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BUDGET AND FINANCIAL MANAGEMENT

Progress and Agenda for the Future

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Budget and Financial Management: Progress and Agenda for the Future

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss improvements that should be made in how the federal government budgets and manages its finances. Throughout my tenure, I have stressed the need for fundamental reforms to ensure that more timely, reliable, and useful information is available for managing and assessing the government's financial condition and operating performance. Such reforms are critical if our federal government is ever to attain proper accountability over hundreds of billions of taxpayer dollars and these reforms are essential prerequisites to achieving broader management reforms.

I am pleased to say that in the last 6 years a solid framework for improving financial management finally has been established. This base has been laid by (1) the original Chief Financial Officers (CFO) Act of 1990 and its subsequent expansion through the Government Management Reform Act of 1994, (2) the creation of the Federal Accounting Standards Advisory Board (FASAB) in 1990, and (3) efforts made to improve the budget process through such actions as enactment of credit reform. During this period, many professionals involved in budgeting, accounting, and management reporting have devoted a great deal of thought and effort to developing a vision for more effective and understandable financial management reporting for the federal government.

Today I will discuss the need to build upon this foundation as well as outline additional areas for further reforms. I will begin with some changes we have suggested to improve the budget process even within its current basic design; most of these go to the need to increase the recognition of the long-term implications of budget decisions and to strengthen accountability. Then I will turn to the important set of reforms underway, which would further enhance budget decision-making as well as broader accountability for the government's use of and care for taxpayer funds. Moreover, as the quality of financial data and of federal reports on costs and performance improves through implementation of the CFO Act and the Government Performance and Results Act (GPRA) as well as the introduction of new accounting concepts and standards, these enhancements must be more fully integrated into the budget decision-making process to permit better-informed budget decisions.

This is not a simple agenda. Nor will it be accomplished in a year. But we have laid a good foundation, and there is reason to expect continued progress.

Budget Process: Ideas for Improvement

Today there is widespread frustration with the budget process. It is attacked as confusing, time-consuming, burdensome, and repetitive. In addition, the results are often disappointing to both participants and observers. Although frustration is nearly universal, there is less agreement on what specific changes would be appropriate. This is not surprising. It is in the budget debate that the government determines in which areas it will be involved and how it will exercise that involvement. Disagreement about the best process to reach such important decisions and how to allocate precious resources is to be expected.

We have made several proposals based on a good deal of GAO work on the budget, including the structure of the budget and the budget process.¹ These proposals emphasize the need to improve the recognition of the long-term impact of today's budget decisions and advance steps to strengthen or better ensure accountability.

Focus on the Long Term

In previous reports and testimonies, we have said that the nation's economic future depends in large part upon today's budget and investment decisions.² Therefore, it is important for the budget to provide a long-term framework and be grounded in a linkage of fiscal policy with the long-term economic outlook. This would require a focus both on overall fiscal policy and on the composition of federal activity.

In previous reports, we have cautioned that the objective of enhancing long-term economic growth through overall fiscal policy is not well served by a budget process which focuses on the short-term implications of various spending decisions. It is important to pay attention to the long-term overall fiscal policy path, to the longer-term implications of individual programmatic decisions, and to the composition of federal spending.

We have suggested that budget decisions be made within the context of a chosen long-term fiscal policy path and multiyear enforceable budget agreements. Although the multiyear focus of the Budget Enforcement Act of 1990 (BEA) represents a significant step away from focusing only on the

¹See *Budget Process: History and Future Directions* (GAO/T-AIMD-95-214, July 13, 1995); *Budget Process: Some Reforms Offer Promise* (GAO/T-AIMD-94-86, March 2, 1994); and *Budget Issues: Incorporating an Investment Component in the Federal Budget* (GAO/AIMD-94-40, November 9, 1993).

²See *The Deficit and the Economy: An Update of Long-term Simulations* (GAO/AIMD/OCE-95-119, April 26, 1995); *Budget Policy: Prompt Action Necessary To Avert Long-Term Damage to the Economy* (GAO/OCG-92-2, June 5, 1992); and *Budget Policy: Long-term Implications of the Deficit* (GAO/T-OCG-93-6, March 25, 1993).

very short term, planning for longer-range economic goals requires exploring the implications of budget decisions well into the future. By this, we do not mean detailed budget projections could be made over a 30-year time horizon, but it is important to recognize that for some programs a long-term perspective is critical to understanding the fiscal and spending implications of a decision. The current 5-year time horizon may work well for some programs, but for retirement programs, pension guarantees, and mortgage-related commitments—for example—a longer-time horizon is necessary.

Although the surest way of increasing national savings and investment would be to reduce federal dissaving by eliminating the deficit, the composition of federal spending also matters. We have noted that federal spending can be divided into two broad categories based on the economic impact of that spending—consumption spending having a short-term economic impact and investment spending intended to have a positive effect on long-term private sector economic growth. We have argued that the allocation of federal spending between investment and consumption is important and deserves explicit consideration. However, the current budget process does not prompt the executive branch or the Congress to make explicit decisions about how much spending should be for long-term investment. The budget functions along which the resolution is structured represent one categorization by “mission,” but they are not subdivided into consumption and investment. Appropriations subcommittees provide funding by department and agency in appropriations accounts that do not distinguish between investment and consumption spending. In short, the investment/consumption decision is not one of the organizing themes for the budget debate.

We have suggested³ that an appropriate and practical approach to supplement the budget’s focus on macroeconomic issues would be to incorporate an investment component within the discretionary caps set by BEA. Such an investment component would direct attention to the trade-offs between consumption and investment but within the overall fiscal discipline established by the caps. It would provide policymakers with a new tool for setting priorities between the long term and the short term. Within the declining unified budget deficit path, a target for investment spending could be established for the appropriate level of investment to ensure that it is considered formally in the budget process.

³See Budget Structure: Providing an Investment Focus in the Federal Budget (GAO/T-AIMD-95-178, June 29, 1995) and Budget Issues: Incorporating an Investment Component in the Federal Budget (GAO/AIMD-94-40, November 9, 1993).

Enforcement, Accountability, and Transparency

In addition to changes aimed at improving the focus on the long term, we have continued to emphasize the importance of enforceability, accountability, and transparency. We describe these three elements together because it is difficult to have accountability without an enforcement mechanism and without transparency to make the process understandable to those outside it. Accountability in this context has several dimensions: accountability for the full costs of commitments that are to be made and accountability for actions taken—which requires targeting enforcement to actions. In addition, it may encompass the broader issue of taking responsibility for responding to unexpected events. Transparency is important not only because in a democracy the budget debate should be accessible to the citizenry but also because without it, there can be little ultimate accountability to the public.

In this area, as in others I discuss today, there has been progress. For example, enforcement provisions in BEA have worked within their scope: the discretionary caps and controls on expanding entitlements have held. The design of the law has provided accountability for the costs of actions taken and for compliance with rules. However, accountability for the worse-than-expected deficits in the past has been diffuse. For credibility and for success, we need to consider bringing more responsibility for the results of unforeseen actions into the system.

We have previously suggested⁴ that Congress might want to consider introducing a “lookback” into its system of budgetary controls. Under such a process, the current Congressional Budget Office (CBO) deficit projections would be compared to those projected at the time of a prior deficit reduction agreement and/or the most recent reconciliation legislation. For a difference exceeding a predetermined amount, the Congress would decide explicitly—through a vote—whether to accept the slippage or to act to bring the deficit path closer to the original goal by mandating actions to narrow this gap.

A similar—but more narrowly focused—process could be used to look at the path of mandatory spending.⁵ Under such a procedure, direct spending targets for several fiscal years could be specified. If the President’s budget showed that these targets were exceeded in the prior year or would likely be exceeded in the current or budget years, the President would be

⁴See *Budget Process: Issues Concerning the 1990 Reconciliation Act* (GAO/AIMD-95-3, October 7, 1994) and *Budget Process: History and Future Directions* (GAO/T-AIMD-95-214, July 13, 1995).

⁵See *Budget Policy: Issues in Capping Mandatory Spending* (GAO/AIMD-94-155 July 18, 1994) and *Budget Process: History and Future Directions* (GAO/T-AIMD-95-214, July 13, 1995).

required to recommend whether none, some, or all of the overage should be recouped. The Congress could be required to vote either on the President's proposal or an alternative one.

Neither of these "lookback" processes determine an outcome; both seek to increase accountability for decisions about the path of federal spending. Taken together, the changes we have suggested, which could be made within the current budget process, would move us toward increased focus on important decisions and increased accountability for those decisions. Also, as discussed below, additional financial reporting and management reforms underway hold tremendous potential for helping to improve greatly the quality of information available to further enhance budget decision-making.

Financial Reporting and Management: The Basis for Future Progress

The budget should be formulated using accurate and reliable financial data on actual spending and program performance. Audited financial statements and reports ought to be the source of these data. Ideally, we should expect such reports to address (1) the full costs of achieving program results, (2) the value of what the government owns and what it owes to others, (3) the government's ability to satisfy future commitments if current policies were continued, and (4) the government's ability to detect and correct problems in its financial systems and controls.

Unfortunately, financial accounting information to date has not always been reliable enough to use in federal decision-making or to provide the requisite public accountability for the use of taxpayers' money. Good information on the full costs of federal operations is frequently absent or extremely difficult to reconstruct and reliable information on federal assets and liabilities is all too often lacking. While GAO has been actively urging improvements in this area for over 20 years, complete, useful financial reporting is not yet in place.

The good news is that tools are now being put in place that promise to get the federal government's financial house in order. First, beginning for fiscal year 1996, all major agencies, covering about 99 percent of the government's outlays, are required to prepare annually financial statements and have them audited. Second, an audited governmentwide financial statement is required to be produced every year starting with fiscal year 1997. Third, FASAB is recommending new federal accounting standards that will yield more useful and relevant financial statements and information.

The basis for much of this progress is the CFO Act's requirements for annual financial statement audits. Audits for a select group of agencies under the Act's original pilot program highlighted problems of uncollected revenues and billions of dollars of unrecognized liabilities and potential losses from such programs as housing loans, veterans compensation and pension benefits, and hazardous waste cleanup. Such audits are bringing important discipline to agencies' financial management and control systems. Thanks to the benefits achieved from these pilot audits, the Congress extended this requirement, in the 1994 Government Management Reform Act, to the government's 24 major departments and agencies.

That act also mandated an annual consolidated set of governmentwide financial statements—to be audited by GAO—starting for fiscal year 1997. These statements will provide an overview of the government's overall costs of operations, a balance sheet showing the government's assets and liabilities, and information on its contribution to long-term economic growth and the potential future costs of current policies. These reports will provide policymakers and the public valuable information to assess the sustainability of federal commitments.

The CFO Act also went beyond these auditing and reporting requirements to spell out an agenda of other long overdue reforms. It established a CFO structure in 24 major agencies and the Office of Management and Budget (OMB) to provide the necessary leadership and focus. It also set expectations for

- the deployment of modern systems to replace existing antiquated, often manual, processes;
- the development of better performance and cost measures; and
- the design of results-oriented reports on the government's financial condition and operating performance by integrating budget, accounting, and program information.

I have testified before the Congress many times about the benefits being achieved as the CFO Act reforms are implemented.⁶ Moreover, agency efforts to implement GPRA and the new accounting standards recommended by FASAB will further enhance the usefulness of accountability reporting to decisionmakers by integrating performance

⁶For additional discussion of the benefits being derived from the CFO Act and the challenges remaining to be addressed, see *Financial Management: Continued Momentum Essential to Achieve CFO Act Goals* (GAO/T-AIMD-96-10, December 14, 1995) and *Managing for Results: Strengthening Financial and Budgetary Reporting* (GAO/T-AIMD-95-181, July 11, 1995).

measures into the reports and developing reports more specifically tailored to the government's needs.

FASAB Efforts

The creation of FASAB was the culmination of many years of effort to achieve a cooperative working relationship between the three principal agencies responsible for overall federal financial management—OMB, Treasury, and GAO. Its establishment represents a major stride forward because financial management can only improve if these principal agencies involved in setting standards, reporting, and auditing work together. As you know, FASAB was established in October 1990 by the Secretary of the Treasury, the Director of OMB, and me to consider and recommend accounting principles for the federal government. The 9-member board is comprised of representatives from the three principals, CBO, the Department of Defense, one civilian agency (presently Energy), and three representatives from the private sector, including the Chairman, former Comptroller General Elmer B. Staats. FASAB recommends accounting standards after considering the financial and budgetary information needs of the Congress, executive agencies, other users of federal financial information and comments from the public. OMB, Treasury, and GAO then decide whether to adopt the recommended standards; if they do, the standards are published by GAO and OMB and become effective.

FASAB will soon complete the federal government's first set of comprehensive accounting standards developed under this consensus approach. Key to the FASAB approach for developing these standards was extensive consultation with users of financial statements early in its deliberations to ensure that the standards will result in statements that are relevant to both the budget process as well as agencies' accountability for resources. Users were interested in getting answers to questions on such topics as:

- Budgetary integrity—What legal authority was provided to finance government activities and was it used correctly?
- Operating performance—How much do programs cost and how were they financed? What was achieved? What are the government's assets and are they well managed? What are its liabilities and how will they be paid for?
- Stewardship—Has the government's overall financial capacity to satisfy current and future needs and costs improved or deteriorated? What are its future commitments and are they being provided for? How will the government's programs affect the future growth potential of the economy?

- Systems and control—Does the government have sufficient controls over its programs so that it can detect and correct problems?

The FASAB principals have approved eight basic standards and statements, which I will refer to as FASAB standards in my testimony today, and approval of the final one for revenue accounting is expected this spring. This will complete the body of basic accounting and cost accounting standards for all federal agencies to use in preparing financial reports and developing meaningful cost information. The basic standards and statements are:

- Objectives of Federal Financial Reporting—A statement of general concepts on the objectives of financial reporting by the U.S. government providing the basic framework for the Board's work.
- Entity and Display—A statement of general concepts on how to define federal financial reporting entities and what kinds of financial statements those entities should prepare.
- Managerial Cost Accounting Concepts and Standards—A statement of general concepts combined with a statement of specific standards emphasizing the need to relate cost information with budget and financial information to provide better information for resource allocation and performance measurement.
- Accounting for Selected Assets and Liabilities—A statement of specific standards for accounting for basic items such as cash, accounts receivable, and accounts payable.
- Accounting for Direct Loans and Loan Guarantees—A statement of accounting standards responding to the Credit Reform Act of 1990.
- Accounting for Inventory and Related Property—A statement of standards for accounting for inventories, stockpiled materials, seized and forfeited assets, foreclosed property, and goods held under price support programs.
- Accounting for Liabilities of the Federal Government—A statement of standards for federal insurance and guarantee programs, pensions and post-retirement health care for federal workers, and other liabilities, including contingent liabilities.
- Accounting for Property, Plant and Equipment—A statement of standards for accounting for the various types of property (including heritage assets), plant and equipment held by the government.
- Accounting for Revenue and Other Financing Sources—A statement of standards for accounting for inflows of resources (whether earned, demanded, or donated) and other financing sources.

A standard for stewardship reporting is also scheduled for completion this spring. While not part of the package of basic standards, it will help inform decisionmakers about the magnitude of federal resources and financial responsibilities and the federal stewardship role over them.

The standards and new reports are being phased in over time. Some are effective now; all that have been issued will be effective for fiscal year 1998. OMB defines the form and content of agency financial statements in periodic bulletins to agency heads. The most recent guidance incorporates FASAB standards for selected assets and liabilities, credit programs, and inventory. In the fall, OMB will be issuing new guidance reflecting the rest of the FASAB standards.

Since the enactment of the CFO Act, OMB's form and content guidance has stressed the use of narrative "Overview" sections preceding the basic financial statements as the best way for agencies to relate mission goals and program performance measures to financial resources. Each financial statement includes an Overview describing the agency, its mission, activities, accomplishments, and overall financial results and condition. It also should discuss what, if anything, needs to be done to improve either program or financial performance, including an identification of programs or activities that may need significant future funding. OMB also requires that agency financial statements include a balance sheet, a statement of operations, and a statement reconciling expenses reported on the statement of operations to related amounts presented in budget execution reports.

Based on FASAB's standards, OMB is making efforts to design new financial reports that contain performance measures and budget data to provide a much needed, additional perspective on the government's actual performance and its long-term financial prospects. Financial reports based on FASAB's standards will provide valuable information to help sort out various kinds of long-term claims. The standards envision new reports on a broad range of liabilities and liability-like commitments and assets and asset-like spending. Liabilities, such as the federal debt, would be reported on a balance sheet, along with assets owned by federal agencies, like buildings.

Stewardship reporting in the financial statements, a new concept developed by FASAB, will report on potential future claims that represent commitments of the government that are not sufficiently firm to warrant

recognition as liabilities on the balance sheet. FASAB is still considering what types of estimates would be most useful if stewardship reporting is applied to social insurance. To give a picture of the government's capacity to sustain current public services, stewardship reporting will also include 6-year projections of receipt and outlay data for all programs based on data submitted for the President's budget.

Stewardship reports based on FASAB standards would also provide information on federal investments intended to have future benefits for the nation, thus providing actual data on the budget's investment component that GAO has recommended and which I discussed earlier. Stewardship reporting would cover federal investments and some performance information for programs intended to improve the nation's infrastructure, research and development, and human capital due to their potential contribution to the long-term productive capacity of the economy. These kinds of activities would not be reflected on the balance sheet because they are not assets owned by the federal government but rather programs and subsidies provided to state and local governments and the private sector for broader public purposes. Stewardship reporting recognizes that, although these investments lack the traditional attributes of assets, such programs warrant special analysis due to their potential impact on the nation's long-term future.

Linking costs to the reported performance levels is the next challenge. FASAB's cost accounting standards—the first set of standards to account for costs of federal government programs—will require agencies to develop measures of the full costs of carrying out a mission or producing products or services. Thus, when implemented, decisionmakers would have information on the costs of all resources used and the cost of support services provided by others to support activities or programs—and could compare these costs to various levels of program performance.

Perseverance will be required to sustain the current momentum in improving financial management and to successfully overcome decades of serious neglect in fundamental financial management operations and reporting methods. Implementing FASAB standards will not be easy. FASAB has allowed lead time for implementing the standards so that they can be incorporated into agencies' systems. Nevertheless, even with this lead time, agencies may have difficulty in meeting the schedule. It is critical that the Congress and the executive branch work together to make implementation successful.

As the federal government continues to improve its accountability and reporting of costs and performance, the more useful and reliable data need to be used to influence decisions. That brings me to the task of better integrating financial data and reports into the budget decision-making process.

Making Better Informed Budget Decisions Based on Improved Financial Data and Reports

The ultimate goal of more reliable and relevant financial data is to promote more informed decision-making. For this to happen, the financial data must be understood and used by program managers and budget decisionmakers. The changes underway to financial reporting have been undertaken with a goal of making financial data more accessible to these decisionmakers. The budget community's involvement in the FASAB standard-setting process has contributed to this. Still, the future challenge remains to further integrate financial reports with the budget to enhance the quality and richness of the data considered in budget deliberations. Improving the linkages between accounting and budgeting also calls for considering certain changes in budgeting such as realigned account structures and the selective use of accrual concepts.

The chief benefit of improving this linkage will be the increased reliability of the data on which we base our management and budgetary decisions. The new financial reports will improve the reliability of the budget numbers undergirding decisions. Budgeting is a forward-looking enterprise, but it can clearly benefit from better information on actual expenditures and revenue collection. Under FASAB standards, numbers from the budget will be included in basic financial statements and thus will be audited for the first time. Having these numbers audited was one of the foremost desires of budget decisionmakers consulted in FASAB's user needs study and stems from their suspicion that the unaudited numbers may not always be correct.

The new financial reports will also offer new perspectives and data on the full costs of program outputs and agency operations that are currently not reported in the cash-based budget. Information on full costs generated pursuant to the new FASAB standards would provide decisionmakers a more complete picture of actual past program costs and performance when they are considering the appropriate level of future funding. For example, the costs of providing Medicare are spread among at least three budget accounts. Financial reports would pull all the relevant costs together.

Realigning Account Structures

The different account structures that are used for budget and financial reporting are a continuing obstacle to using these reports together and may prevent decisionmakers from fully benefiting from the information in financial statements. Unlike financial reporting, which is striving to apply the full cost concept when reporting costs, the budget account structure is not based on a single unifying theme or concept. The current budget account structure evolved over time in response to specific needs.⁷

The budget contains over 1,300 accounts. They are not equal in size; nearly 80 percent of the government's resources are clustered in less than 5 percent of the accounts. Some accounts are organized by the type of spending (such as personnel compensation or equipment) while others are organized by programs. Accounts also vary in their coverage of cost, with some including both program and operating spending while others separate salaries and expenses from program subsidies. Or, a given account may include multiple programs and activities.

When budget account structures are not aligned with the structures used in financial reporting, additional analyses or crosswalks would be needed so that the financial data could be considered in making budget decisions. If the Congress and the executive branch reexamine the budget account structure, the question of trying to achieve a better congruence between budget accounts and the accounting system structure, which is tied to performance results, should be considered.

The Selective Use of Accrual Concepts in the Budget

In addition to providing a new, full cost perspective for programs and activities, financial reporting has prompted improved ways of thinking about costs in the budget. For the most part, the budget uses the cash basis, which recognizes transactions when cash is paid or received. Financial reporting uses the accrual basis, which recognizes transactions when commitments are made, regardless of when the cash flows.

Cash-based budgeting is generally the best measure to reflect the short-term economic impact of fiscal policy as well as the current borrowing needs of the federal government. And for many transactions, such as salaries, costs recorded on a cash basis do not differ appreciably from accrual.

⁷For further discussion, see Budget Account Structure: A Descriptive Overview (GAO/AIMD-95-179, September 18, 1995).

However, for a select number of programs, cash-based budgeting does not adequately reflect the future costs of the government's commitments or provide appropriate signals on emerging problems. For these programs, accrual-based reporting may improve budgetary decision-making. The accrual approach records the full cost to the government of a decision—whether to be paid now or in the future. As a result, it prompts decisionmakers to recognize the cost consequences of commitments made today.

Accrual budgeting is being done under the Credit Reform Act for credit programs such as the federal family education loan program and the rural electrification and telephone direct loan program. It may be appropriate to extend its use to other programs such as federal insurance programs—an issue we are currently studying at the request of the Chairman, House Budget Committee. Our work to date has revealed shortcomings with cash-based budgeting for insurance programs, but also highlighted difficulties in estimating future costs for some of them due to the lack of adequate data or to sensitivity to the assumptions used to model future costs. The potential distortions arising from the cash-based approach must be weighed against the risks and uncertainties involved in estimating longer-term accrued costs for some programs. Our upcoming report on budgeting for insurance will address these issues.

Small changes in the right direction are important, but to make the kind of difference we are all seeking will require pulling all this together for budget and oversight.

Putting It All Together and Making It Work

Thanks in large part to the legislative impetus of the CFO Act and GPRA, decisionmakers will ultimately have available unprecedented, reliable information on both the financial condition of programs and operations as well as the performance and costs of these activities. While these initiatives carry great potential, they require continued support by the agencies and the Congress.

GPRA set forth the major steps federal agencies need to take towards a results-oriented management approach. They are to (1) develop a strategic plan, (2) establish performance measures focused on “outcomes” or results expressed in terms of the real difference federal programs make in people's lives and use them to monitor progress in meeting strategic goals, and (3) link performance information to resource requirements through annual performance plans.

I have supported the intent of GPRA and believe that it offers great potential for enhancing decision-making and improving the management of federal programs. A growing number of federal agencies is beginning to see that a focus on outcomes can lead to dramatic improvements in effectiveness. However, our work also has shown that a fundamental shift in focus to include outcomes does not come quickly or easily.⁸ The early experiences of many GPRA pilots show that outcomes can be very difficult to define and measure. They also found that a focus on outcomes can require major changes in the services that agencies provide and processes they use to provide those services.

Given that the changes envisioned by GPRA do not come quickly or easily, strong and sustained congressional attention to GPRA implementation is critical. Without it, congressional and executive branch decisionmakers may not obtain the information they need as they seek to create a government that is more effective, efficient, and streamlined. Authorization, appropriation, budget, and oversight committees all have key interests in ensuring that GPRA is successful because, once fully implemented, it should provide valuable data to help inform the decisions that each committee must make.

OMB has attempted to prompt progress by giving special emphasis in its budget submission guidance to increasing the use of information on program performance in budget justifications. In preparation for the fiscal year 1997 budget cycle, OMB held performance reviews last May with agencies on performance measures and in September 1995 issued guidance on preparing and submitting strategic plans. Further progress in implementing GPRA will occur as performance measures become more widespread and agencies begin to use audited financial information in the budget process to validate and assess agency performance.

GAO, OMB, and the CFO Council have also given thought as to how to best report data and information to decisionmakers. While there are a myriad of legislatively mandated reporting requirements under separate laws, such as GPRA, the Federal Managers' Financial Integrity Act, the CFO Act, and the Prompt Pay Act, decisionmakers need a single report relating performance measures, costs, and the budget. This reporting approach is consistent with the CFO Council's proposal for an Accountability Report, which OMB is pursuing.

⁸Managing For Results: Achieving GPRA's Objectives Requires Strong Congressional Role (GAO/T-GGD-96-79, March 6, 1996).

On a pilot basis, OMB is having six agencies⁹ produce Accountability Reports providing a comprehensive picture of each agency's performance pursuant to its stated goals and objectives. The ultimate usefulness of the Accountability Report will hinge on its specific content and the reliability of information presented. We will work with OMB and agencies throughout the pilot program. We agree with the overall streamlined reporting concept and believe that, to be most useful, the Accountability Report must include an agency's financial statements and related audit reports.

Accountability reports could then be used as the basis for annual oversight hearings, something I have long advocated. Such serious scrutiny of programs and activities is especially important as we seek to reduce the deficit. Oversight hearings based on complete sets of reports could be the basis for considering changes in federal roles and in program design as well as reviewing the adequacy of agencies' accountability and performance.

Finding the most effective reporting and analytical approaches will require a great deal of collaboration and communication. Appropriations, budget, and authorizing committees need to be full partners in supporting the implementation of these initiatives. The new financial reports based on FASAB's recommended standards will provide much-needed additional perspective on the long-term prospects for government programs and finances. It can be used with other kinds of actuarial and economic analyses already available in making budget decisions.

Conclusion

In conclusion, reforms are needed on three fronts—in the budget process, in accountability and reporting for costs and performance, and in using the improved reports to better inform policy and budget decisions. Improved financial management and reports are essential to improving the government's ability to provide accountability for public resources. Continuing fiscal pressures will place a premium on the proper stewardship of increasingly scarce public resources. Recent efforts to improve federal financial reporting will, if properly implemented, provide the tools needed to redress long-standing weaknesses.

Improved financial reports and data should also better help policymakers sort out competing claims in the budget process. Improved financial data

⁹The six pilot agencies are the Departments of the Treasury and Veterans Affairs; the General Services, Social Security, and National Aeronautics and Space Administrations; and the Nuclear Regulatory Commission.

on the current and future stakes involved in our decisions may help policymakers make decisions focused more on the long-term consequences. The public also stands to gain from these initiatives, both from improved accountability for public resources and more informed decisions.

Mr. Chairman, this concludes my statement. I would be happy to respond to questions.

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