

**Testimony of
The Honorable Linda M. Springer
Controller, Office of Federal Financial Management
Office of Management and Budget
Before the
Subcommittee on Government Efficiency and Financial Management
Committee on Government Reform
United States House of Representatives**

March 3, 2004

Financial Report of the United States Government for Fiscal Year 2003

Thank you, Mr. Chairman and Members of the Subcommittee.

I am happy to provide our commentary and response to the auditor's report on the *Financial Report of the United States Government* (the Financial Report) for fiscal year 2003. I also will share with you the significant progress made by Federal agencies during the past year that underlies the Financial Report and positions us for the future.

Auditor's Opinion and Material Weaknesses

The General Accounting Office (GAO) issued a disclaimer of opinion on the 2003 Financial Report. In making this determination, GAO continued to identify three main impediments to rendering an opinion: financial management problems at the Department of Defense (DoD), deficiencies in accounting for intragovernmental transactions, and ineffective processes for preparing the consolidated financial statements. The Office of Management and Budget (OMB) concurs with these observations. Efforts are underway to address these issues as noted in the auditor's report.

Getting an opinion, qualified initially, on the government-wide financial statements remains our goal. OMB is working closely with the Department of the Treasury (Treasury) to create a closer link between audited agency financial statements and the government-wide statements reflected in the Financial Report. Beginning with fiscal year 2004, a new process will be implemented to better align the agency statements with the government-wide report.

Weaknesses at DoD are being addressed. Progress is being made, but it is important to recognize that long-standing issues in a department having over 300 sub-entities are not easily remediated. In many cases, elimination of DoD material weaknesses is dependent upon the new financial management systems implementation. OMB meets periodically with both the DoD Chief Financial Officer (CFO) and its Inspector General (IG) to review plans for each area of concern and to monitor progress.

The inability to balance significant amounts of intragovernmental transactions is being addressed on several fronts by OMB and Treasury. Process enhancements such as more frequent reporting and reconciliation, and new tools like the *Intragovernmental Reporting and Analysis System* (IRAS), will support our efforts to eliminate reporting errors. Also, the *Intragovernmental Transaction Portal* (IGTP) is scheduled to be implemented in fiscal 2004 to help standardize the transaction processing for certain intragovernmental exchange transactions.

GAO's report comments on timeliness issues at the agency level that impacted its audit scope. It should be understood that this was the direct result of variations in the degree to which agencies were able to accelerate from the official 2003 fiscal year reporting date of January 30, 2004. Moving forward from this transitional year, we will return to the single Performance and Accountability Report (PAR) due date of November 15th.

Internal Control

The internal control environment of any entity is an area of focus for management as well as its auditor. The agencies of the Federal Government are no exception. There are several existing laws that govern the agencies in assessing and representing the quality of their internal control. Agency heads are required to provide reasonable assurance of compliance with the Federal Manager's Financial Integrity Act (FMFIA) with respect to both management control and financial management systems. Agency heads are also required to certify that their systems satisfy specified requirements under the Federal Financial Management Improvement Act (FFMIA). The Federal Information Security Management Act (FISMA) provides for government-wide management and oversight of information security risks and agency information security programs. As such, FISMA requirements provide an additional standard for financial systems control.

Not all Federal agencies are able to provide these statements of assurance; however all continue to make progress in eliminating barriers to compliance. Because financial systems are a major part of the universe to which these statutes apply, it is entirely possible that positive assurance from the collective group of agencies will emerge over a period of years due to the time required for new system design, development and implementation.

Both OMB and the Chief Financial Officers (CFO) Council are keenly aware of the internal control challenges and related new assurance requirements that have been reported in the private sector. We are actively engaged with the Inspector General community in reviewing these requirements and their potential applicability to Federal Government agencies.

Erroneous Payments

Eliminating erroneous payments within the Federal Government has been, and continues to be, a major focus of the President's Management Agenda (PMA). When the

Improper Payments Information Act of 2002 (IPIA or the Act) was passed, we enthusiastically endorsed the efforts in Congress to create a review process that would identify and eliminate erroneous payments throughout all major Federal programs and activities. The Office of Federal Financial Management issued guidance implementing the Act in May of 2003 and subsequently met with the Offices of the CFO and the IG at each major agency to ensure that plans to meet the requirements of the IPIA were being developed. We directed all agencies to submit by November 30, 2003, their plan for complying with the Act. Further, we are now in the process of meeting with each agency CFO office to ensure that progress is being made according to its plan. Agency reports will be included in the 2004 PARs as required by the guidance.

Federal Accounting Standards

During the 2003 fiscal year, the Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standard (SFFAS) No. 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*. Among the provisions of this standard is the requirement that the Statement of Social Insurance, which is currently reported in the stewardship section of the Financial Report, become a basic financial statement with full audit scrutiny. This Statement provides estimates for important components of the Social Security and Medicare programs and is accompanied by an expansive discussion of underlying assumptions and sensitivity analyses. This requirement of the standard is scheduled to be effective for fiscal 2005 and will enhance the significance and the prominence of what is one of the most extensively presented components of the current Financial Report.

Effective with the 2003 Financial Report, DoD is required to report the value of its national defense property, plant and equipment on the balance sheet under SFFAS No. 23, *Eliminating the Category National Defense Property, Plant and Equipment*. Process and system refinements that will provide the basis for this valuation in the future will decrease reliance on surrogate estimates.

Agency Accomplishments and Progress

Clearly challenges remain, but I can report to you that much has been accomplished in the area of financial reporting during the past fiscal year. The very fact that we are here on this day in March – a month earlier than last year – indicates that financial reporting deadlines are being accelerated. For fiscal 2003,

- a record 18 of the 24 (75%) major agencies and departments completed their PARs by the end of December, compared to only two agencies in fiscal year 2002;
- of these agencies, eight accelerated the submission of their PARs to mid-November of 2003, a year ahead of the 2004 requirement, all with unqualified audit opinions;

- 20 of the 23 CFO Act agencies received an unqualified opinion on their financial statements;
- agencies completed quarterly financial statements for the first time ever;
- the Department of Homeland Security (DHS), created five months into the fiscal year, elected to forgo its first-year waiver and prepare audited financial statements for the first time;
- DHS received a qualified opinion on its Balance Sheet and Custodial Activity Statement;
- the United States Agency for International Development (USAID) received an unqualified opinion on all of its audited financial statements for the first time in its history and met the mid-November reporting date;
- DoD's Medicare-Eligible Retiree Health Care Fund financial statements received a qualified opinion in its first year and the National Reconnaissance Office received an unqualified opinion on its statements;
- the Small Business Administration (SBA) developed or significantly revised credit models for five of its programs during the course of the year;
- the total number of material weaknesses reported by auditors was reduced by 13% in 2003;
- the total number of FMFIA material weaknesses was reduced by 41% in 2003;
- new financial management systems went live in many agencies, including four between the close of the fiscal year and the end of December.

Outlook for the Future

Our outlook for improving the quality and timeliness of financial reporting to the American citizen is positive. Many challenges remain, but others that appeared similarly insurmountable just a few years ago are being solved. Who would have thought that the Administration's goal of shortening the time for agencies to prepare audited financial statements from five months to 45 days after the end of the year would be attained by a third of the major agencies a year in advance of the deadline?

It is often said that such achievements can only be accomplished by heroic efforts. Hard work is always a factor, but these results are a tribute to detailed planning, effective management and excellent execution.

While the acceleration targets are critical and they will be achieved by all agencies, they are not our ultimate objective. The discipline and improved control needed to accelerate financial reports are only the foundation for ensuring the availability of useful financial information. The incorporation of timely and accurate financial information into management decision-making and operational assessment continues to be our main goal. Progress toward this goal was made during fiscal year 2003, as shown by the addition of two agencies, the Social Security Administration and the Environmental Protection Agency, that achieved green status under the PMA Improved Financial Performance initiative. They were joined by the Department of Education in the first quarter of fiscal 2004.

We look forward to continued execution of our role in leading the Federal financial management community and reporting additional progress across the financial management spectrum to you in the months ahead.

Thank you for listening. I am happy to entertain your questions.