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before the  
Subcommittee on Government Management, Organization, and Procurement  
House Committee on Oversight and Government Reform  
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Thank you, Chairwoman Watson, Ranking Member Bilbray, and members of the Subcommittee, for the invitation to discuss Federal financial management issues with you today.

This year marks the 20<sup>th</sup> anniversary of the Chief Financial Officers (CFO) Act of 1990. This is an opportune time to reflect on the Federal financial management community's progress during the last 20 years and plot a course for where and how the community will advance during the next 20 years.

Much progress has been made since the passage of the CFO Act.

- Twenty of the 24 CFO Act agencies obtained unqualified<sup>1</sup> or "clean" audit opinions during fiscal year (FY) 2009, as compared to 18 of 24 unqualified opinions during FY 2001.
- We reported 38 auditor-identified material weaknesses during FY 2009, as compared to 64 material weaknesses in 2001.
- We have achieved a foundation of strong accounting practices, including: (1) disciplined and consistent financial reporting, (2) high-functioning risk-management frameworks that are driving internal control improvements in financial reporting, and (3) integration between transaction processing and accounting records.

This progress shows that Federal agencies devote significant time and resources to producing reliable, comprehensive financial statements for the United States taxpayers, legislators, and the financial management community itself.

While the financial management community has made significant progress, we continue to face challenges in meeting some of the basic standards for accounting and reporting. Several major agencies are still unable to produce auditable financial statements and we continue to face long-standing issues with the government-wide financial statements. Fiscal Year (FY) 2009 was also a challenging year for our nation's economy. With the passage of the Emergency Economic Stabilization Act of 2008 (EESA) and the American Recovery and Reinvestment Act of 2009 (Recovery Act) to help stimulate the economy and retain and create jobs, the Federal financial

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<sup>1</sup> An unqualified or "clean" audit opinion serves as an indicator that the financial statements of that Federal department or agency are reliable and can be depended upon to communicate the true nature of that department's or agency's financial position.

management community was responsible for implementing new programs, expanding existing ones, and still meeting OMB's rigorous deadlines for audited financial statements.

Response to the Federal Funding Accountability and Transparency Act, as amended (Transparency Act) and the Recovery Act, has demonstrated the public's interest in federal spending information that details where money is going and how it is being spent. Our current financial reporting model does not readily provide answers to these questions. The existing reporting infrastructure is not always nimble enough to meet these needs, necessitating untested and time consuming efforts to get necessary data. That is why the Administration has put forward aggressive financial management changes, including the appointment of a Senior Accountable Official for financial data quality at each agency and as released on April 7, 2010, a timetable for implementing the Transparency Act starting on October 1. By that date, agencies will be collecting data on sub-awards for all federal funds, and this data will be made available on USASpending.gov. While there is much to learn and more work to be done to fine tune the data collected at this detailed level, we are ready to take what we have learned this past year through the Recovery Act reporting and begin to meet the goals of the Transparency Act.

Going forward, and as we strive to meet the public's desire for this information, we need to re-examine our current reporting model to determine whether we are reporting and auditing the right information. This is one of the key areas the financial management community will explore this year.

### **Accomplishments**

We have made great strides in advancing Financial Management. Twenty of the 24 CFO Act agencies achieved clean audit opinions as of FY 2009, covering more than 85 percent<sup>2</sup> of all Federal disbursements. In addition, the number of auditor-identified material weaknesses stands at 38, approximately a 40 percent decline from the 64 material weaknesses that were identified in FY 2001.

Of particular note, Treasury, in response to the financial markets crises this past year and the passage of EESA, established the Office of Financial Stability (OFS) to oversee the rescue efforts under the Troubled Asset Relief Program (TARP). Through OFS, the Treasury Department has helped achieve the broader goals of the Administration to restore stability to financial institutions, jump-start lending practices, and save families from losing their homes.

The Treasury Department and OFS accomplished a remarkable achievement by receiving clean opinions on their audited financial statements, considering the extraordinary challenges they faced and the varied and complex programs that were implemented. This accomplishment is a result of the Treasury Department and OFS' efforts to maintain the needed processes, disciplines, and controls over the funds entrusted to them. In addition, the Treasury consistently updates its website with information regarding TARP transactions to support the Administration's initiative to be more transparent on federal spending.

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<sup>2</sup> Based on the September 30, 2009 *Monthly Treasury Statement*

While Treasury has been successful at being more transparent for its TARP program, all agencies are being asked to be more transparent on its spending pursuant to the Transparency Act and Recovery Act. Reporting under the Transparency Act and Recovery Act is unlike any reporting the Federal financial management community has faced—the level of detail and the increased frequency of reporting is a significant shift from past practices. Agencies have aggressively worked towards achieving this unprecedented level of transparency—providing the public with better information about where and how money is being spent.

To better align with the increased transparency, this year the *Financial Report* included fiscal sustainability information on the Government’s finances. The sustainability reporting in the *Financial Report* presents a long-term, comprehensive portrayal of projected spending and receipts for all programs.

In light of future fiscal challenges, as shown in the fiscal sustainability information presented in the *Financial Report*, it has never been more vital to provide better, more cost effective, and faster financial data.

## **Challenges**

Although we have made advancements in financial management, it is incumbent upon the Federal community to build on this foundation of progress so that we are prepared to address the fiscal challenges that lie ahead. Federal managers must continue to mobilize resources and re-dedicate efforts to strengthen accounting practices, implement stronger internal controls, issue more timely financial reports, eliminate instances of error and waste, and use financial data to manage costs. We must approach these management improvement activities with an eye towards balancing the costs of our efforts against the benefits they ultimately derive for the taxpayer.

The financial management environment is changing from producing annual audited financial statements to producing financial reports more frequently, at a more granular level, and accompanied by non-financial information. This change is evident in the reporting required by the Transparency Act and the Recovery Act. This new paradigm has inspired the financial management community to re-examine our current infrastructure, and identify the systems and processes required to respond effectively to the changing environment.

While the financial management community has made significant progress over the years, in some areas we continue to face challenges in meeting some of the basic standards for accounting and reporting. While 20 of the 24 CFO Act agencies achieved clean audit opinions in FY 2009, several major agencies were unable to produce auditable financial statements. The Departments of Defense (DoD), Homeland Security (DHS), and State, and the National Aeronautics Space Administration (NASA) received disclaimers of an audit opinion. OMB and the Treasury Department will continue to work with these agencies to ensure that they have access to the tools that they need for proper reporting and that they instill the necessary processes and discipline to account for, and report, their financial transactions and position.

Not only do financial reporting challenges continue with these individual agencies, they continue at the government-wide financial reporting level with the *Financial Report*. The *Financial Report* aggregates financial information from individual Federal agencies and reports the

financial statements for the Federal government as a whole, including the government-wide balance sheet<sup>3</sup> and the Statement of Social Insurance (SOSI)<sup>4</sup>.

Fiscal Year 2009 was the 13<sup>th</sup> consecutive year the Federal government received a disclaimer of an audit opinion (no opinion) on its primarily accrual-based consolidated financial statements. The Federal government's Statement of Social Insurance (SOSI), however, received a clean audit opinion for the 3<sup>rd</sup> straight year. The SOSI is the first of the six principal financial statements to achieve this milestone.

The disclaimer of opinion on the *Financial Report's* five other principle financial statements is attributed to three government-wide material weaknesses;<sup>5</sup>

- The Defense Department's financial management challenges;
- The Government's inability to properly account for and reconcile the transactions it conducts among and between itself; and
- The preparation of the five statements themselves.

These material weaknesses remain a challenge at the government-wide level and must be overcome to provide the public at large with better information.

The state of Federal financial systems also plays a role in the challenges we continue to face as a community. Historically, agencies' efforts to modernize and implement financial systems have suffered problems, such as lack of a comprehensive project plan with a clear critical path, unclear governance structure and decision-making process, lack of buy-in from organizational leaders, and under-estimating the nature of the change management challenge that occurs in large and complex bureaucracies. These problems have resulted in system modernizations not meeting scheduled target dates and exceeding budgeted costs. Many of these challenges can be mitigated by adopting proven best practices, such as placing the right people with the right skill sets into positions as project managers, proceeding only with strong and wide-spread executive support, and aligning project scope to the most critical business needs of the agencies.

One functional area where existing financial systems have proven adequate is the production of annual financial statements. However, the agencies' financial systems are not sufficiently flexible or integrated with non-financial systems. This past year, agencies' systems were put to the test as the Recovery Act required both financial and non-financial data to be reported more frequently and at a much more granular level than previously required. Due to systems limitations and the challenges of readily producing this information, many agencies were forced

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<sup>3</sup> The balance sheet is a financial statement that depicts what is owned (assets) and owed (liabilities) by the reporting entity.

<sup>4</sup> The Statement of Social Insurance is a financial statement that depicts the long-term sustainability of social insurance programs by comparing the projected inflows (taxes and other contributions) and outflows (benefit payments) of those programs.

<sup>5</sup> A material weakness occurs when the underlying processes and systems supporting the financial statements do not adequately mitigate the risk of presenting unreliable and flawed financial information.

to rely upon herculean manual efforts to compile or combine information from several disparate systems to comply with the reporting requirements.

As a result, the financial management community needs to begin re-examining the expensive and long-term investments in technology solutions to support financial reporting and accounting and begin considering shorter-term, lower-cost, and easier-to-manage solutions that meet critical business needs, drive operational efficiency, and leverage shared service solutions. To this end, OMB and the Department of the Treasury are partnering to set a new course in financial management systems. In particular, OMB and Treasury, in coordination with the CFO Council, are working to deploy central, automated solutions that will reduce the cost and complexity of agency financial operations.

### **Path Forward**

The financial management community has made great strides over the years. Recent experiences with the Transparency Act and the Recovery Act have helped to formulate a path forward for the Federal financial management community by leveraging the infrastructure we have built over the last two decades and focusing on three key areas—eliminating waste, closing the efficiency and technology gap in financial operations, and promoting accountability and innovation through open government.

#### *Eliminating Waste*

Our efforts to cut Government waste are focused on eliminating improper payments, better managing real property, and strengthening the audit framework for federally funded State and local activities. Based on information submitted by agencies in their FY 2009 Performance and Accountability Reports, the Government-wide error rate is 5 percent or roughly \$100 billion, the highest amount reported to date. In response, in November 2009, the President issued *Executive Order No. 13520, Reducing Improper Payments*, to boost transparency of these errors, increase agency accountability through the designation of a Senate-confirmed official responsible for these errors, and create incentives for compliance for contractors and State and Local Government partners.

In addition, a Presidential memorandum, *Finding and Recapturing Improper Payments*, was subsequently issued, requiring agencies to use every tool available to identify and reclaim the funds associated with improper payments. We estimate we will recapture approximately \$2 billion from the early phases of implementing this requirement. The Administration is also committed to improving the management of real property assets by creating incentives to dispose of unneeded Federal real property, including the incentive for all Federal agencies to retain net proceeds from the sale of excess property.

Lastly, OMB initiated a pilot project for an early review and reporting on the internal controls for major Recovery Act programs using the Single Audit process, as required under OMB Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*. This process, along with other efforts to strengthen the A-133, is intended to mitigate instances of waste in Federal grant programs.

### *Closing the Efficiency and Technology Gap in Financial Operations*

Closing the efficiency and technology gap in financial operations will require the financial management community to examine our current investments in technology and explore alternate solutions that may be easier, quicker, and cheaper to implement. We need to modernize our financial systems within a reasonable time frame through better management to reduce schedule and cost overruns. Expensive and long-term investments in technology solutions to support financial reporting and accounting must be reconsidered in favor of shorter-term, lower cost, and easier to manage solutions that meet critical business needs, drive operational efficiency, and leverage shared service solutions.

To date, once deployed, our modern systems do not consistently meet our business needs or produce the right information to support decision-making. These projects incur significant cost overruns and delays, with the final result either of failed or sub-optimized deployments. The Administration is committed to closing the gap in public sector use of IT. As such, OMB will soon issue new guidelines and strategies for approaching financial system modernizations. The guidelines will focus on ensuring effective leadership over these projects; refocusing deliverables to tangible results within near-term timeframes; implementing relentless oversight that is publicly tracked through dashboards; and creating accountability within the agencies for these projects. We must change the way that we manage, procure, and implement financial systems within the Federal government.

In addition, new capabilities have emerged to automate and centrally implement financial management activities. For example, through a common electronic vendor invoicing solution, it is possible for vendors to input invoice data rather than agencies manually keying the information into a financial system. Leveraging a fully automated approach, the electronic invoicing capability will improve data quality through automation and increase efficiency for agencies that use this service. OMB and the Treasury, in coordination with the CFO Council, will identify and facilitate the acquisition or development of automated solutions for transaction processing and capture. The Office of Financial Innovation and Transformation (OFIT)—a new office within the Treasury Department—will work to identify and develop these innovations.

### *Promoting Accountability and Innovation through Open Government*

In addition to providing annual audited financial statements, this Administration is committed to making federal expenditures of taxpayer dollars more transparent to the public by providing readily accessible, complete, accurate, and usable federal spending data. To realize this commitment, OMB issued M-10-06, *Open Government Directive*, to direct agencies to take action to support a more open government through transparency, participation, and collaboration. In addition, OMB most recently issued the memorandum, *Open Government Directive-Federal Spending Transparency*, on April 7, 2010, requiring agencies to begin collecting sub-award information after October 1, 2010, to improve the quality of information being reported now, and announcing enhanced capabilities for users of the USAspending.gov website. These additional efforts will expand the amount of information made publicly available, improve the data quality, and make it easier for the public to access this information.

The Federal financial management community has been fully engaged in making federal spending data more transparent. Full and easy access to information on government spending promotes accountability by allowing detailed tracking and analysis of the deployment of government resources. Transparency also gives the public confidence that we are properly managing its funds. Agencies have provided information more frequently and at a more detailed level through public websites such as USAspending.gov and Recovery.gov.

To further enhance transparency of financial information, we are also reviewing the reporting model and the underlying disciplines and processes historically used to produce annual financial reports to support the more rapid release and flexible presentation of financial information. We know agencies are obtaining clean audits, but it is time to question if we are auditing the right things. We are beginning to explore these issues to seek areas of improvement in meeting the needs of our stakeholders—the public, the Congress, and Federal executives.

A key factor to achieving a high level of performance in the financial community is focusing on obtaining cost information that reflects the cost of doing business. To this end, we are also considering measures that would strengthen reporting of cost information. In particular, we are exploring revisions to the Statement of Net Cost that would focus on the cost of doing business with cost accounting as the foundation of what is reported. Having a strong understanding of the cost of running the Federal Government will be a key tool for decision-makers as we face the sweeping challenges discussed today.

## **Conclusion**

Looking at what we have achieved during the last 20 years and what we hope to achieve during the next 20 years is a self-reflection that is vital to the Federal financial community—particularly as we enter a new era of transparency and open government. We look forward to working with the Congress, GAO, and the CFO community to achieve our mutual goal of providing reliable and relevant financial information in a readily available and easily accessible format.

Thank you for inviting me to testify today. I look forward to answering your questions.