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MAKING THE FEDERAL GOVERNMENT ACCOUNTABLE: ENFORCING THE MANDATE FOR EFFECTIVE FINANCIAL MANAGEMENT

SECOND REPORT

BY THE

COMMITTEE ON GOVERNMENT REFORM

together with

MINORITY VIEWS

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JUNE 7, 1999.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, DC, June 7, 1999.

Hon. J. DENNIS HASTERT,
Speaker of the House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: By direction of the Committee on Government Reform, I submit herewith the committee's second report to the 106th Congress. The committee's report is based on a study conducted by its Subcommittee on Government Management, Information, and Technology.

DAN BURTON,
Chairman.

CONTENTS

ABBREVIATIONS

BAPA	Budget and Accounting Procedures Act of 1950
CFO	Chief Financial Officer
DOD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
IRS	Internal Revenue Service
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SSA	Social Security Administration

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106TH CONGRESS
1st Session

HOUSE OF REPRESENTATIVES

REPORT
106–170

MAKING THE FEDERAL GOVERNMENT ACCOUNTABLE: ENFORCING THE MANDATE FOR EFFECTIVE FINANCIAL MANAGEMENT

JUNE 7, 1999.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. BURTON, from the Committee on Government Reform submitted the following

SECOND REPORT

On May 19, 1999, the Committee on Government Reform approved and adopted a report entitled "Making the Federal Government Accountable: Enforcing the Mandate for Effective Financial Management." The chairman was directed to transmit a copy to the Speaker of the House.

I. SUMMARY OF OVERSIGHT FINDINGS AND RECOMMENDATIONS

A. INTRODUCTION

The Committee on Government Reform (the "committee") has primary legislative and oversight jurisdiction with respect to "Government management and accounting measures generally," as well as "overall economy, efficiency, and management of Government operations and activities, including Federal procurement."[1] The committee also has the responsibility:

> [T]o determine whether laws and programs addressing subjects within the jurisdiction of [the] committee are being implemented and carried out in accordance with the intent of Congress [through the] review and study on a continuing basis the application, administration, execution, and effectiveness of laws and programs addressing subjects within its jurisdiction. [The committee shall review and study] any conditions or circumstances that may indicate

[1] Clause 1(h) (4) and (6) rule X of the Rules of the House of Representatives, 106th Congress.

the necessity or desirability of enacting new or additional legislation addressing subjects within its jurisdiction.[2]

Pursuant to this authority, the Subcommittee on Government Management, Information, and Technology (the "subcommittee") convened six oversight hearings to explore:

- the implementation of laws related to Federal financial management in executive departments and agencies and, in particular, the second year of full implementation of the Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994 (GMRA) and as amended by the Federal Financial Management Improvement Act of 1996 (FFMIA);
- the extent to which Federal executive departments and agencies have successfully applied the requirements of these laws;
- the need for congressional action to improve financial management in the Federal Government; and
- options for congressional actions that would effectively bring about such improvement.

Billions of taxpayer-provided dollars are being lost each year to fraud, waste, abuse, and mismanagement in hundreds of programs within the Federal Government. Audits continue to show that most agencies have significant weaknesses in controls and systems. As a result of these weaknesses, Federal decisionmakers do not have reliable and timely performance and financial information to ensure adequate accountability, manage for results, and make timely and well-informed judgments.

In the late 1980s, Congress recognized that one of the root causes of this loss was that the Federal Government's financial management leadership, policies, systems, and practices were in a state of disarray. Financial systems and practices were obsolete and ineffective. They failed to provide complete, consistent, reliable, and timely information to congressional decisionmakers and agency management.

In response, Congress passed a series of laws designed to improve financial management practices and to ensure that tax dollars are spent for the purposes that Congress intends. Each executive agency covered by the CFO Act—or specified by the Office of Management and Budget [OMB]—is required to prepare and have audited a financial statement covering all accounts and associated activities of each office, bureau, and activity within the agency. Furthermore, consolidated governmentwide financial statements must be prepared and audited annually. In addition, Federal agencies are required to conform to promulgated Federal Government accounting and systems standards, and to use the Federal standard general ledger.

Despite the passage and implementation of these laws, there has been limited progress. Much remains to be done before the Federal Government's financial management systems and practices provide reliable, timely financial information on a regular basis.

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[2] Ibid., Clause 2(b)(1) (A) and (C).

B. OVERVIEW OF INVESTIGATION

March 31, 1998 marked a significant milestone in the implementation of financial management reform legislation. The Chief Financial Officers Act of 1990, Public Law 101–576, as expanded by the Government Management Reform Act of 1994, Public Law 103–356, required—for the first time—the preparation and audit of consolidated financial statements of the Federal Government for fiscal year 1997, and each year thereafter.[3] GMRA required that the General Accounting Office [GAO] issue an audit report no later than March 31 of each year on the consolidated financial statements for the preceding fiscal year.

The GMRA also required that, starting March 1, 1997, and each year thereafter, all 24 Federal agencies that are subject to the requirements of the CFO Act must submit audited financial statements to the Director of OMB.[4] These 24 agencies were responsible for approximately 97 percent of the total Federal outlays during fiscal year 1997.

Fiscal year 1997 also marked the first year of implementation of the Federal Financial Management Improvement Act of 1996, Public Law 104–208. The purpose of FFMIA is to ensure that agency financial management systems comply with Federal financial management system requirements, applicable Federal accounting standards, and the *U.S. Government Standard General Ledger* (standard general ledger)[5] in order to provide uniform, reliable, and useful financial information. FFMIA required that beginning with the fiscal year ending on September 30, 1997, auditors for each of the 24 major departments and agencies named in the CFO Act must report, as part of their annual audits, whether the agencies' financial systems comply substantially with Federal financial systems requirements,[6] applicable Federal accounting standards,[7] and the standard general ledger at the transaction level. FFMIA also required the GAO to report on agency implementation of FFMIA by October 1, 1997, and each year thereafter.

It is imperative that these acts are implemented successfully. They form the basis for the data used in measuring program performance under the Government Performance and Results Act, Public Law 103–62 (Results Act). Thus, at a minimum, strong congressional oversight is needed to achieve the primary goal of all

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[3] The consolidated financial statements of the U.S. Government for fiscal years 1997 and 1998 cover the executive branch as well as parts of the legislative and judicial branches of the Federal Government. Government-sponsored enterprises and the Federal Reserve System are excluded.

[4] The 24 Federal agencies covered by the requirements of the CFO Act are the following 14 Cabinet Departments: Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, Treasury, and Veterans Affairs; and various independent agencies, including: Environmental Protection, National Aeronautics and Space, International Development, Federal Emergency Management, General Services, National Science, the Nuclear Regulatory Commission, Personnel Management, the Small Business, and Social Security.

[5] The *U.S. Government Standard General Ledger* provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

[6] OMB Circular No. A–127, "Financial Management Systems," July 1993, prescribes the financial management systems policies and standards for executive agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Circular A–127 references the series of publications entitled Federal Financial Management Systems requirements, issued by the Joint Financial Management Improvement Program, as the primary source of Governmentwide requirements for financial management systems.

[7] The Comptroller General of the United States and the Director of the Office of Management and Budget issued a comprehensive set of accounting standards that became fully effective in fiscal year 1998.

these laws: a Federal Government that is accountable to the American taxpayers.

C. FINDINGS

The fiscal year 1998 annual audit reports for the 24 Federal departments and agencies, required under the CFO Act, as expanded by GMRA, were due to be filed with the OMB on March 1, 1999. In addition, the GAO issued a second annual audit report on the consolidated financial statements of the Federal Government on March 31, 1999. Based on the investigation and oversight hearings conducted by the subcommittee and the governmentwide audit conducted by the GAO, the committee finds as follows:

1. Material deficiencies in Federal financial information continue

Similar to the previous year, the GAO was unable to render an opinion on the 1998 consolidated financial statements of the Federal Government. In addition, the GAO report[8] articulated the broad array of financial management problems faced by the Federal Government. It again confirmed that *at least* tens of billions of taxpayer dollars are being lost each year to fraud, waste, abuse, and mismanagement in hundreds of Federal programs. Government financial management remains in disarray. Its financial systems and practices are obsolete and ineffective, and they do not provide complete, consistent, reliable, and timely information to the President, congressional decisionmakers, and department and agency management.

The GAO report provided a synopsis of significant weaknesses found in financial systems, problems with fundamental recordkeeping, incomplete documentation, and weak internal controls, including computer controls. These weaknesses prevent the Federal Government from accurately reporting a large portion of its assets, liabilities, and costs. According to the GAO, "these deficiencies affect the reliability of the consolidated financial statements and much of the underlying financial information." And, more important, these problems ". . . also affect the Federal Government's ability to accurately measure the full cost and financial performance of programs and effectively and efficiently manage its operations."[9]

Major problems prevented the GAO from being able to form an opinion on the reliability of the governmentwide financial statements. These problems included the Federal Government's inability to:

- account for and report on billions of dollars worth of property, equipment, materials, supplies and stewardship assets;
- estimate the cost of most Federal credit programs and related loans receivable, and loan guarantee liabilities;
- estimate and reliably report material amounts of environmental and disposal liabilities, and their related costs;
- determine the amount of various reported liabilities, including post-retirement health benefits for military employees, accounts payable, and other liabilities;

[8] "Financial Audit: 1998 Financial Report of the United States Government," GAO/AIMD–99–130, Mar. 31, 1999.
[9] Ibid., p. 1.

- accurately report major portions of the net costs of Government operations;
- determine the full extent of improper payments that occur in major programs, which are estimated to involve billions of dollars annually;
- ensure that all disbursements are properly recorded; and
- prepare the Federal Government's financial statements, including balancing statements that involve billions of dollars in transactions between governmental entities, and properly and consistently compile the information in the financial statements.

The oversight hearings held by the subcommittee on financial management at key executive branch agencies explored specific problems and potential solutions specific to each agency. Based on the Inspectors General 1998 financial audit reports of the 18 CFO Act departments and agencies that had filed their reports as of the date of this report, only 8 could prepare financial statements that were reliable in all material respects based on the results of independent audits.[10]

2. Material control weaknesses continue to exist in Federal financial systems

The General Accounting Office reported several pervasive material weaknesses in internal controls across the Federal Government.[11] These material weaknesses contributed to the deficiencies described above. In addition, these weaknesses have resulted in the Federal Government's inability to safeguard Federal assets from unauthorized acquisition, use, or disposition; to ensure that transactions are executed in accordance with the laws governing use of budget authority and other laws and regulations; or to ensure the reliability of financial statements.

Specifically, the GAO found widespread computer control weaknesses and material weaknesses in controls related to the Federal Government's tax-collection activities. The GAO stated in its report that "serious computer security weaknesses expose the Government's financial and other sensitive information to inappropriate disclosure, destruction, modification, and fraud."

With respect to tax collection activities, the GAO reported that "the Federal Government continues to have material weaknesses in controls related to its tax-collection activities that affect its ability to efficiently and effectively account for and collect the Government's revenue." The GAO further reported that "serious financial management system deficiencies affect the Federal Government's ability to effectively manage its taxes receivable and unpaid assessments.[12] The lack of appropriate subsidiary systems to track the

[10] As of the date of this report, 6 of the 24 agencies required to issue audited financial statements by Mar. 1, 1999, had not done so.

[11] A material weakness, as defined by the American Institute of Certified Public Accountants in its *Statements of Auditing Standards* and in the Comptroller General's *Government Auditing Standards,* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

[12] Other unpaid assessments consist of amounts for which (1) neither the taxpayer nor a court has affirmed that the amounts are owed and (2) the Government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency.

status of taxpayer accounts affects the Government's ability to make informed decisions about collection efforts. This weakness has resulted in the Government pursuing collection efforts against individual taxpayers who had already paid their taxes in full. The Federal Government also continues to be vulnerable to loss of tax revenue due to weaknesses in preventive controls over disbursements of tax refunds. The Government does not perform sufficient up-front verification procedures to ensure the validity of amounts claimed by taxpayers as overpayments prior to making disbursements for refunds." [13]

The prevalence of weak internal controls in Federal Government systems is exemplified by the fact that only 5 of the 18 CFO Act agencies that filed reports did not have material weaknesses found by auditors during the course of their audits of fiscal year 1998 financial statements.

3. A pervasive noncompliance with laws and regulations continues

Also contributing to the Federal Government's financial management problems were instances of material noncompliance with laws and regulations. The GAO reported that "tests for compliance with selected provisions of laws and regulations related to financial reporting disclosed that . . . the Federal Government makes improper payments on major programs such as Medicare." Further, most agencies were not in compliance with FFMIA, which requires auditors to report whether agencies' financial management systems comply substantially with Federal accounting standards, financial systems requirements, and the Government's standard general ledger at the transaction level.

The GAO also reported that "the majority of Federal agencies' financial management systems do not meet systems requirements. They cannot provide reliable financial information for managing day-to-day Government operations or hold managers accountable. For many agencies, the preparation of financial statements requires considerable reliance on ad hoc programming and analyses of data produced by inadequate financial systems that are not integrated, reconciled, and often require significant adjustments."

"For example, the DOD Inspector General reported that the Defense Department recorded more than $1.5 trillion in adjustments to component financial statements that were not supported by adequate audit trails or sufficient evidence to determine their validity." [14] Auditors reported that only 3 of the 18 agencies that had filed their 1998 audited financial statements complied with FFMIA requirements.

4. Year 2000 computing challenge still poses a significant threat to Federal financial systems

A final factor affecting financial management in the Federal Government was the year 2000 computing crisis.[15] This critical issue

[13] "Financial Audit: 1998 Financial Report of the United States Government," GAO/AIMD–99–130, Mar. 31, 1999, p. 32.

[14] Ibid., pps. 33–34.

[15] For the past several decades, information systems have typically used two digits to represent the year, such as "98" for 1998, in order to conserve electronic data storage and reduce operating costs. In this format, however, the year 2000 is indistinguishable from the year 1900 because both are represented as "00." As a result, if not modified, computer systems or applica-

has been the subject of extensive oversight by the subcommittee. According to the GAO, "while much has been accomplished in addressing the Year 2000 challenge, risks remain. Our reviews of Federal Year 2000 programs have found uneven progress; some major agencies are behind schedule. Complete and thorough Year 2000 testing is essential to providing reasonable assurance that new or modified systems will be able to process dates correctly and not jeopardize agencies' ability to perform core business operations. Moreover, adequate business continuity and contingency plans must be successfully completed throughout Government." [16]

D. RECOMMENDATIONS

Based on the foregoing findings, the committee recommends the following:

1. Continuation of regular congressional and Presidential oversight

Strong oversight is one of Congress's most effective tools in the effort to ensure that executive departments and agencies implement necessary reforms. To build upon this, Congress needs to mandate formal oversight hearings to review the status of agency financial management and actions to resolve related problems.

Each department or agency should provide a detailed, annual status report on its financial management operations. When appropriate, each department or agency should be regularly reviewed by its relevant oversight, authorization, and appropriations subcommittees regarding its financial management processes. These hearings should be held annually, semiannually, or quarterly, depending on the severity of the financial problems within the agency or department.

Agencies with serious financial management problems are required by the Federal Financial Management Improvement Act of 1996 to prepare a "remediation plan." This plan should be a detailed guide for agency management and staff that includes procedures for resolving any reported problems the agency is having in adhering to Federal Government accounting and systems standards and the implementation of the Government standard general ledger. The GAO is currently making its initial evaluations of the agency remediation plans. Those evaluations will be included in a report to be released on or before October 1, 1999.

Congressional oversight hearings need to include a discussion of the agency's plan, and the progress being made toward resolving outstanding problems with various financial systems and practices. Oversight hearings should also include the department or agency's Inspector General who is responsible for reporting on the agency's compliance with the Federal Financial Management Improvement Act of 1996.

As previously recommended, the agency remediation plans must provide a detailed description of planned actions with clear and reasonable milestones, including the names of staff members responsible for resolving particular issues. The plan should be ap-

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tions that use dates or perform date- or time-sensitive calculations may generate incorrect results beyond 1999.

[16] "Financial Audit: 1998 Financial Report of the United States Government," GAO/AIMD–99–130, Mar. 31, 1999, p. 35.

proved by the agency head and relevant agency officials, such as the Chief Financial Officer, the Chief Information Officer, and the Inspector General. A draft of the approved plan should be sent to the Comptroller General who would coordinate the agency's actions and related milestones in the remediation effort. A draft of the plan should also be available to relevant congressional committees, and the Director of the Office of Management and Budget. These parties must meet regularly, monitoring the agency's progress toward meeting the objectives of the plan. This would assist Congress in effectively monitoring agency actions and taking corrective actions as necessary.

2. Provide incentives for implementing effective financial management

It is clear that congressional oversight alone cannot effect the necessary change in financial management practices at all departments and agencies. The committee again notes that incentives are needed to prompt agencies to resolve their outstanding financial management problems. If an agency is unable or unwilling to effect these crucial changes, Congress has the authority to provide the needed incentives for change. They include: (1) redirecting a percentage of the agency's appropriated program or administrative funding toward correcting financial management problems; (2) restricting a percentage of the agency's appropriated funds until the problems are corrected; or (3) reducing various amounts of appropriated funds until the agency has completed its remediation efforts.

These actions are intended to provide an incentive for the agency to resolve its financial management problems expeditiously.

3. Strengthen the ability of Inspectors General to carry out their financial management oversight responsibilities

Inspectors General are responsible for conducting audits of agency and department programs and operations. Their audit function in the executive branch is crucial. Agency audits provide information to executive branch managers and Congress that are necessary to uncover and resolve problems that impede effective financial management. To ensure that Inspectors General can provide quality audit services, it is imperative that Congress take steps to ensure that Inspectors General are highly qualified and have the necessary resources to oversee agency financial management.

The Office of the Inspector General must ensure that all candidates for Inspector General positions are qualified to perform financial statement audits or specific segments of audits requiring specific expertise. These qualifications should be determined through a review by an external party and may be incorporated into the peer review process.

As the committee suggested last year, when appointments for the Inspector General office are being considered, a board, which includes representatives of the President's Council on Integrity and Efficiency [PCIE], should review the qualifications of the Inspector General candidate before the nomination is forwarded to the Senate for confirmation.

4. Strengthen the President's role as Chief Executive Officer of the executive branch by establishing an Office of Management

Management of the executive branch of the Federal Government should be a Presidential priority. Among the President's many roles is the responsibility to serve as Chief Executive Officer of the Federal Government. Many broad objectives—including effectively managing Federal Government finances—are intended to make the Federal Government work better, but they depend on the commitment of the President and his staff in the Executive Office of the President. By approaching the Federal Government almost exclusively from a budgetary or policy perspective, Presidents limit their capacity to reform management within the Federal Government.

If the financial management function is to be strengthened, the President needs management experts. That is also true of various other management functions. In the past, the Subcommittee on Government Management, Information, and Technology has recommended legislation that would form an Office of Management, separate and distinct from the Office of the Budget. It continues to recommend such an office. This office could help the President and his Cabinet focus on the critical management challenges facing the Federal Government.

Cabinet officers are not always nominated for their managerial skills. They need assistance. Congress has provided some of that assistance by mandating the roles of Chief Financial Officer and Chief Information Officer. However, in a number of departments and agencies, these dual roles have been assigned to one person. *That is not what Congress sought.* The financial and information management functions are so complex that each one requires the full-time attention of a senior management official.

SUMMARY OF OVERALL FINDINGS AND RECOMMENDATIONS

Findings

1. Material deficiencies continue to exist in Federal financial information.
2. Material control weaknesses in financial systems continue.
3. Some agencies have again failed to comply with the laws and regulations governing Federal financial accountability.
4. The year 2000 computer problem poses a threat to Federal financial systems.

Recommendations

1. There is a continuing need for regular congressional and Presidential oversight.
2. Financial incentives need to be provided that will prompt agencies and departments to resolve their financial management problems.
3. The ability of Inspectors General to carry out their financial management oversight responsibilities must be strengthened.
4. The President's role as Chief Executive Officer of the executive branch should be strengthened by establishing an Office of Management.

II. Report on the Committee's Oversight Review

A. BACKGROUND

> I think it an object of great importance . . . to simplify our system of finance, and bring it within the comprehension of every member of Congress . . . the whole system [has been] involved in an impenetrable fog. There is a point . . . on which I should wish to keep my eye . . . a simplification of the form of accounts . . . so as to bring everything to a single centre[;] we might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them.[17] —*Thomas Jefferson, April 1, 1802*

1. The need for effective Federal financial management

Nearly 200 years ago, President Thomas Jefferson recognized the need for effective financial management in the Federal Government. President Jefferson's insight on this subject is still relevant today.

Federal financial management continues in a state of disarray. Billions of taxpayers' dollars are being lost each year to fraud, waste, abuse, and mismanagement in hundreds of Federal programs. Financial systems and practices are obsolete and ineffective, and do not provide complete, consistent, reliable, and timely information to congressional decisionmakers and agency management. The source of these losses could be identified and significantly reduced by improved management practices.

2. Federal financial management legislation

In response to this problem, Congress passed a series of laws designed to ensure that agency management problems would be fixed. The Chief Financial Officers Act, as expanded by the Government Management Reform Act of 1994 and amended by the Federal Financial Management Improvement Act of 1996, represents the most comprehensive financial management reform legislation in the last 40 years. Other significant legislation affecting Federal financial management includes: the Budget and Accounting Procedures Act of 1950 [BAPA]; the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988 [IG Act]; the Federal Managers' Financial Integrity Act of 1982 [FMFIA]; the Debt Collection Act of 1982, as amended, and the Debt Collection Improvement Act of 1996. The key financial management provisions of each of these laws are described in detail in Appendix B of this report.

Audited financial statements

The Chief Financial Officers Act established a pilot program that required 10 agencies to prepare financial statements and have

[17] Thomas Jefferson in a letter to the Secretary of the Treasury, Albert Gallatin, Apr. 1, 1802, *The Writings of Thomas Jefferson,* Edited by Andrew A. Lipscomb, (Washington, DC, 1905.) Vol. 10, pps. 306–309.

those statements audited. This pilot program demonstrated the benefits of requiring Federal agencies to prepare audited financial statements. Based on the pilot program's success in uncovering financial managment problems in these agencies, Congress expanded the CFO Act with the passage of the Government Management Reform Act of 1994.

The Government Management Reform Act [GMRA] is intended to provide a more effective, efficient, and responsive Government. To that end, it specifically requires that each executive department and agency prepare and have audited a financial statement covering all accounts and associated activities of each office, bureau, and activity within the agency. The Director of the Office of Management and Budget is responsible for setting the form and content of the financial statements against which the auditor must measure an agency's financial statements. The guidance provided by the OMB incorporates the standards recommended by the Federal Accounting Standards Advisory Board. These audited statements are to be sent to the Director of the OMB no later than March 1 of the year following the fiscal year for which the statements are prepared.

In addition, GMRA required that a set of consolidated governmentwide financial statements be prepared for fiscal year 1997 and each year thereafter by the Secretary of the Treasury in coordination with the Director of the OMB. The financial statements are to be audited by the Comptroller General of the United States and forwarded to Congress by March 31 of the following year.

Federal accounting and auditing standards

The Budget and Accounting Procedures Act of 1950 was enacted as a result of recommendations by the Hoover Commission.[18] The commission suggested sweeping reforms that were intended to modernize and simplify governmental accounting and auditing methods and procedures. Congress agreed and directed the Comptroller General to "prescribe the principles, standards, and related requirements for accounting to be observed by each Executive agency." [19] In response, the Comptroller General issued accounting principles to be followed by executive agencies in the General Accounting Officer's *Policy and Procedures Manual for Guidance of Federal Agencies.*

Those standards were modeled, to a large degree, after private sector practices. They were the primary source of accounting guidance for Federal agencies from the 1950s until they were superseded by the Statements of Federal Financial Accounting Standards.

The passage of the CFO Act in 1990 and its requirement for audited financial statements focused attention on the accounting standards to which these Federal agencies were to be held. Consequently, the Office of Management and Budget objected to the

[18] The Commission on the Organization of the Executive Branch of Government, chaired by former President Herbert Hoover and commonly known as the "Hoover Commission," was formed in 1947. The Commission's first report, issued in 1949, contained recommendations regarding accounting and budget matters, many of which were enacted in the Budget and Accounting Procedures Act of 1950.

[19] The Budget and Accounting Procedures Act of 1950 (ch. 946, 64 Stat. 832, pt. II, sec. 112(a)).

Comptroller General setting such policy since the Comptroller General's Office and its General Accounting Office are part of the legislative branch.

To resolve this constitutional dispute and improve adherence to a set of comprehensive accounting standards, the Comptroller General, along with the Director of the Office of Management and Budget and the Secretary of the Treasury, agreed to establish an independent board that would recommend accounting principles. This board, known as the Federal Accounting Standards Advisory Board [FASAB], was established in October 1990 as a deliberative body to consider and recommend accounting standards and principles for the Federal Government. To avoid constitutional intrusion by the legislative branch, as represented by the Comptroller General, two of the board's members represent the executive branch and one represents the legislative branch.

The recommendations of the FASAB must be approved by the Comptroller General, the Director of Management and Budget, and the Secretary of the Treasury who are referred to as the board's principals. The approved standards, as adopted by the board's principals, are then issued by the Comptroller General and the Director of OMB as Statements of Federal Accounting Standards. These Statements of Federal Accounting Standards are the body of standards that constitutes generally accepted accounting principles for the Federal Government.

The FASAB is responsible for recommending accounting standards, referred to as Statements of Federal Financial Accounting Standards [SFFAS], after considering the financial and budgetary information needs of Congress and executive agencies, as well as other users of Federal financial information.[20] While financial statements of private entities are principally intended to provide investors (shareholders, bankers, etc.) with information on the profitability of the entity, accounting and financial reporting in the Federal Government focuses on the Government's duty to be publicly accountable.

Federal financial reporting is intended to be used to assess the Government's accountability, efficiency and effectiveness, and to provide information on the economic and social consequences of the allocations and various uses of Federal resources. Accounting standards for the Federal Government should result not only in understandable, relevant, and reliable financial information, but should also foster effective accounting systems and internal controls that will help provide reasonable assurance that governmental activities are conducted economically, efficiently, and effectively, and in compliance with applicable laws and regulations.

The FASAB completed the development of the original set of eight accounting standards for the Federal Government in 1996. Since that date, four additional standards have been adopted. As of the date of this report, there are three recommended standards, referred to as Statements of Recommended Accounting Standards [SRAS], waiting for final approval. The existing standards have been augmented by two Statements of Federal Financial Account-

[20] Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting,* ch. 1, pars. 23–30; Sept. 2, 1993.

ing Concepts [SFFAC]. Also, the FASAB currently has four exposure drafts and one invitation for views on suggested standards outstanding, and has issued five interpretations of standards. The following table lists the documents issued by the FASAB. It is expected that the FASAB will continue to recommend statements on specialized topics and revise existing statements as necessary.

Accounting Concepts and Standards Documents Issued by the Federal Accounting Standards Advisory Board [FASAB]

Title of Document	Date of Issuance	Effective Date
SFFAC 1: Objectives of Federal Financial Reporting	September 2, 1993	Not Applicable
SFFAC 2: Entity and Display	June 6, 1995	Not Applicable
SFFAS 1: Accounting for Selected Assets and Liabilities	March 30, 1993	October 1, 1993
SFFAS 2: Accounting for Direct Loans and Loan Guarantees	August 23, 1993	October 1, 1993
SFFAS 3: Accounting for Inventory and Related Property	October 27, 1993	October 1, 1993
SFFAS 4: Managerial Cost Accounting Concepts and Standards	July 31, 1995	October 1, 1997
SFFAS 5: Accounting for Liabilities of the Federal Government	December 20, 1995	October 1, 1996
SFFAS 6: Accounting for Property, Plant and Equipment	November 30, 1995	October 1, 1997
SFFAS 7: Accounting for Revenue and Other Financial Sources	May 10, 1996	October 1, 1997
SFFAS 8: Supplementary Stewardship Reporting	June 11, 1996	October 1, 1997
SFFAS 9: Deferral of Implementation Date for SFFAS 4	November 3, 1997	October 1, 1997
SRAS 10: Accounting for Internal Use Software	Not Applicable	Not Applicable

Accounting Concepts and Standards Documents Issued by the Federal Accounting Standards Advisory Board [FASAB]—Continued

Title of Document	Date of Issuance	Effective Date
SFFAS 11: Amendments to Accounting for PP&E—Definitions	December 15, 1998	October 1, 1998
SFFAS 12: Recognition of Contingent Liabilities from Litigation	February 5, 1999	October 1, 1997
SFFAS 13: Deferral of Paragraph 65.2—Material Revenue-Related Transactions Disclosures—Amending SFFAS 7	February 5, 1999	October 1, 1998
SRAS 14: Amendments to Deferred Maintenance Reporting	Not Applicable	Not Applicable
SRAS 15: Management Discussion and Analysis	Not Applicable	Not Applicable
Exposure Draft: Governmentwide Supplementary Stewardship Reporting	June 1997	Not Applicable
Exposure Draft: Accounting for Social Insurance	February 1998	Not Applicable
Exposure Draft: Amendments to Accounting for Property, Plant, and Equipment	February 1998	Not Applicable
Exposure Draft: Amendments to Accounting for Direct Loans and Loans Guarantees	March 1999	Not Applicable
Invitation for Views: Accounting for the Cost of Capital by Federal Entities	July 1996	Not Applicable
Interpretation 1: Reporting on Indian Trust Funds	March 12, 1997	Effective upon implementation of SFFAS 7

Accounting Concepts and Standards Documents Issued by the Federal Accounting Standards Advisory Board [FASAB]—Continued

Title of Document	Date of Issuance	Effective Date
Interpretation 2: Accounting for Treasury Judgment Fund Transactions	March 12, 1997	Effective upon implementation of SFFAS 4 and 5
Interpretation 3: Measurement Date for Pension and Retirement Health Care Liabilities	August 29, 1997	Reporting periods ending on or after September 30, 1997
Interpretation 4: Accounting for Pension Payments In Excess of Pension Expense	December 19, 1997	Reporting periods ending on or after September 30, 1997
Interpretation 5: Recognition by Recipient Entities of Receivable Non-exchange Revenue	December 3, 1998	Effective upon implementation of SFFAS 7

3. The Importance of Effective Internal Controls

Federal financial management legislation—the Federal Managers' Financial Integrity and Federal Financial Management Improvement Acts, in particular—placed great emphasis on the importance of effective internal controls. Their importance cannot be overstated, especially in the large, complex operating environment of the executive branch of the Federal Government. Effective internal controls are the first line of defense against fraud, waste, abuse, and mismanagement, and help to ensure that an entity's mission is achieved in the most effective and efficient manner. The subject of internal controls generally surfaces—as has been the case in subcommittee hearings—after improprieties or inefficiencies are found. However, as has been previously noted, good managers continually seek new ways to improve operations through effective internal controls.

Internal controls can be simply defined as the methods by which an organization governs its activities to accomplish its mission effectively and efficiently. More specifically, internal controls are concerned with stewardship and accountability for the resources consumed in the process of accomplishing an entity's mission with effective results. The GAO has defined internal controls in its *Standards for Internal Controls in the Federal Government* as follows:

> The plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse;

and that reliable data are obtained, maintained, and fairly disclosed in reports.

Internal controls should not be looked upon as separate, specialized systems within an agency. Rather, they should be recognized as an integral part of each system that management uses to regulate and guide its operations. Internal controls are synonymous with management controls in that the broad objectives of internal controls cover all aspects of agency operations. Although ultimate responsibility for good internal controls rests with management, all employees have a role in the effective operation of internal controls set by management.

The committee again stresses that it is important to recognize that internal controls can be designed to provide reasonable, not absolute, assurance that an organization's activities are being accomplished in accordance with its objectives.

In its Statement of Auditing Standards No. 55,[21] the American Institute of Certified Public Accountants identified internal control limitations, such as the possibility of errors arising from such causes as misunderstanding instructions, mistakes in judgment, and personal carelessness. Also, many control procedures depend on the segregation of duties. The effectiveness of these procedures can be circumvented by collusion. Similarly, management authorizations may be ineffective against errors or fraud perpetrated by management. In addition, the standard of reasonable assurance recognizes that the cost of internal controls should not exceed the benefit derived. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks.

The full cost of fraud, waste, abuse, and mismanagement cannot always be known in advance or measured in terms of dollars. If improper activities are allowed to continue, public confidence is eroded in the Government's ability to manage its programs effectively and honestly. Such erosion to any degree cannot be measured in dollars. *The trust of the citizenry in its Government is a priceless relationship.*

Management executives at most Federal agencies are faced with tight budgets and, thus, limited in human, information, and financial resources. In such an environment, especially given the diverse and complex nature of Federal operations, weak control environments can provide fertile ground for fraud, waste, abuse, and mismanagement.

Effective financial management practices and timely, reliable financial information enable senior management to make decisions that will result in effective and efficient operations. This belief is reflected in the Government Performance and Results Act passed by Congress in 1993. The act sought to ". . . improve the confidence of the American people in the capacity of the Federal Government, by systematically holding Federal agencies accountable for achieving program results." The act was also designed to aid the legislative branch and improve congressional decisionmaking

[21] *Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements), Nos. 1 to 82,* American Institute of Certified Public Accountants, as of Jan. 1, 1997.

by providing "more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs and spending." Without reliable and timely financial information, neither agency decisionmakers nor Congress can determine the real costs and benefits of Federal programs. Thus, it is imperative that Federal agencies and departments produce reliable financial information in a timely and efficient manner.

B. RESULTS OF THE FISCAL YEAR 1998 GOVERNMENTWIDE FINANCIAL STATEMENT AUDIT AND RELATED AGENCY AUDITS

1. Oversight hearings held by the subcommittee

On March 31, 1999, the General Accounting Office released its audit report on the financial status of the Federal Government required under the Chief Financial Officers Act of 1990 as expanded by the Government Management Reform Act of 1994 and amended by the Federal Financial Management Improvement Act of 1996. This second annual report again provided a concise description of the myriad problems faced by the executive branch. The subcommittee held a hearing on March 31, 1999 to examine the results of this audit.

The subcommittee hearings focused on the status of financial management at the Internal Revenue Service, the Federal Aviation Administration, the Department of Justice, the Health Care Financing Administration, and the Department of Defense. Collectively, these agencies account for more than 98 percent of the Federal Government's annual revenue and a majority of the costs (excluding interest on the national debt held by the public and the Social Security program). In addition, the Department of Defense accounts for a significant portion of the assets held by the Federal Government. Consequently, these agencies play a significant role in the production of governmentwide statements, and significantly affect the audit results. All of these agencies have experienced problems with their financial management, and have had varying degrees of success in resolving those problems. Each agency and department is required to issue a separate audited financial statement. The subcommittee held hearings to explore specific issues at each of these agencies.

These hearings held by the Subcommittee on Government Management, Information, and Technology:

- explored the results of the financial audits for the second year of full implementation of the GMRA throughout the Federal Government, and in particular at the five agencies noted above;
- considered the need for congressional action to improve financial management in the executive branch; and
- reviewed options for possible congressional actions needed to ensure the successful implementation of Federal financial management reforms.

Internal Revenue Service [IRS]

The IRS collects more than 95 percent of the Federal Government's $1.7 trillion in annual revenue. In fiscal year 1998, the IRS issued its first set of financial statements covering both its custodial and administrative activities. Prior to 1998, the IRS had issued two sets of financial statements; one set for its custodial operations—the revenues collected, refunds paid, and related taxes receivable and payable—and another for its appropriated funds. The IRS's financial data were then incorporated into the agency-wide statements prepared by the Department of the Treasury.

The IRS is responsible for enforcing tax laws in a fair and equitable manner, but the agency has long been criticized for the perceived abuse of its broad enforcement powers. In response to this criticism, Congress established the Commission on the Restructuring of the IRS. Led by Representative Rob Portman of Ohio and Senator Bob Kerrey of Nebraska, the bipartisan commission released a comprehensive report in June 1997, proposing several changes in the IRS's management. The Commission's recommendations were the basis of H.R. 2676, the Internal Revenue Service Restructuring and Reform Act of 1997, which was signed into law by the President on July 22, 1998. The underlying theme of the act is one of creating a *cultural change* within the IRS. In the broadest terms, the act shifts the emphasis within the IRS from its self-defined role as an enforcement agency to a role more closely resembling a financial service organization.

Also at congressional urging, the Clinton administration appointed a new commissioner with extensive experience in managing large organizations. Charles O. Rossotti, founder of a firm in the management systems and technology industry, was appointed Commissioner of the IRS in September 1997. Since his appointment, Commissioner Rossotti has proposed a sweeping reorganization of the IRS that exceeds the changes mandated in the legislation. Testifying before the subcommittee, Commissioner Rossotti stated that he plans on "shifting the entire focus of the agency from one which focuses solely on conducting our own internal operations to one which puts far more emphasis on trying to see things from the point of view of taxpayers and emphasizing service and fairness to taxpayers."

For the second consecutive year, the IRS was able to reliably report on its financial activity covering the collection and refunds of taxes in 1998. This achievement, however, required extensive, costly, and time-consuming ad hoc procedures to overcome pervasive internal controls and systems weaknesses. The ability to provide reliable year-end data is an important first step for the IRS, but it is not an end in itself. The GAO audit report stated that the "IRS continues to face significant financial and other management challenges and risks."[22] These weaknesses must be addressed before the IRS can make any significant improvement in the area of financial management.

The IRS was unable to report on its administrative activities in fiscal year 1998. The GAO report found that "pervasive weaknesses in the design and operation of IRS's financial management systems, accounting procedures, documentation, recordkeeping, and internal controls prevented IRS from reliably reporting on the results" of these activities.

[22] "Financial Audit: IRS' Fiscal Year 1998 Financial Statements," GAO/AIMD–99–75, p. 6.

The subcommittee's oversight hearing on March 1, 1999 highlighted the need for better computer systems to improve the IRS's debt management. At the time of the hearing, the IRS estimated that it collects only 11 percent of the $222 billion in debts the agency claims are owed by delinquent taxpayers. The hearing also illustrated the need for better controls over refunds. According to the GAO, the IRS doesn't have the preventive controls it needs to reduce the amount of inappropriate payments being disbursed for tax refunds.

Department of Defense [DOD]

The General Accounting Office, the Defense Inspector General, and the department's audit agencies have long reported problems in the DOD's financial management systems and practices. Each year, numerous reports are issued with virtually the same problems as the prior years. The DOD's reported financial management problems include: inadequate control over assets such as real property, capital leases, construction in progress, and inventories; the understatement of costs associated with environmental clean-ups; liabilities, including military retiree benefits, that are not covered by current budgetary resources; and instances of noncompliance with laws and regulations. Because of these problems, the Inspector General was unable to render an opinion on the DOD's financial statements for fiscal year 1998. The GAO disclaimed an opinion on the Consolidated Governmentwide Financial Statements of the Federal Government, largely due to the Defense Department's inability to provide complete and verifiable information on its finances.

The issues that need to be resolved cross operational lines within the DOD and the military services. Thus, action is needed from the top levels of DOD management to ensure that these long-standing problems are resolved.

On May 4, 1999, the subcommittee examined the results of the fiscal year 1998 audits of the DOD, and the status of the Department's plans to address its long-standing and severe problems. The GAO and DOD's Acting Inspector General highlighted the most serious financial management weaknesses at the Department. The subcommittee heard that the DOD remains unable to:

- account for and properly report on billions of dollars worth of inventory and property, plants, equipment, and national defense assets, primarily weapons systems and support equipment;
- estimate and report material amounts of environmental and disposal liabilities, and their related costs;
- determine the liability associated with post-retirement health benefits for military employees;
- report the net costs of its operations;
- produce accurate budget data; and
- determine the full extent of improper payments.

These weaknesses in the DOD's financial management operations continue to result in wasted resources. Furthermore, they undermine the DOD's ability to manage an estimated $250 billion budget and $1 trillion in assets, all of which limit the reliability of financial information provided to Congress.

During 1998, the Department of Defense adressed these weaknesses more seriously than in previous years. The GAO testified before the subcommittee on March 4, stating that "while in the past we have questioned the department's commitment to fixing these long-standing problems, DOD has started to devote additional resources to correct its financial management weaknesses. The atmosphere of 'business as usual' at DOD has changed to one of marked effort at real reform." The GAO went on to say, "this commitment is imperative, as it will take considerable effort, time, and sustained top management attention to turn reform efforts into day-to-day management reality."

Health Care Financing Administration [HCFA]

HCFA accounts for more than 18 percent of all Federal budget outlays, and pays for one-third of the health-care costs throughout the United States. The growth of HCFA's Medicare and Medicaid payments has exceeded the growth in the Consumer Price Index for medical goods and services. Yet the agency is unable to provide timely or reliable financial information. The GAO has cited HCFA's Medicare program as a high-risk area for fraud, waste, and abuse.[23]

HCFA's fiscal year 1998 financial statements received a qualified opinion. The Inspector General of HHS was unable to find sufficient documentation to complete the Medicare accounts receivable. HCFA released its audited financial statements for fiscal year 1998 at the subcommittee's March 26, 1999 hearing.

Based on the last 2 years of audit results, the hearing focused on actions HCFA is taking to resolve its financial management problems, including excessive Medicare payments. There has been marked improvement in the agency's annual overpayments, but the amounts are still unacceptable. The estimated amount of overpayments for Medicare dropped from $23.2 billion in 1996 to $20.6 billion in 1997 and $12.6 billion in 1998. The 1998 amount represents approximately 7.1 percent of the total Medicare fee-for-service benefit payments made that year.

The subcommittee found that, while progress has been made, much more is needed to ensure that the Medicare and Medicaid programs—critical to the security of 73 million elderly and impoverished Americans—are fiscally sound.

Specific issues disclosed in the auditor's report on the 1998 financial statements included the following:

- Medicare contractors did not maintain the support needed to determine the accuracy of reported collections of accounts receivable. Auditors were unable to determine if records maintained by the contractors included all the amounts owed to HCFA.
- Medicare contractors did not adequately control cash, including collection of outstanding accounts receivable. During 1998, Medicare contractors reported more than $7.5 billion in collections. Auditors reported serious breakdowns in controls in this area, including the fact that, in many cases, Medicare contractors failed to prepare bank reconciliations in a timely manner.

[23] *High Risk Series:* GAO/HR–99–1, January 1999.

When reconciliations were prepared, they were not adequately documented. In addition, at one location visited by auditors the same individual was responsible for receiving and endorsing incoming checks, preparing and recording deposits, and performing bank reconciliations. This situation greatly increases the risk that the money collected by this contractor could be misappropriated. The segregation of these duties is a common internal control adhered to by even the smallest private entities.

Department of Justice

The Department of Justice, under the direction of the Attorney General, is charged with protecting society against criminals and subversion, and upholding the civil rights of all Americans. In addition, the department is responsible for ensuring healthy competition among businesses, safeguarding the consumer, enforcing environmental, drug, immigration, and naturalization laws, and representing the American people in all legal matters involving departments and agencies within the executive branch of Government.

In 1998, the Department of Justice was again unable to provide reliable financial information to decisionmakers. For the third consecutive year, auditors were unable to render an opinion on Justice's financial statements. In addition, auditors reported significant weaknesses in internal controls and cases in which the law-enforcement department failed to comply with financial laws and regulations.

At the subcommittee's hearing on March 18, 1999, we learned that the weaknesses reported in the Department's consolidated financial statements were also prevalent in most of the Department's component entities. The audit report stated that weaknesses exist in the controls over computer security at the U.S. Marshals Service, the Federal Bureau of Investigation, the Drug Enforcement Administration, and the Immigration and Naturalization Service.

Federal Aviation Administration

The Federal Aviation Administration [FAA] operates the Nation's air traffic control system and regulates aviation safety, security, and the U.S. commercial space industry. In its position on the front line of aviation safety, the FAA works with the air transportation industry, other agencies at the Federal, State, and local level, and with its international counterparts.

Due to long-standing and unresolved problems, the GAO designated financial management at the FAA as a high-risk area in its January 1999 report. The GAO report stated that "financial management weaknesses continue to render FAA vulnerable to waste, fraud, and abuse; undermine its ability to manage its operations; and limit the reliability of financial information provided to the Congress." [24]

The subcommittee examined these weaknesses at a hearing on March 18, 1999. Because of the results of the Department's 1998

[24] *High Risk Series:* GAO/HR–99–1, January 1999.

financial statement audit, the subcommittee also discussed the findings with the Inspector General of the Department of Transportation. The Inspector General was unable to render an opinion on the 1998 financial statements. In addition, the Inspector General reported significant weaknesses in the FAA's internal controls. These weaknesses included more than $9 billion in property, plant and equipment that could not be verified. The FAA also could not reliably report on the costs of its operations. The combination of poor accounting and control over assets and costs are especially troubling, considering that the agency has an air traffic control modernization plan that is projected to cost more than $42 billion by the year 2004.

In 1981, the FAA had initiated an earlier air traffic control modernization program. This effort involved acquiring new air traffic control facilities and a vast network of radar, automated data processing navigation, and communications equipment. The program, which was poorly managed, was shutdown, costing taxpayers $4 billion for a system that didn't work. The FAA's current modernization program has been put on the GAO high-risk list, due in large part to the agency's financial management problems, such as poor cost-accounting practices and lack of accountability over acquisitions.

2. Federal department and agency financial management grades

On March 31, 1999, the subcommittee released its second annual report card measuring the effectiveness of financial management in the 24 Cabinet departments and independent agencies with audited financial statements. The grades were based on the results of the audits prepared by the agencies' Inspectors General, independent public accountants, and the General Accounting Office. The report card is a gauge for Congress to see where attention is needed to prod agencies toward getting their financial affairs in order.

The National Aeronautics and Space Administration and the National Science Foundation demonstrated they could effectively manage their finances. Both agencies received "A's."

The General Services Administration, the Department of Labor, and the Social Security Administration all earned commendable "B's."

These agencies were the exception rather than the rule; 7 of the 24 agencies—29 percent—had not filed reports by the subcommittee's March 31 hearing, 1 month after their March 1 reporting deadline established by the Government Management Reform Act of 1994, and 6 months after the close of the Government's fiscal year. As of the publication of this report, six agencies—the Department of Commerce, the Department of Education, the Environmental Protection Agency, the Department of the Interior, the Small Business Administration and the Department of State—had not submitted financial statements.

Six other agencies could not pass muster and earned a failing grade of "F." They are: the Agency for International Development, the Department of Agriculture, the Department of Defense, the Department of Justice, the Department of Transportation, and the Office of Personnel Management.

These audits were required by the Government Management Reform Act of 1994, which intended to provide a more effective, efficient, and responsive Federal Government. To that end, the act specifically requires that consolidated governmentwide financial statements be prepared and audited, and that each executive branch agency prepare and have audited a financial statement covering all accounts and associated activities of each office, bureau, and activity within the agency. The grades are as follows:

Federal Financial Management Status Report—Federal Departments and Agencies

Department/Agency	Reliable Financial Information (yes/qualified/no)	Effective Internal Control (yes/no)	Compliance with Laws and Regulations (yes/no)	Grade FY 96	Grade FY 97	Grade FY 98
National Aeronautics and Space Administration	YES	YES	YES	A	A	A
National Science Foundation	YES	YES	YES	D	B+	A
General Services Administration	YES	YES	NO	D+	B-	B-
Department of Labor	YES	YES	NO	D	B-	B-
Social Security Administration	YES	YES	NO	A	B-	B-
Department of Energy	Qualified	NO	YES	A	A	C
Federal Emergency Management Agency	YES	NO	NO	F	D-	D+
Department of Housing and Urban Development	YES	NO	NO	D-	D-	D+
Nuclear Regulatory Commission	YES	NO	NO	A	B-	D+

Federal Financial Management Status Report—Federal Departments and Agencies—Continued

Department/Agency	Reliable Financial Information (yes/qualified/no)	Effective Internal Control (yes/no)	Compliance with Laws and Regulations (yes/no)	Grade FY 96	Grade FY 97	Grade FY 98
Health and Human Services	Qualified	NO	NO	F	D-	D-
Department of the Treasury	Qualified	NO	NO	F	D-	D-
Department of Veterans Affairs	Qualified	NO	NO	F	D-	D-
Agency for International Development	NO	NO	NO	F	F	F
Department of Agriculture	NO	NO	NO	F	F	F
Department of Defense	NO	NO	NO	F	F	F
Department of Transportation	NO	NO	NO	F	F	F
Department of Justice	NO	NO	NO	F	F	F
Office of Personnel Management	NO	NO	NO	F	F	F
Department of Commerce	No Report	No Report	No Report	F	F	F*
Department of Education	No Report	No Report	No Report	D+	D+	F*
Environmental Protection Agency	No Report	No Report	No Report	C	D+	F*

Federal Financial Management Status Report—Federal Departments and Agencies—Continued

Department/Agency	Reliable Financial Information (yes/qualified/no)	Effective Internal Control (yes/no)	Compliance with Laws and Regulations (yes/no)	Grade FY 96	Grade FY 97	Grade FY 98
Department of the Interior	No Report	No Report	No Report	D+	B-	F *
Small Business Administration	No Report	No Report	No Report	B-	D+	F *
Department of State	No report	No report	No report	D-	D-	F *

* Indicates that the Agency did not submit its FY98 financial statements report as of the date of this report.

III. Conclusions

Poor financial management has been a long-recognized problem within the Federal Government. Congress has developed a strong legislative framework that if properly implemented, would significantly improve the Government's financial management. This, in turn, would lead to more efficient and effective Government operations, and more informed decisionmaking. Despite these efforts, however, many executive branch departments and agencies have been overly slow in implementing the financial management legislation.

Some progress was made during the Government's 1998 fiscal year. Nevertheless, most Federal agencies still cannot account for billions of dollars in Federal spending in an accurate and timely manner.

Subcommittee hearings over the last 2 months and the 1998 audit reports raise serious questions about the soundness of the Government's fundamental financial information.

To make informed decisions, Congress, the President, and his Cabinet must have reliable data on a timely basis. Without such information, both the quality of Government services and the fiscal health of this Nation are at risk.

The Federal Government must get its financial house in order. The Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994 and amended by the Federal Financial Management Improvement Act of 1996, provides the foundation for the successful implementation of the Government Performance and Results Act of 1993. However, further legislation is now necessary to penalize recalcitrant agencies and departments that fail to comply with Federal financial management laws. Furthermore, the President needs the appropriate staff to focus on management problems within the executive branch of the Government. An Office of Management whose Director reports to the President would enable the President, his Cabinet officers, and agency administrators to focus on improved financial management, as well as improved general management and information management.

Without such a governmentwide management structure, other departments and agencies will not learn from past management failures, such as the computer debacles of the early 1990s. The Federal Aviation Administration's $4 billion was matched by a similar failure when the Internal Revenue Service sought to improve its information systems. Together, these programs cost taxpayers $8 billion before they were stopped.

Congress and the President must ensure that Federal agencies and departments place adequate attention to financial management. The framework is in place for these Federal departments and agencies to step up to their fundamental responsibility: to be financially accountable to the American taxpayer.

APPENDIX A—BASIS FOR AGENCY FINANCIAL MANAGEMENT GRADES

The grades for each of the 24 departments and agencies are based on the results of the financial statement audits. These audits were performed by the agency's Inspector General, an independent public accounting firm, and the General Accounting Office. All auditors were required to follow generally accepted Government auditing standards [GAGAS]. These standards incorporate the American Institute of Certified Public Accountant's *Statements on Auditing Standards,* the same standards required for audits of private sector entities. However, GAGAS adds certain requirements beyond the *Statements on Auditing Standards.* Most notably, GAGAS has additional reporting requirements beyond an opinion on the financial statements.

Three reports are required at the completion of each audit of Government entities under GAGAS and as incorporated in OMB Bulletin 93–06, *Audit Requirements for Federal Financial Statements.*[25] These reports are an opinion of the financial statements, a report on internal controls structure, and a report on compliance with laws and regulations.

The opinion provides the auditor's assessment of the reliability of the information contained in the financial statements. There are four types of opinions that the auditor can render—Unqualified, Qualified, Adverse, or Disclaimer. An *unqualified* opinion signifies that the information in the financial statements was reliable in all material respects. A *qualified* opinion signifies that, except for specified information in the financial statements, the information is reliable. An *adverse* opinion means the statements are not reliable. Last, a *disclaimer* of opinion signifies that the auditor was unable to determine if material information in the statements was reliable.

The report on internal controls provides an assessment by the auditors of the effectiveness of internal controls. The report is required to identify any instances of material weaknesses or reportable conditions in internal controls that surfaced during the course of the audit. The American Institute of Certified Public Accountants defines a material weakness in internal controls as ". . . a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may

[25] OMB Bulletin 93–06, *Audit Requirements for Federal Financial Statements,* establishes requirements and guidance for auditors to follow in auditing Federal financial statements.

occur and not be detected within a timely period by employees in the normal course of performing assigned functions."[26]

The report on compliance with the laws and regulations provides the auditor's assessment of instances in which the agency did not follow or conform materially to requirements of the laws and regulations deemed material to the financial operations of that agency. The Office of Management and Budget also provides guidance to the auditors in OMB Bulletin 93–06 regarding which general laws and regulations need to be considered during the audit.

Starting in fiscal year 1997, an agency's adherence to the Federal Financial Management Improvement Act of 1996 [FFMIA] requirements must be assessed in the report on compliance with laws and regulations, in accordance with OMB guidance.[27] FFMIA specifically requires that agencies conform to promulgated Federal Government accounting and systems standards, and use the Government standard general ledger. Many agencies did not materially conform to the requirements of FFMIA.

The subcommittee reviewed each financial report on an absolute scale and assessed grades on a 4 point scale with "A" = 4, "B" = 3, "C" = 2, "D" = 1, and "F" = 0. In the financial information category, when an unqualified opinion was rendered by the auditor, an "A" (4 points) was given; a qualified opinion received a "C" (2 points) and a disclaimer received an "F" (0 points). There were no adverse opinions rendered in fiscal years 1996, 1997 or 1998, however, an adverse opinion would have also received an "F."

If no material weaknesses in internal controls were reported, the agency received an "A" (4 points). Conversely, if material weaknesses were reported, the agency received an "F" (0 points) in this category.

Similarly, if the auditor reported that the agency had no known instances of non-compliance with laws and regulations an "A" (4 points) was awarded. If material non-compliances were reported, an "F" (0 points) was given.

These grades were then averaged (with equal weight) to determine the overall grade for the agency.

If no report was completed or provided prior to March 31, 1999, the agency was initially assessed as "incomplete." When reports became available, the agency's grade was determined. The grades included in this report are based on audit reports issued as of the publication of this report. By law, agencies are required to submit audited financial statements for the fiscal year to the Director of OMB by March 1 of the succeeding year. This date is 5 months after the close of the Federal Government's fiscal year on September 30.

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[26] *Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements), Nos. 1 to 82,* American Institute of Certified Public Accountants, as of Jan. 1, 1997; AU sec. 325.15.

[27] OMB issued a memorandum dated Sept. 9, 1997, for agencies and auditors to use in assessing compliance with FFMIA. This interim guidance was to be followed in audits of Federal financial statements for fiscal year 1997.

APPENDIX B—Major Federal Financial Management Legislation

Public Law	Key Financial Management Provisions [1]
Budget and Accounting Procedures Act of 1950 (Chapter 946, 64 Stat. 832)	• The Budget and Accounting Procedures Act of 1950 provided that the maintenance of accounting systems and producing of financial reports with respect to the operations of executive agencies be the responsibility of the executive branch and that the auditing for the Government be conducted by the Comptroller General to determine the extent to which accounting and related financial reporting fulfill the purposes specified, financial transactions have been consummated in accordance with laws, regulations, or other requirements, and adequate internal financial control over operations is exercised. • The Comptroller General was given the responsibility of prescribing accounting and auditing principles and standards to be followed in the preparation of financial reports by executive agencies and by the GAO in the audit of the financial transactions of each executive, legislative, and judicial agency.
Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988 (Public Laws 95–452 and 100–504)	• The Inspector General Act (IG Act) requires that Inspectors General perform audits in accordance with generally accepted government auditing standards. • The Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act, and amended by the Federal Financial Management Improvement Act, has demanded shifts in the focus of the Inspectors' General work.

Public Law	Key Financial Management Provisions [1]
Federal Managers' Financial Integrity Act of 1982 (Public Law 97–255)	• The Federal Managers' Financial Integrity Act of 1982 [FMFIA] required that internal accounting and administrative controls of each executive agency be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurance that: obligations and costs are in compliance with applicable law; assets are safeguarded from waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for. • The head of each agency is required to report to the President and Congress whether the agency's systems of internal accounting and administrative control fully comply with the Comptroller General's requirements. For all material weaknesses, the agency head must describe in the report the plan and schedule for correcting any such weaknesses.
Debt Collection Act of 1982, as amended, and Debt Collection Improvement Act of 1996 (Public Laws 97–365 and 104–134, sec. 31001)	• The Debt Collection Act, as amended, provides greater powers to Federal agencies in collecting debts owed to the Federal Government including: reporting a delinquent debtor to a consumer reporting agency; offsetting the salary of Federal employees who are delinquent in the payment of debts; disclosing to a Federal lending agency that an applicant has a tax delinquency and deny such individual credit; disclosing a taxpayer's address to an agency to use for purposes of collecting delinquent debt; administratively offsetting all Federal payments, including tax refunds; garnishing wages; and charging of interest and penalties on any debt. • Agencies are required to report to the Director of the Office of Management and Budget and the Secretary of the Treasury at least once a year information regarding its debt collection activities. Further, the Secretary of the Treasury must report that information to Congress annually and provide a one-time report, not later than April 1999, to Congress on the collection services provided by it and other entities collecting on behalf of Federal agencies.

Public Law	Key Financial Management Provisions [1]
	• Agencies are required to make Federal payments to individuals by electronic fund transfer, except for tax refunds. • Agencies, except for the IRS, can contract with a collection service to pursue outstanding debts of the agency or to sell debt over 90 days delinquent. • Agencies are required to collect the taxpayer identification number of any individual or entity doing business with the Government.
Chief Financial Officers Act of 1990 (Public Law 101–576)	• The Chief Financial Officers Act of 1990 (CFO Act) creates a new leadership structure for Federal financial management, including the creation of a Deputy Director of Management, a Controller who advises the Deputy Director, and an Office of Federal Financial Management within the Office of Management and Budget. The Deputy Director is responsible for providing financial management leadership including the establishment and oversight of Federal financial policies and practices. • The Office of Management and Budget is required by the CFO Act to prepare and submit to Congress a governmentwide 5-year financial management plan. The plan describes the planned activities of OMB and agency's CFO over the next 5 years to improve financial management. • The CFO Act also requires that 24 agencies have Chief Financial Officers and Deputy Chief Financial Officers and lays out their authorities and functions. It also stipulates the qualifications and responsibilities for each of the positions.
Government Management Reform Act of 1994 (Public Law 103–356) [2]	• The Government Management Reform Act of 1994 [GMRA] expands requirements for executive branch agencies contained in section 303(a) of the CFO Act. • GMRA requires all 24 agencies covered under the CFO Act to have agencywide audited financial statements, beginning with fiscal year 1996. Those statements, due March 1, 1997, and each year thereafter, must cover all accounts and associated activities.

Public Law	Key Financial Management Provisions [1]
	• GMRA provides that, for each audited financial statement required from the agency, the auditor (the Inspector General, independent public accountant, or the GAO) must submit a report on the audit to the head of the agency. This report is to be prepared in accordance with generally accepted Government auditing standards. • GMRA requires that a consolidated financial statement for all accounts and associated activities of the executive branch be prepared by the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, for fiscal year 1997 and each year thereafter. Such statements are to be audited by the Comptroller General. The audited financial statements must be submitted to the President and Congress by March 31, 1998.
Federal Financial Management Improvement Act of 1996 (Title VIII of Public Law 104–208)	• The Federal Financial Management Improvement Act of 1996 [FFMIA] requires that agencies conform to promulgated Federal Government accounting and systems standards, and use the U.S. Government Standard General Ledger. • FFMIA requires auditors performing financial audits to report whether agencies' financial management systems comply substantially with Federal accounting standards, financial systems requirements, and the Government's Standard General Ledger at the transaction level. • For agencies that are not in material compliance with the standards described above, the head of the agency, in consultation with the Director of the Office of Management and Budget, must prepare a remediation plan that addresses the problems. This plan shall include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance. The remediation plan shall bring the agency's financial management systems into substantial compliance within 3 years after the date a determination is made by the auditors that the agency is not in compliance.

Public Law	Key Financial Management Provisions [1]
	• The Director of the Office of Management and Budget is required to report to Congress, not later than March 31 of each year, regarding implementation of FFMIA. • The Comptroller General is required to report to Congress, no later than October 1 of each year, concerning compliance with the requirements of FFMIA and the adequacy of applicable accounting standards of the Federal Government.

[1] These laws, except FFMIA, are compiled in Laws Related to Federal Financial Management, House Report 104–745. FFMIA is included in Appendix C to this report.

[2] The section of GMRA that deals with financial management is also referred to as the ''Federal Financial Management Act of 1994.''

APPENDIX C—PUBLIC LAW 104–208, TITLE VIII—FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

TITLE VIII—FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT

SEC. 801. SHORT TITLE.

This title may be cited as the "Federal Financial Management Improvement Act of 1996."

SEC. 802. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds the following:

(1) Much effort has been devoted to strengthening Federal internal accounting controls in the past. Although progress has been made in recent years, Federal accounting standards have not been uniformly implemented in financial management systems for agencies.

(2) Federal financial management continues to be seriously deficient, and Federal financial management and fiscal practices have failed to—

(A) identify costs fully;

(B) reflect the total liabilities of congressional actions; and

(C) accurately report the financial condition of the Federal Government.

(3) Current Federal accounting practices do not accurately report financial results of the Federal Government or the full costs of programs and activities. The continued use of these practices undermines the Government's ability to provide credible and reliable financial data and encourages already widespread Government waste, and will not assist in achieving a balanced budget.

(4) Waste and inefficiency in the Federal Government undermine the confidence of the American people in the government and reduce the federal Government's ability to address vital public needs adequately.

(5) To rebuild the accountability and credibility of the Federal Government, and restore public confidence in the Federal Government, agencies must incorporate accounting standards and reporting objectives established for the Federal Government into their financial management systems so that all the assets and liabilities, revenues, and expenditures or expenses, and the full costs of programs and activities of the Federal Government can be consistently and accurately recorded, monitored, and uniformly reported throughout the Federal Government.

(6) Since its establishment in October 1990, the Federal Accounting Standards Advisory Board (hereinafter referred to as the "FASAB") has made substantial progress toward developing and recommending a comprehensive set of accounting concepts and standards for the Federal Government. When the accounting concepts and standards developed by FASB are incorporated into Federal financial management systems, agencies will be able to provide cost and financial information that will assist the Congress and financial managers to evaluate the cost and performance of Federal programs and activities, and will therefore provide important information that has been lacking, but is needed for improved decision making by financial managers and the Congress.

(7) The development of financial management systems with the capacity to support these standards and concepts will, over the long term, improve Federal financial management.

(b) PURPOSE.—The purposes of this Act are to—

(1) provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards throughout the Federal Government;

(2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, to the citizens, the Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits;

(3) increase the accountability and credibility of federal financial management;

(4) improve performance, productivity and efficiency of Federal Government financial management;

(5) establish financial management systems to support controlling the cost of Federal Government;

(6) build upon and complement the Chief Financial Officers Act of 1990 (Public Law 101–576; 104 Stat. 2838), the Government Performance and Results Act of 1993 (Public Law 103–62; 107 Stat. 285) and the Government Management Reform Act of 1994 (Public Law 103–356; 108 Stat. 3410); and

(7) increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities.

SEC. 803 IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS.

(a) IN GENERAL.—Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

(b) AUDIT COMPLIANCE FINDING.—

(1) IN GENERAL.—Each audit required by section 3521(e) of title 31, United States Code, shall report whether the agency financial management systems comply with the requirements of subsection (a).

(2) CONTENT OF REPORTS.—When the person performing the audit required by section 3521(e) of title 31, United States

Code, reports that the agency financial management systems do not comply with the requirements of subsection (a), the person performing the audit shall include in the report on the audit—

(A) the entity or organization responsible for the financial management systems that have been found not to comply with the requirements of subsection (a);

(B) all facts pertaining to the failure to comply with the requirements of subsection (a), including—

(i) the nature and extent of the noncompliance including areas in which there is substantial but not full compliance;

(ii) the primary reason or cause of the noncompliance;

(iii) the entity or organization responsible for the non-compliance; and

(iv) any relevant comments from any responsible officer or employee; and

(C) a statement with respect to the recommended remedial actions and the time frames to implement such actions.

(c) COMPLIANCE IMPLEMENTATION.—

(1) DETERMINATION.—No later than the date described under paragraph (2), the Head of an agency shall determine whether the financial management systems of the agency comply with the requirements of subsection (a). Such determination shall be based on—

(A) a review of the report on the applicable agency-wide audited financial statement;

(B) any other information the Head of the agency considers relevant and appropriate.

(2) DATE OF DETERMINATION.—The determination under paragraph (1) shall be made no later than 120 days after the earlier of—

(A) the date of the receipt of an agency-wide audited financial statement; or

(B) the last day of the fiscal year following the year covered by such statement.

(3) REMEDIATION PLAN.—

(A) If the Head of an agency determines that the agency's financial management systems do not comply with the requirements of subsection (a), the head of the agency, in consultation with the Director, shall establish a remediation plan that shall include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.

(B) If the determination of the head of the agency differs from the audit compliance findings required in subsection (b), the Director shall review such determinations and provide a report on the findings to the appropriate committees of the Congress.

(4) TIME PERIOD FOR COMPLIANCE.—A remediation plan shall bring the agency's financial management systems into substantial compliance no later than 3 years after the date a

determination is made under paragraph (1), unless the agency, with concurrence of the Director—

(A) determines that the agency's financial management systems cannot comply with the requirements of subsection (a) within 3 years;

(B) specifies the most feasible date for bringing the agency's financial management systems into compliance with the requirements of subsection (a); and

(C) designates an official of the agency who shall be responsible for bringing the agency's financial management systems into compliance with the requirements of subsection (a) by the date specified under subparagraph (B).

SEC. 804. REPORTING REQUIREMENTS.

(a) REPORTS BY THE DIRECTOR.—No later than March 31 of each year, the Director shall submit a report to the Congress regarding implementation of this Act. The Director may include the report in the financial management status report and the 5-year financial management plan submitted under section 3512(a)(1) of title 31, United States Code.

(b) REPORTS BY THE INSPECTOR GENERAL.—Each Inspector General who prepares a report under section 5(a) of the Inspector General Act of 1978 (5 U.S.C. App.) shall report to Congress instances and reasons when an agency has not met the intermediate target dates established in the remediation plan required under section 3(c). Specifically the report shall include—

(1) the entity or organization responsible for the non-compliance;

(2) the facts pertaining to the failure to comply with the requirements of subsection (a), including the nature and extent of the non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances; and

(3) a statement of the remedial actions needed to comply.

(c) REPORTS BY THE COMPTROLLER GENERAL.—No later than October 1, 1997, and October 1, of each year thereafter, the Comptroller General of the United States shall report to the appropriate committees of the Congress concerning—

(1) compliance with the requirements of section 3(a) of this Act, including whether the financial statements of the Federal Government have been prepared in accordance with applicable accounting standards; and

(2) the adequacy of applicable accounting standards for the Federal Government.

SEC. 805. CONFORMING AMENDMENTS.

(a) AUDITS BY AGENCIES.—Section 3521(f)(1) of title 31, United States Code, is amended in the first sentence by inserting "and the Controller of the Office of Federal Financial Management" before the period.

(b) FINANCIAL MANAGEMENT STATUS REPORT.—Section 3512(a)(2) of title 31, United States Code, is amended by—

(1) in subparagraph (D) by striking "and' after the semicolon;

(2) by redesignating subparagraph (E) as subparagraph (F); and

(3) by inserting after subparagraph (D) the following:

"(E) a listing of agencies whose financial management systems do not comply substantially with the requirements of Section 3(a) the Federal Financial Management Improvement Act of 1996, and a summary statement of the efforts underway to remedy the noncompliance; and"

(c) INSPECTOR GENERAL ACT OF 1978.—Section 5(a) of the Inspector General Act of 1978 is amended—

(1) in paragraph (11) by striking "and" after the semicolon;

(2) in paragraph (12) by striking the period and inserting "; and"; and

(3) by adding at the end the following new paragraph:

"(13) the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996."

SEC. 806. DEFINITIONS.

For purposes of this title:

(1) AGENCY.—The term "agency" means a department or agency of the United States Government as defined in section 901(b) of title 31, United States Code.

(2) DIRECTOR.—The term "Director" means the Director of the Office of Management and Budget.

(3) FEDERAL ACCOUNTING STANDARDS.—The term "Federal accounting standards" means applicable accounting principles, standards, and requirements consistent with section 902(a)(3)(A) of title 31, United States Code.

(4) FINANCIAL MANAGEMENT SYSTEMS.—The term "financial management systems" includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

(5) FINANCIAL SYSTEM.—The term "financial system" includes an information system, comprised of one or more applications, that is used for—

(A) collecting, processing, maintaining, transmitting, or reporting data about financial events;

(B) supporting financial planning or budgeting activities;

(C) accumulating and reporting costs information; or

(D) supporting the preparation of financial statements.

(6) MIXED SYSTEM.—The term "mixed system" means an information system that supports both financial and nonfinancial functions of the Federal Government or components thereof.

SEC. 807. EFFECTIVE DATE.

This title shall take effect for the fiscal year ending September 30, 1997.

SEC. 808. REVISION OF SHORT TITLES.

(a) Section 4001 of Public Law 104–106 (110 Stat. 642; 41 U.S.C. 251 note) is amended to read as follows:

"SEC. 4001. SHORT TITLE.

"This division and division E may be cited as the 'Clinger-Cohen Act of 1996'.".

(b) Section 5001 of Public Law 104–106 (110 Stat. 679; 40 U.S.C. 1401 note) is amended to read as follows:

"SEC. 5001. SHORT TITLE.

"This division and division D may be cited as the 'Clinger-Cohen Act of 1996'."

(c) Any reference in any law, regulation, document, record, or other paper of the United States to the Federal Acquisition Reform Act of 1996 or to the Information Technology Management Reform Act of 1996 shall be considered to be a reference to the Clinger-Cohen Act of 1996.

This Act may be cited as the "Treasury, Postal Service, and General Government Appropriations Act, 1997".

APPENDIX D—INDEX OF WITNESSES

APP, Steven, Deputy Chief Financial Officer, Department of Treasury, March 1, 1999.

BROMWICH, Michael, Inspector General, Department of Justice, March 18, 1999.

BROWN, June Gibbs, Inspector General, Department of Health and Human Services, March 26, 1999.

CALBOM, Linda, Director, RCED Accounting and Financial Management, U.S. General Accounting Office, March 18, 1999.

COLGATE, Stephen, Assistant Attorney General for Administration, Department of Justice, March 18, 1999.

CUNNINGHAME, Donna, Chief Financial Officer, Internal Revenue Service, March 1, 1999.

DESEVE, G. Edward, Deputy Director for Management, Office of Management and Budget, March 31, 1999.

DODARO, Gene, Assistant Comptroller General for Accounting and Information Management, U.S. General Accounting Office, March 31, May 4, 1999.

HAMMOND, Donald V., Fiscal Assistant Secretary, Department of Treasury, March 31, 1999.

HASH, Michael M., Deputy Administrator, Health Care Financing Administration, Department of Health and Human Services, March 26, 1999.

HAWKINS, Joan B., Assistant Director, Governmentwide Accounting and Information Management, U.S. General Accounting Office, March 1, 1999.

JACOBSON, Lisa, Director of Defense Audits, Accounting and Information Management Division, U.S. General Accounting Office, May 4, 1999.

KESSINGER, Marilyn, Director of Financial Statement Audits, Office of Inspector General, Department of Justice, March 18, 1999.

KLEINBERG, David, Deputy Chief Financial Officer, Department of Transportation, March 18, 1999.

KUTZ, Gregory D., Associate Director, Governmentwide Accounting and Information Management Division, U.S. General Accounting Office, March 1, 1999.

LEE, Diedre A., Administrator, Office of Federal Procurement Policy, Office of Management and Budget, March 31, 1999, April 15, 1999.

LIEBERMAN, Robert, Assistant Inspector General for Audit, Department of Defense, May 4, 1999.

LYNN, William, Under Secretary of Defense, Chief Financial Officer, Department of Defense, May 4, 1999.

MANCUSO, Donald, Acting Inspector General, Department of Defense, May 4, 1999.

MECHE, John, Deputy Assistant Inspector General for Financial, Economic, and Information Technology, Department of Transportation, March 18, 1999.

ROSSOTTI, Charles, Commissioner, Internal Revenue Service, Department of the Treasury, April 15, 1999.

SCHELLENBERG, Carl, Chief Financial Officer, Federal Aviation Administration, March 18, 1999.

SEBASTIAN, Steven J., Assistant Director, Governmentwide Accounting and Information Management, U.S. General Accounting Office, March 1, 1999.

STEVENS, Nye, Director, Federal Management and Workforce Issues, U.S. General Accounting Office, April 15, 1999.

TOYE, Nelson, Deputy Chief Financial Officer, Department of Defense, May 4, 1999.

VENGRIN, Joseph, Assistant Inspector General for Audit Operations and Financial Statement Activity, Department of Health and Human Services, March 26, 1999.

WALKER, David M., Comptroller General of the United States, U.S. General Accounting Office, March 31, 1999.

WHITE, James, Director, Tax Policy and Administration Issues, U.S. General Accounting Office, April 15, 1999.

MINORITY VIEWS OF HON. HENRY A. WAXMAN, HON. JIM TURNER, HON. TOM LANTOS, HON. ROBERT E. WISE, JR., HON. MAJOR R. OWENS, HON. EDOLPHUS TOWNS, HON. PAUL E. KANJORSKI, HON. PATSY T. MINK, HON. CAROLYN B. MALONEY, HON. ELEANOR HOLMES NORTON, HON. CHAKA FATTAH, HON. ELIJAH E. CUMMINGS, HON. DENNIS J. KUCINICH, HON. ROD R. BLAGOJEVICH, HON. DANNY K. DAVIS, HON. JOHN F. TIERNEY, HON. THOMAS H. ALLEN, HON. HAROLD E. FORD, JR., AND HON. JANICE D. SCHAKOWSKY

The Subcommittee on Government Management, Information, and Technology held a series of oversight hearings on financial management and reviewed the audits of several important Federal agencies, including the Internal Revenue Service, the Federal Aviation Administration, the Health Care Financing Administration, and the Departments of Justice and Defense. Audits of these agencies, and others, demonstrate that not all components of the Federal Government can produce reliable and timely financial information on a continuing basis. These audits also provide useful information on whether the government is managing its financial responsibilities well.

Last year, President Clinton challenged Federal agencies to ensure that the Federal Government receives an unqualified audit opinion on its fiscal year 1999 consolidated financial statements. Attempts to achieve this ambitious goal have resulted in significant attention to financial reforms and improvements at agencies like the Department of Defense, which has some of the greatest deficiencies in its financial management systems.

Modernization of financial management systems that are outdated and inadequate for fulfilling current audit requirements will take years. Congress passed a crucial financial management reform law in 1990, which required financial audits of certain Federal agencies for the first time. Since that time, Congress has enacted a number of other financial management laws that together provide a strong legislative framework to assure financial accountability in the Federal Government. The current system provides the opportunity to identify and resolve the most significant financial problems existing in the Federal Government.

It may take some time before every agency can produce the timely, reliable financial information that it must produce under the current requirements; however, Federal agencies are headed in the correct direction. Many Federal agencies have made steady progress improving their financial management recently.

While many of the report's findings and recommendations are valid, we reluctantly oppose this financial management report. Unfortunately, the majority report has turned financial management into a partisan issue by grading agencies in a manner that unfairly portrays the state of agencies' financial affairs. While the majority believes that these grades provide a "gauge for Congress to see where attention is needed," these grades are misleading and partisan by their nature.

The majority assigned numerous D's and F's to Federal agencies to convey the impression that the administration is failing to take financial management seriously. In fact, just the opposite is true. This administration has done more than any other to improve the financial accountability of the Federal Government. The Clinton administration is resolving financial management problems that have existed for decades. The Comptroller General noted on March 31, 1999, that it is clear that the President was making financial management a priority and setting goals for clean audit opinions at Federal agencies and that the Office of Management and Budget has been actively following agency progress. He concludes that progress is being made and "steady improvements in financial accountability are occurring."

The partisan nature of the grades is apparent when one compares what the majority says about the administration with what the majority says about financial management in the House of Representatives. Republicans say that the grades show "very little improvement" in the Federal agencies and that if these agencies were schoolchildren "and that was their report card, they would be grounded." At the same time, they praise the House of Representatives for conducting the first audit of the House in 1995.

Yet, under the majority's own grading system, the results from the last House audit—which indicate the unreliability of some of the House accounts, internal control weaknesses, and noncompliance with House rules—would have received an overall grade of a D-. Under this year's newest criteria, which is timeliness, the House would have received an F.

This example illustrates the problems with the grading scheme, because the House did not deserve a D- or an F for last year's financial audit, given its progress in financial management. As the Inspector General for the House of Representatives stated about the House's audit last year, "It's definitely improving and is almost there." Similarly, the low grades received by the Federal agencies unfairly skew perception of the progress being made by the administration. The majority simply refuses to credit the administration with progress—awarding more low grades this year than last year.

Second, we question the recommendation that Federal agencies be financially penalized if they fail to produce timely and reliable financial information. Positive incentives for agencies to implement reforms in their financial systems would be helpful. However, depriving agencies of their needed funds may hinder substantial financial reforms. Faced with a potential loss of appropriations, agencies may be inclined to implement "band-aid" repairs to their financial systems rather than making the appropriate long-term system modifications. Moreover, it will be difficult to assess when an agency's reforms are adequate. Some agencies simply have much further to go, and some have fewer resources to allocate. The majority's own faulty grades demonstrate how difficult it is to assess financial progress fairly.

Finally, we also question whether there is a need for a statutorily-mandated Office of Management within the executive branch. It is unclear whether creating a new management agency will improve government management or whether separating management functions from budget functions will backfire and result in less attention being placed on management reform at Federal agencies. Presidents can create organizations within the executive branch that focus on management reform. For example, the Clinton administration has achieved a number of fundamental government management reforms and brought innovative ideas to the Federal Government through the National Partnership for Reinventing Government. In addition, a number of high-level interagency working groups focused on improving government management have taken hold, such as the Chief Financial Officers Council and the Chief Information Officers Council. Alternative approaches to improving management should be encouraged and explored. An Office of Management is just one approach.

HON. HENRY A. WAXMAN.
HON. JIM TURNER.
HON. TOM LANTOS.
HON. ROBERT E. WISE, JR.
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