartPay program, which manages the primary contracts with the Federal Government's charge card providers, to ensure the program 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 2006, OMB continued its work to ensure full implementation of the FFMIA. Implementation of FFMIA requires agencies to implement and maintain financial management systems that substantially comply with: (1) federal financial management systems requirements; (2) applicable federal accounting standards; and (3) the United States Standard General Ledger at the transaction level. Agencies continue to make progress in implementing FFMIA, but significant work remains. Specifically, 19 CFO Act agencies achieved unqualified financial statement audit opinions in FY 2006 while many of these same agencies operate financial management systems that do not meet all of the requirements of FFMIA. Full implementation is an important component of providing government managers with reliable, useful, and timely financial information.



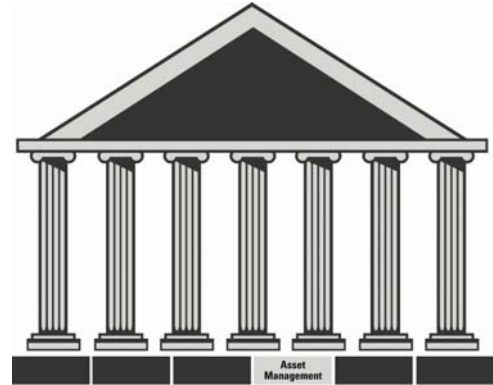
OMB's FFMIA compliance oversight efforts have been incorporated into the PMA's Improving Financial Performance initiative. Substantial compliance with FFMIA is one of the initiative's standards of success and agencies must report substantial compliance before they can receive the highest rating of "Green." Under the improving financial performance initiative, OMB monitors agency progress towards FFMIA compliance on a quarterly basis.

In addition to OMB's oversight of agencies' financial management systems implementations, OMB uses the Financial Management Line of Business (FMLoB) initiative to 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.

The FMLoB adopted a shared service model, in which qualified providers deliver both financial management and financial systems services to multiple agencies. Shared service providers may be operated by public agencies or commercial providers. The majority of small Federal agencies have moved to shared service providers. Current efforts are focused on the migration of larger CFO Act agencies.

## IV. Improving Asset Management

OFFM is improving asset management throughout the Federal Government by coordinating asset management 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 trillion real property assets with a replacement value in excess of \$1.2 trillion and holds title to approximately one in every four acres of the United States' entire land mass. The Administration continues to require that Federal real property assets be accounted for, and that effective plans be made for purchases, management, maintenance, and operation.

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 held 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 improved accuracy of their real property inventory and performance measurement data reporting and implementation of specific actions that 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.

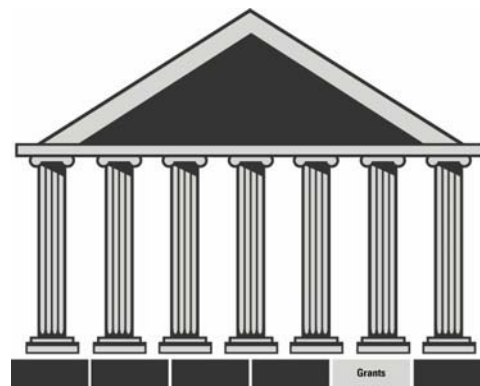
OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables* (Circular No. A-129), requires agencies to submit an annual report providing OMB with information on: (1) internal debt collection processes; (2) agency identified deficiencies in current policies; (3) actions taken by agencies to comply with DCIA and Circular No. A-129; and (4) intended actions to improve debt collection policies and practices. For FY 2006 these reports were due by December 31, 2006, 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 DCIA, 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. Managing Grants

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—

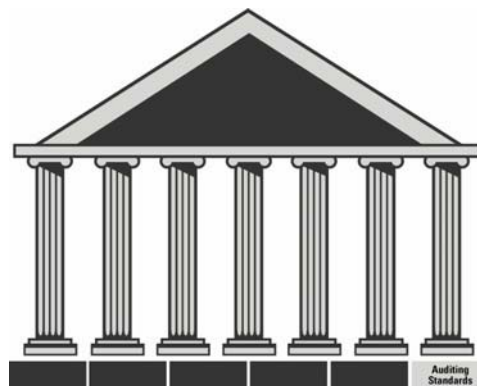


roughly one-sixth of the Federal budget. OFFM issues and maintains OMB grants management circulars and Government-wide guidelines for educational institutions; State, local, and Indian Tribal Governments, and non-profit organizations regarding cost principles (OMB Circular Nos. A-21, A-87, and A-122), administrative requirements (OMB Circular Nos. A-102 and A-110), and audit (OMB Circular No. A-133). In addition, OFFM:

- Determines government-wide audit policy for Federal grantees.
- Issues annual updates to the Compliance Supplement to OMB Circular No. A-133, which provides guidance to non-Federal auditors of approximately 40,000 State and local Governments and nonprofit Federal grant recipients.
- Oversees the Federal Audit Clearinghouse that receives and distributes single audit reports within the Federal Government and maintains a Government-wide database of single audit results.
- Oversees the implementation of the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107). This Act seeks 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. Under this Act, OMB has worked with the Grants Governance Transformation Team within the Chief Financial Officer's Council to achieve many milestones that streamline the grant process and reduce administrative burden on the grantees.
- Provides technical and policy advice to the OMB's Office of E-Government and Information Technology on the implementation of Grants.gov (a single electronic portal for grantees to find grant opportunities and submit applications on-line) and the Grant Management Line of Business.
- Provides leadership and coordination among federal agencies in the implementation of a searchable website for federal grants, contracts and loans as required under the FFATA.

## VI. Improving Auditing Standards

OMB provides auditing standards 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 auditing standards 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.



OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, was released on August 23, 2006 to provide new procedural guidelines to enhance and update the minimum requirements for audits of Federal financial statements. The Bulletin was updated by OFFM in conjunction with the Financial Statement Audit Network of the President's Council on Integrity and Efficiency (PCIE). The changes in the Bulletin apply to audits of financial statements of all executive departments, agencies, and government corporations.

The most significant changes in the Bulletin expanded the definition of "material weakness" and "significant deficiency," to align the definitions more closely to those of the private sector. The revised definitions in OMB Bulletin 06-03 are consistent with the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2 and American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 112. As of this writing, the PCAOB released proposed changes that would further clarify these definitions. OFFM will continue monitoring the activities of the PCAOB and other audit organizations to determine if further changes are needed in this area of the Bulletin.



## 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. As the environment changes, certain core activities may take on new significance and therefore may be considered for a future reform initiative. A regular re-evaluation of the Administration's reform priorities will be guided by the PMA and 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 PMA will continue to guide our efforts.

# APPENDICES

## **Appendix A: Summary of FY 2006 Audited Financial Statement Results by Agency and Selected Components**

In FY 2006, agencies subject to the CFO Act were required to prepare annual financial statements subject to audit. OMB also designates those individual entity components that must prepare audited financial statements.

<i>CFO Act Agency:</i>	<i>FY 2006 Audit Opinion</i>
Department of Agriculture (USDA)	Unqualified
Department of Commerce (DOC)	Unqualified
Department of Defense (DOD)	Disclaimer
Department of Education (Education)	Unqualified
Department of Energy (DOE)	Disclaimer
Department of Health and Human Services (HHS)	Unqualified
Department of Homeland Security (DHS)	Disclaimer
Department of Housing and Urban Development (HUD)	Unqualified
Department of the Interior (DOI)	Unqualified
Department of Labor (DOL)	Unqualified
Department of Justice (DOJ)	Unqualified
Department of State (State)	Unqualified <sup>5</sup>
Department of Transportation (DOT)	Qualified
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

<sup>5</sup> The Department of State received a disclaimer of opinion on the financial statements published on November 15. The Department subsequently reissued its financial statements on December 15, 2006 with an unqualified opinion.

<b><i>CFO Act Agency:</i></b>	<b><i>FY 2006 Audit Opinion</i></b>
Nuclear Regulatory Commission (NRC)	Unqualified
Office of Personnel Management (OPM)	Unqualified
Small Business Administration (SBA)	Unqualified
Social Security Administration (SSA)	Unqualified
<b><i>Agency Component:</i></b>	
Food and Nutrition Service (USDA)	N/A*
Forest Service (USDA)	Unqualified
Rural Development (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)	Qualified
Highway Trust Fund (DOT)	Unqualified
Internal Revenue Service (Treasury)	Unqualified
Civil Service Retirement and Disability Fund (OPM)	Unqualified
Federal Employees Health Benefits Program (OPM)	Unqualified
Federal Employees Life Insurance Program (OPM)	Unqualified

\* Component received an OMB waiver from audit for FY 2006.

## **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 nonconformances 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 nonconformances reported by agency heads under Section 4 of FMFIA.

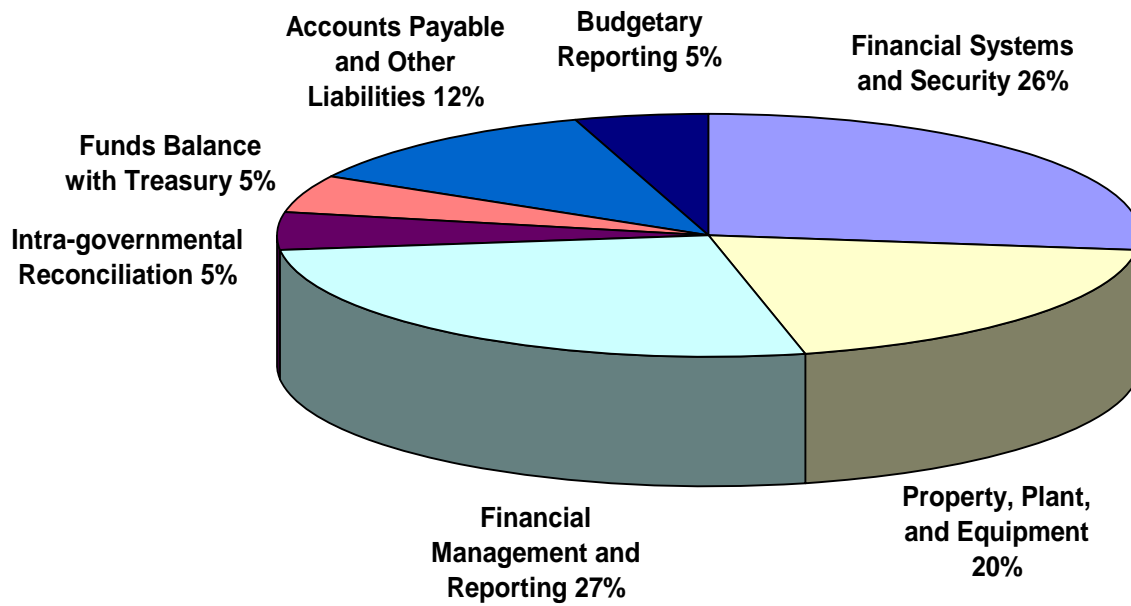
### Table Definitions:

- **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 2006:  
Auditor-Reported Material Weaknesses**

	<b>Beginning</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending</b>
<b>Agriculture</b>	2	0	0	0	2
<b>Commerce</b>	0	0	0	0	0
<b>Defense</b>	11	1	0	0	12
<b>Education</b>	0	0	0	0	0
<b>Energy</b>	1	1	1	0	1
<b>HHS</b>	2	1	0	1	2
<b>Homeland</b>	10	1	0	1	10
<b>HUD</b>	2	0	2	0	0
<b>Interior</b>	2	0	1	0	1
<b>Justice</b>	2	0	1	0	1
<b>Labor</b>	0	0	0	0	0
<b>State</b>	2	0	2	0	0
<b>DOT</b>	3	2	2	1	2
<b>Treasury</b>	1	0	0	0	1
<b>VA</b>	3	0	0	0	3
<b>AID</b>	1	1	1	0	1
<b>EPA</b>	0	0	0	0	0
<b>GSA</b>	1	0	1	0	0
<b>NASA</b>	3	0	0	1	2
<b>NSF</b>	0	0	0	0	0
<b>NRC</b>	1	1	0	0	2
<b>OPM</b>	0	0	0	0	0
<b>SBA</b>	1	0	0	0	1
<b>SSA</b>	0	0	0	0	0
<b>Totals</b>	<b>48</b>	<b>8</b>	<b>11</b>	<b>4</b>	<b>41</b>

## FY 2006 Auditor-Reported Material Weaknesses by Category



**Fiscal Year 2006:  
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
<b>Agriculture</b>	Unqualified	Qualified	2	2	0	0	0	4
<b>Commerce</b>	Qualified	Unqualified	1	0	0	0	0	1
<b>Defense</b>	Qualified	Qualified	33	12	7	4	0	34
<b>Education</b>	Qualified	Unqualified	0	2	0	0	0	2
<b>Energy</b>	Unqualified	Qualified	0	1	0	0	0	1
<b>HHS</b>	Qualified	Qualified	1	3	0	1	0	3
<b>Homeland</b>	Qualified	No Assurance	12	1	0	0	0	13
<b>HUD</b>	Unqualified	Unqualified	0	0	0	0	0	0
<b>Interior</b>	Unqualified	Unqualified	4	0	1	0	3	0
<b>Justice</b>	Qualified	Qualified	1	2	0	0	1	2
<b>Labor</b>	Qualified	Unqualified	0	1	0	0	0	1
<b>State</b>	Unqualified	Unqualified	0	0	0	0	0	0
<b>DOT</b>	Qualified	Qualified	3	1	2	0	0	2
<b>Treasury</b>	Qualified	Qualified	6	1	1	0	0	6
<b>VA</b>	Qualified	Qualified	1	1	1	0	0	1
<b>AID</b>	Qualified	Qualified	0	4	0	0	0	4
<b>EPA</b>	Unqualified	Unqualified	0	0	0	0	0	0
<b>GSA</b>	Unqualified	Unqualified	1	0	1	0	0	0
<b>NASA</b>	Qualified	Qualified	1	3	1	0	0	3
<b>NSF</b>	Unqualified	Qualified	0	0	0	0	0	0
<b>NRC</b>	Qualified	Unqualified	0	2	0	0	0	2
<b>OPM</b>	Unqualified	Unqualified	1	0	1	0	0	0
<b>SBA</b>	Unqualified	Qualified	1	0	0	0	0	1
<b>SSA</b>	Unqualified	Unqualified	0	0	0	0	0	0
<b>TOTAL</b>			<b>68</b>	<b>36</b>	<b>15</b>	<b>5</b>	<b>4</b>	<b>80</b>



**Fiscal Year 2006:  
FMFIA Section 2 – Operational**

	Adequate and Effective Management Controls*			Number of Material Weaknesses					
	Yes	Yes, with Material Weaknesses	No	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture	X			0	0	0	0	0	0
Commerce		X		1	0	0	0	0	1
Defense		X		31	9	7	4	0	29
Education		X		0	2	0	0	0	2
Energy	X			0	0	0	0	0	0
HHS		X		0	1	0	0	0	1
Homeland			X	2	1	0	0	0	3
HUD	X			0	0	0	0	0	0
Interior	X			2	0	0	0	2	0
Justice		X		0	1	0	0	0	1
Labor		X		0	1	0	0	0	1
State	X			0	0	0	0	0	0
DOT		X		1	0	1	0	0	0
Treasury		X		6	0	1	0	0	5
VA		X		0	1	0	0	0	1
AID		X		0	2	0	0	0	2
EPA	X			0	0	0	0	0	0
GSA	X			0	0	0	0	0	0
NASA		X		1	1	1	0	0	1
NSF	X			0	0	0	0	0	0
NRC		X		0	2	0	0	0	2
OPM	X			1	0	1	0	0	0
SBA	X			0	0	0	0	0	0
SSA	X			0	0	0	0	0	0
<b>TOTAL</b>	<b>11</b>	<b>12</b>	<b>1</b>	<b>45</b>	<b>21</b>	<b>11</b>	<b>4</b>	<b>2</b>	<b>49</b>

**Fiscal Year 2006:  
FMFIA Section 2 – Financial Reporting**

	Adequate and Effective Management Controls*			Number of Material Weaknesses					
	Yes	Yes, with Material Weaknesses	No	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture		X		2	2	0	0	0	4
Commerce	X			0	0	0	0	0	0
Defense		X		2	3	0	0	0	5
Education	X			0	0	0	0	0	0
Energy		X		0	1	0	0	0	1
HHS		X		1	2	0	1	0	2
Homeland			X	10	0	0	0	0	10
HUD	X			0	0	0	0	0	0
Interior	X			2	0	1	0	1	0
Justice		X		1	1	0	0	1	1
Labor	X			0	0	0	0	0	0
State	X			0	0	0	0	0	0
DOT		X		2	1	1	0	0	2
Treasury		X		0	1	0	0	0	1
VA		X		1	0	1	0	0	0
AID		X		0	2	0	0	0	2
EPA	X			0	0	0	0	0	0
GSA	X			1	0	1	0	0	0
NASA		X		0	2	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	0	0	0	1
SSA	X			0	0	0	0	0	0
<b>TOTAL</b>	<b>12</b>	<b>11</b>	<b>1</b>	<b>23</b>	<b>15</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>31</b>

**Fiscal Year 2006:  
FMFIA Section 4 – Financial Management Systems**

	Systems Conform to Requirements			Number of Nonconformances					
	Yes	Yes, with Non - conformances*	No	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture	X			1	0	0	0	1	0
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		1	1	0	0	0	2
Homeland			X	4	0	1	0	0	3
HUD	X			0	0	0	0	0	0
Interior	X			0	0	0	0	0	0
Justice		X		3	1	1	0	1	2
Labor	X			0	0	0	0	0	0
State	X			0	0	0	0	0	0
DOT		X		1	0	0	0	0	1
Treasury		X		1	0	0	0	0	1
VA		X		0	2	0	0	0	2
AID	X			0	0	0	0	0	0
EPA	X			0	0	0	0	0	0
GSA	X			1	0	1	0	0	0
NASA		X		3	0	1	0	1	1
NSF	X			0	0	0	0	0	0
NRC		X		0	1	0	0	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
<b>TOTAL</b>	<b>15</b>	<b>8</b>	<b>1</b>	<b>16</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>3</b>	<b>14</b>

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

<i>Government Corporation:</i>	<i>FY 2006 Audit Opinion</i>
Commodity Credit Corporation	Unqualified
Community Development Financial Institutions Fund	Unqualified
Corporation for National and Community Service	Unqualified
Export-Import Bank of the United States	Unqualified
Federal Crop Insurance Corporation	Unqualified
Federal Deposit Insurance Corporation	Not Received <sup>1</sup>
Federal Home Loan Banks	Not Received <sup>1</sup>
Federal Housing Administration Fund	Unqualified
Federal Prison Industries, Incorporated	Unqualified
Financing Corporation	Not Received <sup>1</sup>
Government National Mortgage Association	Unqualified
Millennium Challenge Corporation	Unqualified
National Credit Union Administration Central Liquidity Facility	Not Received <sup>1</sup>
Overseas Private Investment Corporation	Unqualified
Pension Benefit Guaranty Corporation	Unqualified
Resolution Funding Corporation	Not Received <sup>1</sup>
Rural Telephone Bank	Unqualified
Saint Lawrence Seaway Development Corporation	Unqualified
Tennessee Valley Authority	Unqualified

<sup>1</sup> Agency has a calendar year end; the financial statements were not due as of the printing of this report.

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

<i>Agency:</i>	<i>FY 2006 Audit Opinion</i>
Advisory Council on Historic Preservation	Not Received
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	Unqualified
Commission for the Preservation of America's Heritage Abroad	Not Received
Committee for Purchase from People Who Are Blind or Severely Disabled	Not Received
Commodities Futures Trading Commission	Unqualified
Consumer Product Safety Commission	Unqualified
Court Services and Offender Supervision Agency for DC	Not Received
Defense Nuclear Facilities Safety Board	Unqualified

<i>Agency:</i>	<i>FY 2006 Audit Opinion</i>
Delta Regional Authority	Not Received
Denali Commission	Unqualified
Equal Employment Opportunity Commission	Unqualified
Farm Credit Administration	Unqualified
Farm Credit System Financial Assistance Corporation	N/A <sup>1</sup>
Farm Credit System Insurance Corporation	Not Received <sup>2</sup>
Federal Communications Commission	Unqualified
Federal Election Commission	Qualified
Federal Financial Institutions Examination Council Appraisal Subcommittee	Unqualified
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 <sup>2</sup>
Federal Trade Commission	Unqualified
Harry S. Truman Scholarship Foundation	Not Received
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

<i>Agency:</i>	<i>FY 2006 Audit Opinion</i>
Japan-U.S. Friendship Commission	Unqualified
Marine Mammal Commission	Unqualified
Merit Systems Protection Board	Unqualified
Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation	Not Received
National Archives and Records Administration	Unqualified
National Capital Planning Commission	Unqualified
National Commission on Libraries and Information Science	Not Received
National Council on Disability	Unqualified
National Credit Union Administration	Not Received <sup>2</sup>
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	Not Received
Office of Special Counsel	Unqualified
Peace Corps	Disclaimer
Presidio Trust	Qualified

<i>Agency:</i>	<i>FY 2006 Audit Opinion</i>
Railroad Retirement Board	Unqualified
Securities and Exchange Commission	Unqualified
Selective Service System	Qualified
Smithsonian Institution	Not Received
SI/John F. Kennedy Center for the Performing Arts	Not Received
SI/National Gallery of Arts	Not received
SI/Woodrow Wilson International Center for Scholars	Unqualified
Trade and Development Agency	Unqualified
U.S. Court of Appeals for Veterans Claims	Unqualified
U.S. Holocaust Memorial Museum	Unqualified
U.S. Interagency Council on Homelessness	Not Received
U.S. International Trade Commission	Unqualified
Vietnam Education Foundation	Not Received
White House Commission on the National Moment of Remembrance	Unqualified

<sup>1</sup> The Farm Credit System Financial Assistance Corporation has completed its mission and is no longer in existence.

<sup>2</sup> Agency 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 2006 compliance findings for each CFO Act agency.

	<b>Agency-Head</b>	<b>Auditor</b>
<b>Agriculture</b>	N	N
<b>Commerce</b>	Y	Y
<b>Defense</b>	N	N
<b>Education</b>	Y	N
<b>Energy</b>	N	N
<b>HHS</b>	N	N
<b>Homeland</b>	N	N
<b>HUD</b>	Y	N
<b>Interior</b>	Y	N
<b>Justice</b>	N	N
<b>Labor</b>	Y	N
<b>State</b>	Y	N
<b>DOT</b>	N	N
<b>Treasury</b>	N	N
<b>VA</b>	N	N
<b>AID</b>	Y	Y
<b>EPA</b>	Y	Y
<b>GSA</b>	Y	Y
<b>NASA</b>	N	N
<b>NSF</b>	Y	Y
<b>NRC</b>	N	N
<b>OPM</b>	Y	Y
<b>SBA</b>	N	N
<b>SSA</b>	Y	Y
<b>TOTAL</b>	<b>12</b>	<b>7</b>

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

The Office of Management and Budget, in consultation with Federal agencies, professional associations, and academics, has established Standards for Success for each government-wide initiative of the President's Management Agenda (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, 2006. These ratings were prior to the publication of the fiscal year 2006 audited financial statements.

# The President's Management Agenda Improving Financial Performance Standards for Success (as of 4<sup>th</sup> Quarter FY 2006)

## 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; **AND**
- Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations.



Agency:

- Receives an unqualified opinion on its audited annual financial statements;
- Meets financial reporting deadlines;
- Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act;
- Has no chronic or significant Anti-Deficiency Act Violations;
- Has no repeat material auditor-reported internal control weaknesses;
- Has no material non-compliance with laws or regulations; **AND**
- Has no repeat material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.



Agency:

- Receives an opinion other than unqualified on its annual financial statements;
- Does not meet financial reporting deadlines;
- Cannot report in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act;
- Commits chronic or significant Anti-Deficiency Violations;
- Has repeat material auditor reported internal control weaknesses;
- Is in material non-compliance with laws or regulations; **OR**
- Has repeat material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.

## Explanation of Progress Score



Green – Implementation is proceeding according to plans.



Yellow – Slippage in implementation schedule, quality of deliverables, or other issues requiring adjustments by agency in order to achieve initiative on a timely basis.



Red – Initiative in serious jeopardy. Unlikely to realize objectives without significant management intervention.

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

	Current Status					Progress				
	FY02 Q2	FY03 Q4	FY04 Q4	FY05 Q4	FY07 Q1	FY02 Q2	FY03 Q4	FY04 Q4	FY05 Q4	FY07 Q1
AGRICULTURE	●	●	●	●	●	●	●	●	●	●
COMMERCE	●	●	●	●	●	●	●	●	●	●
DEFENSE	●	●	●	●	●	●	●	●	●	●
EDUCATION	●	●	●	●	●	●	●	●	●	●
ENERGY	●	●	●	●	●	●	●	●	●	●
EPA	●	●	●	●	●	●	●	●	●	●
HHS	●	●	●	●	●	●	●	●	●	●
HOMELAND		●	●	●	●		●	●	●	●
HUD	●	●	●	●	●	●	●	●	●	●
INTERIOR	●	●	●	●	●	●	●	●	●	●
JUSTICE	●	●	●	●	●	●	●	●	●	●
LABOR	●	●	●	●	●	●	●	●	●	●
STATE	●	●	●	●	●	●	●	●	●	●
DOT	●	●	●	●	●	●	●	●	●	●
TREASURY	●	●	●	●	●	●	●	●	●	●
VA	●	●	●	●	●	●	●	●	●	●
AID	●	●	●	●	●	●	●	●	●	●
Corps of Eng	●	●	●	●	●	●	●	●	●	●
GSA	●	●	●	●	●	●	●	●	●	●
NASA	●	●	●	●	●	●	●	●	●	●
NSF	●	●	●	●	●	●	●	●	●	●
OPM	●	●	●	●	●	●	●	●	●	●
SBA	●	●	●	●	●	●	●	●	●	●
SMITHSONIAN	●	●	●	●	●	●	●	●	●	●
SSA	●	●	●	●	●	●	●	●	●	●

## Appendix G: Debt Collection Deficiencies and Corrective Actions

<i>Agency</i>	<i>Deficiency</i>	<i>Corrective Actions</i>
Agriculture (USDA)	Some agencies within USDA have not been compliant with the requirement to write-off delinquent debt greater than two years old if there are no estimated material collections.	USDA is aggressively working to coordinate write-off plans across the agencies, and all delinquent debt greater than two years old will either be written-off or reported to OMB by March 31, 2007.
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 on Form 1099C.	HHS will develop and implement procedures to comply with the requirement during FY 2007.
Social Security Administration (SSA)	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 two years old if there are no estimated material collections.	This has been corrected for the OASDI program, and will be corrected for the SSI program during FY 2007.
Homeland Security (DHS)	DHS's debt collection regulations have not been published in the Code of Federal Regulations, and an agency-wide debt collection policy has not been adopted.	The regulations are under final review by the DHS Office of General Counsel, and the policy is currently under internal review and comment.
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 in FY 2007.
Labor (DOL)	(1) The Mine Safety and Health Administration (MSHA) and Occupational Safety and Health Administration (OSHA) have not consistently been referring debt delinquent over 180 days to Treasury for collection. (2) MSHA and the Employment Standards Administration have not been compliant with the requirement to write-off delinquent debt greater than two years old if there are no estimated material collections.	DOL management is currently strengthening policies and procedures to ensure compliance with DCIA and Circular No. A-129.
Defense (DOD)	(1) A Taxpayer Identification Number (TIN) is not currently provided on all certified vouchers submitted to a disbursing office for payment. (2) The Department is not currently participating in the Treasury Offset Program (TOP) as a paying agency.	(1) Necessary system changes are currently underway, and DOD is targeting compliance in 2008. (2) DOD is scheduled to begin participating in the TOP program during FY 2007.
Justice (DOJ)	The Federal Bureau of Investigation (FBI) must implement a uniform debt management policy to encompass all aspects of managing receivables.	The FBI has a target date of March 2007 for finalizing these policies.

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

## **A. General**

1. Provide effective leadership on government-wide financial management improvement initiatives that results in positive performance on key indicators of financial management success, including:
  - a. More unqualified audit opinions (22 out of 24 by FY 2011).
  - b. Less material weaknesses (10% reduction in repeat weaknesses per year).
  - c. More timely financial reporting (all agencies achieve 45 day deadline).
  - d. Less improper payments (reduction in improper payment amount for programs originally reported in FY 2004 of \$20 billion by FY 2011).
  - e. More disposals of excess real property (\$11 billion by FY 2011).
2. Achieve the objectives of the PMA initiatives to Improve Financial Performance, Eliminate Improper Payments, and Improve Federal Real Property Asset Management, by ensuring that Federal agencies use accurate, timely and reliable financial information to achieve measurable results.
3. Issue Government-wide financial management policies and requirements that are user friendly, transparent, consistently complied with by Federal agencies, and facilitate improved financial management without undue burden on agency and taxpayer resources.

## **B. Specific**

1. **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.
2. **Real Property**. Coordinate and implement the PMA initiative on real property asset management to ensure that agencies are meeting rightsizing goals including the disposition of unneeded assets.
3. **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.

4. **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, and a 10% Government-wide reduction in repeat material weaknesses is achieved.
5. **Government-wide Financial Reporting**. Contribute to the achievement of a clean audit opinion on the government-wide financial statement by helping to develop and implement solutions that eliminate existing material weaknesses and prevent the occurrence of new weaknesses.
6. **Grants**. Implement Government-wide solutions that increase transparency of grant activities, lower administrative costs, and simplify application/reporting.