federal financial management status report and five year plan

executive summary

June 1999

Executive Office of the President

Office of Management and Budget

Washington D.C.

chief financial officers (cfo) council financial management vision statement

Shaping an environment in which government officials use high quality financial and performance information to make effective policy, management, stewardship, and program decisions.

1999 cfo council priorities and objectives

The CFO Council supports six priorities. The *1999 Federal Financial Management Status Report and Five Year Plan* discusses key objectives for implementing each priority, with specific tasks and milestones.

Priority 1: Improve Financial Accountability

- Update accounting standards to provide the basis for Federal financial statements and consistent, reliable financial information;
- Prepare annual financial statements and obtain unqualified opinions for all CFO Act agencies, agency components, and the Federal Government as a whole;
- Implement the Government Performance and Results Act (GPRA); and
- Issue Accountability Reports.

Priority 2: Improve Financial Management Systems

- Provide a financial management systems environment in which financial systems can be successfully planned, developed, operated, and maintained;
- Establish governmentwide systems requirements that support information standards; and
- Improve the availability of systems that meet governmentwide systems requirements.

Priority 3: Develop Human Resources

- Implement methods to assist agencies in recruiting and retaining qualified financial management personnel;
- Strengthen qualification standards for financial management personnel; and
- Promote effective financial management education and training within the Federal Government.

Priority 4: Improve Management of Receivables

- Fully implement the Debt Collection Improvement Act; and
- Increase loan asset sales for delinquent debt and write-off of uncollectible debt.

Priority 5: Use Electronic Commerce To Improve Financial Management

- Improve electronic services to individuals; and
- Improve payments and collections.

Priority 6: Improve Administration of Federal Grant Programs

- Implement revised governmentwide audit requirements for grants (OMB Circular A-133);
- Develop an efficient, effective, and customer-oriented grant payment process; and
- Complete a feasibility study for a single grants-management circular.

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The *1999 Federal Financial Management Status Report and Five Year Plan* describes the Administration's recent accomplishments and plans for strengthening Federal financial management as required by the Chief Financial Officers (CFO) Act of 1990, as amended. Over the past year, the CFO Council, Office of Management and Budget (OMB), and Department of the Treasury (Treasury) made substantial progress in the six priority areas described in this report. This pamphlet summarizes the key accomplishments and future initiatives of each priority as described in the 1999 report.

Priority 1: Improve Financial Accountablity

accomplishments:

Accounting Standards for the Federal Government Recommended. The Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB) in October 1990 to recommend accounting standards for the Federal Government. Since its last report in the 1998 Five Year Plan, FASAB recommended the following standards and clarifications of previous standards:

- Amendments to Accounting for Property, Plant, and Equipment - Definitions;
- Recognition of Contingent Liabilities Arising from Litigation;
- Material Revenue-Related Transactions Disclosures;
- Management Discussion and Analysis (Standards);
- Management Discussion and Analysis (Concepts);
- Amendments for Deferred Maintenance Reporting (under congressional review); and
- Accounting for Internal Use Software (also under congressional review).

Governmentwide and Agency-wide Audited Financial Statements Issued. Upon agency submissions of the FY 1998 adjusted trial balances on February 1, 1999, the Department of the Treasury issued timely governmentwide audited consolidated financial statements for the second year in a row. These statements were issued as part of the *FY 1998 Financial Report of the United States Government.*

For FY 1998, all 24 CFO Act agencies prepared financial statements covering all of their accounts and activities, and 13 of the 24 received or are expected to receive unqualified opinions. This is an increase of two over 1997. Twenty-one of the 24 agencies are expected to receive an unqualified audit opinion on their FY 1999 statements. Table 1 presents the results of audits of agency financial statements.

Table 1. **Agency-wide Unqualified Audit Opinions on Financial Statements**

Agency	Actual			Goal	
	1996	1997	1998	1999	2000
USDA					■
Commerce				■	■
DOD[1]					
Education		■	■	■	■
DOE	■	■		■	■
HHS				■	■
HUD			■	■	■
DOI		■	■	■	■
DOJ				■	■
DOL		■	■	■	■
State		■	■	■	■
DOT				■	■
Treasury				■	■
VA				■	■
AID					■
EPA		■	■	■	■
FEMA			■	■	■
GSA	■	■	■	■	■
NASA	■	■	■	■	■
NRC	■	■	■	■	■
NSF			■	■	■
OPM				■	■
SBA	■	■	■	■	■
SSA	■	■	■	■	■
Total Unqualified	**6**	**11**	**13**	**21**	**23**

■ = Unqualified Opinion

[1] DOD is making progress in meeting the audited financial statement requirements of the CFO Act. However, significant and longstanding systems deficiencies preclude DOD from projecting an unqualified consolidated audited financial statement until after 2000.

Participation in Accountability Reporting Increased. Eighteen agencies are producing Accountability Reports for FY 1998, compared to 12 in 1997. As of June 1998, 15 of the 18 pilot agencies issued their FY 1998 Accountability Reports.

Full Implementation of the Certificate of Excellence Program Approved by CFO Council. A pilot evaluation of six FY 1997 Accountability Reports–Department of Housing and Urban Development (HUD), Department of the Interior (DOI), Department of Labor (DOL), Treasury, Department of Veterans Affairs (VA), and Social Security Administration (SSA)–was conducted by the Association of Government Accountants (AGA) under its Certificate of Excellence in Accountability Reporting program. On the basis of the pilot results, the CFO Council approved full implementation of the Certificate of Excellence program.

More Reliable Financial Information Available. Better financial information has enabled Congress and the Executive Branch to effectively evaluate the cost and performance of Federal programs and activities. For example, better financial information at the Health Care Financing Administration (HCFA) led to reductions in improper payments. The Department of Health and Human Services (HHS) Inspector General (IG), while auditing the financial statements of the HCFA for 1996, 1997, and 1998, performed an extensive analysis of the extent and causes of improper payments in the Medicare program. As a result, HCFA reported estimated improper payments of $12.6 billion (7.1 percent) for 1998, down from about $20.3 billion (11 percent) for 1997, and $23.2 billion (14 percent) for 1996.

future initiatives:

Obtain an Unqualified Opinion on the Governmentwide Financial Statements. A recent General Accounting Office (GAO) audit report identified the major obstacles that must be addressed to achieve the Administration's goal of obtaining an unqualified opinion on the FY 1999 financial statements. Table 2 summarizes these obstacles.

Table 2. Obstacles to an Unqualified Opinion on the Governmentwide Financial Statements	
Functional Issues	**Description /Agencies Affected**
Intra-governmental Transactions	Agencies need to properly identify and eliminate transactions between Federal Government entities. **Agencies Affected:** Most agencies
Property, Plant, Equipment (PP&E), and Inventory	The Federal Government does not have auditable information about the dollar value of assets held to support its domestic and global operations. **Agencies Affected:** DOD and Department of Transportation (DOT) for PP&E
Loans Receivable and Loan Guarantee Liabilities	Most Federal credit agencies responsible for Federal lending programs need to properly report the cost of loan programs. **Agencies Affected:** Department of Agriculture (USDA), Department of Education, HHS, HUD, and VA
Environmental and Disposal Liabilities	Environmental and disposal liabilities are materially understated because no estimate was reported for liabilities associated with certain major weapons systems. Also, significant portions of the reported liability for waste-related nuclear weapons lacked adequate documentation. **Agencies Affected:** DOD and Department of Energy (DOE)
Health Benefits and Other Liabilities	Auditable systems and data are not available to support estimates of significant portions of military health and other post-retirement benefits' liabilities. Also, some agencies need to properly calculate estimates of accounts payable and other liabilities, such as those associated with litigation. **Agencies Affected:** DOD for health benefits and various agencies for other liabilities
Improper Payments and Unreconciled Disbursements	Agencies need to determine the full extent of improper payments, i.e., payments made for other than authorized purposes. Unresolved gross differences also exist between agencies and Treasury records of cash disbursements. **Agencies Affected:** Grant-making agencies for improper payments and most agencies for resolving differences with Treasury
Reconcile Change in Net Position with Budget Result	The Federal Government needs to establish a process to more effectively reconcile the reported change in net position with the reported budget surplus/deficit. **Agency Affected:** Treasury

In accordance with the President's directive, agency heads have prepared action plans with milestones for resolving these financial reporting deficiencies and are submitting quarterly reports to OMB on their progress. In a 1999 report, the OMB Director recognized the goal of obtaining an unqualified audit opinion on the FY 1999 consolidated Federal Government financial statements as "daunting," principally due to the magnitude of DOD challenges and the complexity of eliminating intra-governmental transactions. DOD now targets a departmentwide clean opinion for FY 2003.

Increase Participation in Accountability Reporting. OMB's statutory authority to conduct the Accountability Report program ends December 31, 1999. The Administration has developed a legislative proposal to provide OMB authority to allow CFO agencies to continue to produce these comprehensive reports. To further streamline reporting requirements, this legislative proposal would also permit the full integration of IG Act reports with agency Accountability Reports. The goal is for all CFO agencies to produce Accountability Reports for FY 2001. (See Table 3.)

Table 3. Goals for CFO Agency Accountability Reports FY 1999 - 2001					
Number of 24 CFO Agencies Participating in Pilot	1997 (Actual)	1998 (Actual)	1999	2000	2001*
	12	18	22	23	23

*DOD has not committed to producing an Accountability Report for 2001.

Priority 2: Improve Financial Management Systems

accomplishments:

Joint Financial Management Improvement Program (JFMIP) Program Management Office (PMO) Established. In November 1998, Public Law 105-277 provided one-year authority for the establishment of the JFMIP PMO. The PMO was established in 1998, with resources provided by the 24 CFO agencies through a share of Federal charge card rebates. This joint investment in the JFMIP PMO reflects the governmentwide effort to improve Federal financial systems through the development of common tools and information sharing. The PMO's responsibilities include developing financial management systems requirements, addressing systems integration issues, developing comprehensive testing vehicles, serving as an information clearinghouse for Federal financial systems, and facilitating communication with the private sector.

Core Financial Systems Qualification Process Improved. The CFO Council, based upon surveys and studies, recommended 1) separating the core financial systems software qualification process from the procurement process, and 2) developing an open testing and qualification process, to assure that vendor software complies with functional requirements. In June 1999, JFMIP began testing vendor core financial system software to qualify vendor software for Federal agency use in FY 2000. The mandatory core financial management systems requirements describe the capabilities necessary for a Federal financial system to function and comply with Federal laws, accounting standards, and policies.

Core Financial Management Systems Procurement Process Improved. In September 1999, the General Services Administration (GSA) will eliminate the mandatory financial management systems software schedule for core accounting systems, effective FY 2000. GSA will offer core financial systems software through the Federal Supply Service IT 70 Schedule. OMB and Federal Acquisition Regulation policies were amended to support elimination of the mandatory schedule and established the new JFMIP roles and responsibilities for software testing and qualification processes.

Systems Requirements Developed. JFMIP reissued Core Financial System Requirements (February 1999) and Human Resource and Payroll Systems Requirements (April 1999). It also issued system requirements exposure drafts for Travel Systems (January 1999), Direct Loans (December 1998), Seized Property and Forfeited Assets (June 1998), and Guaranteed Loans (June 1998).

future initiatives:

Ensure Year 2000 Compliance. Over the next several months, CFO agencies will continue to ensure that financial management systems critical to their missions are capable of meeting the requirements of the year 2000. As of June 1999, the CFO agencies reported that 85 percent of their critical financial management applications are year 2000 compliant.

Assess Agency Financial Management System Infrastructures. The CFO Council will explore partnering with the Information Technology Resource Board (ITRB) to provide comprehensive assessments of specific aspects of agency financial management systems. Specific review criteria will be developed. The ITRB is a legislatively-established group charged with assisting agencies in assessing specifically defined aspects of information technology systems including financial management systems.

Evaluate the U.S. Government Standard General Ledger (SGL). In 2000, the structure and processes used to update the SGL will be analyzed. The purpose of the study is to determine how governmentwide and agency financial information needs are best served.

Improve Computer Security for Financial Systems. Computer security is a significant issue for the Federal Government. Finding effective approaches to ensure the integrity of financial data is of particular interest to the CFO community. In FY 2000, the CFO Council will work with the CIO Council and IGs to formulate appropriate approaches for securing financial management systems and financial data within the Federal Government.

Priority 3: Develop Human Resources

accomplishments:

Training Guidelines for Federal Financial Management Personnel Established. The Statement of Principles for Federal Financial Education and Training established CFO Council policy on the quality of education and training. The Statement provides guidelines for planning and evaluating both education and training programs. It has been widely distributed to the financial and human resources communities, as well as to training and education providers.

Recruitment Strategies Improved. Recruiting and Retaining Financial Management Employees–Useful Tools, with a cover letter from the Director of the Office of Personnel Management (OPM), was jointly issued by OPM and the CFO Council Human Resources Committee (HRC). This publication summarizes current personnel authorities available to improve recruitment and retention. For ease of use, it is organized around common problems reported by financial managers.

future initiatives:

Implement Qualification and Classification Standards. The revised OPM standards for GS-510 accountants will be implemented as a nine-month pilot in volunteer agencies. The HRC will work with the agencies, OPM, and the financial community to evaluate the pilots. The HRC will also work with OPM as it revises standards for other financial management professions. These projected revisions will be based on the CFO Council and JFMIP standards published in the core competency documents.

Improve Recruitment and Retention. Recognizing that many CFO agencies have limited resources they can devote to recruitment, the HRC is working to encourage cross-servicing arrangements for recruiting financial management staff. This may include publicizing a consolidated list of Federal financial management job opportunities at colleges and universities, adapting existing automated tools for screening applicants, and sharing candidates across agencies.

Improve Professional Education. The HRC will take an active role in the Federal Training Technology Initiative (FTTI), established by the President's Executive Order 13111, Using Technology To Improve Training Opportunities for Federal Government Employees. HRC will facilitate discussions between Federal financial managers and outside training providers to encourage excellent, cost-effective training for Federal financial management staff.

accomplishments:

Treasury Offset Program Expanded. In calendar year 1998, $2 billion was collected through the Treasury tax refund offset program. Of this amount, $1.1 billion represented delinquent child support obligations and $864 million was delinquent Federal non-tax debt, mainly delinquent student loans. The Tax Refund Offset Program and the Treasury Offset Program (TOP) have been merged into a single, enhanced offset process for the 1999 tax processing cycle. The value of debts in the TOP debtors database is now $68.3 billion ($22.2 billion non-tax debt and $46.1 billion child support).

Agency Debt Referral to Treasury Increased. Treasury, in close consultation with Federal agencies, evaluated the Federal Government's debt to assess how much is eligible for referral to Treasury for offset and cross-servicing, as well as the amount of referred debt that is collectible by Treasury. As indicated in Table 4, there is $60 billion in non-tax delinquent debt owed to the Federal Government. Of this, $31 billion is eligible for Treasury offset. Of the $31 billion eligible for the offset, $8 billion is also eligible for Treasury cross-servicing.

Table 4. **Summary Analysis of Delinquent Debt for the Federal Government (as of September 30, 1998)**

	Estimated Delinquent Debt ($s in billions)
Total Government	$60.0
Less Than 180 Days	($13.6)
Delinquent Debt Over 180 Days	$46.4
Debt Excluded from Offset	($15.2)[1]
Eligible for Referral to Treasury for Offset	$31.2
Debt Excluded from Cross-Servicing	($23.1)[2]
Debt Eligible for Referral to Treasury for Cross-Servicing	**$8.1**

1. The $15.2 billion is ineligible for transfer to Treasury because of the following exemptions: the borrower has declared bankruptcy; the debt is owed by a foreign government; the debt is in forbearance or a formal appeals process; or the debt is in foreclosure.

2. The $23.1 billion is ineligible to refer to Treasury for cross-servicing for the following exclusions: the debt is at a designated debt collection center or has been granted a cross-servicing exemption; the debt is at the Department of Justice for litigation; the debt is eligible for internal offset; the debt is with a third party for collection; or the agency has an approved asset sale program.

future initiatives:

Increase Agency Debt Referral to Treasury. At the March 18, 1999, Federal Credit Policy Working Group (FCPWG) meeting, it was agreed that agencies should establish target dates for referral of debts over 180 days delinquent. FY 1999 goals for referral of debt by the major debt collection agencies are provided in Table 5. Treasury has also requested referral schedules from all other CFO agencies. The aggregate total of the agency referral schedules will be submitted to Congress in this report for next year.

Table 5. Debt Referral Goals for 1999

Agency	Treasury Offset Percent of Eligible Debt to be Referred in 1999	Cross-servicing Percent of Eligible Debt to be Referred in 1999
USDA	90%	80%
Education[1]	100%	100%
HUD[2]	28%	39%
SBA	100%	100%
VA[3]	90%	1%

1. Education's cross-servicing numbers only include institutional liability debt. Education has been designated as a debt collection center to service its own student loan debt.

2. HUD has scheduled an asset sale in the amount of $1.14 billion for 2000. HUD continues to refer Title I debts monthly, which are approximately 39 percent of its eligible debt for cross-servicing and 28 percent for offset.

3. In March 2000, VA will electronically refer 90 percent of eligible debt for cross-servicing.

Priority 5: Use Electronic Commerce to Improve Financial Management

accomplishments:

Usage of Purchase Cards Increased. In FY 1998, several executive branch agencies used purchase cards for 90 percent of purchases under $2,500. Additional agencies achieved levels above 80 percent. Approximately 340,000 cardholders used purchase cards for more than 16 million transactions worth in excess of $7 billion, saving an estimated $800 million in administrative costs. Agencies have increased purchase card use, as reflected in Chart 1.

Chart 1. **Purchase Card Use**
Dollars in Billions

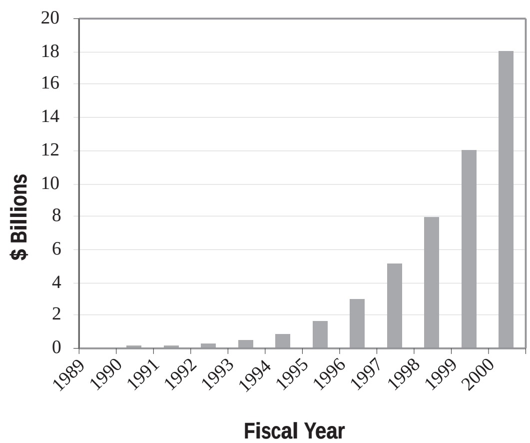
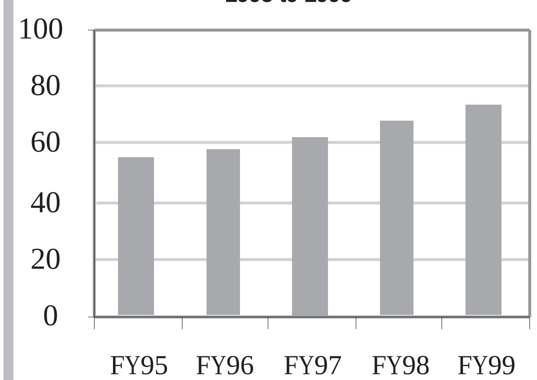


Chart 2. **Total Non-Tax Payments**
Made Electronically
1995 to 1999



Usage of Electronic Funds Transfer (EFT) Increased. In FY 1998, 68 percent of Treasury's 772 million non-tax payment transactions on behalf of non-defense agencies were made electronically. For the first half of FY 1999, 73 percent of these payments were made electronically. (See Chart 2.) Over 85 percent of the Federal Government's payments are made to individuals. Efforts to use electronic payments have targeted large volume programs first. Three out of every four social security and veteran benefit payments, nine out of every 10 Federal retirement payments, and 96 percent of all Federal salary payments are made by EFT today. The number of vendor payments made electronically has grown to 50 percent.

future initiatives:

Implement Electronic Transfer Account (ETA) Payments: Recipients of Federal payments who do not have a bank account are eligible to open a low-cost Treasury-designated ETA at participating financial institutions. In calendar year 1999, Treasury will begin enrolling financial institutions and recipients in the program.

Expand the Use of Financial Electronic Data Interchange (EDI). EDI provides standardized structures for transmitting transaction data. Treasury will continue to expand the use of Financial EDI with VA. This will provide VA with electronic payments and remittance detail for the Health Care Claim/Payment Transaction Sets to automate its collection of third party health care reimbursements from insurance providers. Treasury will also expand the use of Financial EDI with the Department of Education. Education will be using EDI to receive electronic payment and remittance information for its Direct Student Loan program, which collects over $2 billion annually.

Expand the Internet Credit Card Collections E-Money Program: Treasury will continue to expand the Internet credit card collections program to allow the public to make payments over the web for fees, fines, purchases, and donations to Federal agencies. Currently five Federal agencies participate in the Internet credit card collection program, with approximately eight more to be added by the end of 1999.

Enhance Electronic Federal Tax Payment System (EFTPS). Treasury created EFTPS to modernize tax collections, moving Federal tax payments from a paper-based system to an electronic one. Enhancements to EFTPS include developing and implementing new methods to allow taxpayers to authorize the IRS to deduct tax payments from their bank accounts.

Priority 6: Improve Administration of Federal Grant Programs

accomplishments:

Number of Grant Systems Reduced. In June 1998, the CFO Council adopted a plan to reduce the number of cash draw-down systems used by the Federal Government. Members agreed to cease all new systems development and designated two existing systems for use by all Federal civilian agencies (the HHS' Payment Management System (PMS) and Treasury's Automated Standard Application for Payment System (ASAP)) and a third system for all DOD organizations. By October 2002, only these three grant systems will be in use and all proprietary grant systems will be discontinued.

Indirect Cost Rate Calculation Standardized. In June 1998, OMB revised Circulars A-21 "Cost Principles for Educational Institutions" and A-122 "Cost Principles for Non-Profit Organizations." This was done to standardize the methods for determining the percentage of a Federal grant that may be used to cover facilities and administrative costs -- this percentage is commonly called the indirect cost rate. OMB, with assistance from Federal agencies, also developed a draft standard format for educational institutions to use in submitting their indirect cost rate proposals. The format was released as a proposal for comment in June 1999.

future initiative:

Streamline Grant Application, Management, and Reporting Processes. OMB and the Federal agencies will continue to study ways to streamline various grant procedures, i.e., design common forms for grant application and financial reporting, review the General Terms and Conditions for grants and contracts, and study the feasibility of creating a single grants-management circular.

conclusion

Improving Federal financial management is necessary to achieve the Federal Government's program performance goals. The CFO Council and the central agencies -- OMB, GSA, OPM, and Treasury -- played important roles in setting standards, policies, and removing obstacles to reforming the way agencies do their work. CFOs are working within their agencies and through the CFO Council to achieve the critical objectives described in this plan. They will continue to pursue high standards of fiscal discipline to make significant contributions to the improved management of their agencies and the Federal Government. The detailed *1999 Federal Financial Management Status Report and Five Year Plan* can be found on the Internet at http://www.whitehouse.gov/OMB/financial.

Chief Financial Officers and Deputy Chief Financial Officers

Agency	Chief Financial Officer	Deputy Chief Financial Officer
USDA	Sally Thompson	Allan Johnson (A)
Commerce	Linda J. Bilmes (N)	Anthony Musick
DOD	William J. Lynn III	Nelson Toye
Education	Tom Skelly (A)	Mark Carney
DOE	Michael Telson	Elizabeth Smedley
HHS	John Callahan	George Strader
HUD	vacant	William E. Dobrzykowski
DOI	John Berry	R. Schuyler Lesher
DOJ	Stephen Colgate (A)	Therese McAuliffe
DOL	Kenneth M. Bresnahan (N)	Brenda Kyle
State	Bert T. Edwards	Larry Eisenhart
DOT	Jack Basso	David Kleinberg
Treasury	Nancy Killefer	Steve App
VA	Edward A. Powell	Frank W. Sullivan
AID	Michael Smokovich	Elmer S. Owens
EPA	Sallyanne Harper	Michael Ryan
FEMA	Gary D. Johnson	James L. Taylor
GSA	William B. Early, Jr.	vacant
NASA	Arnold Holz	Kenneth J. Winter
NSF	Joseph Kull	Albert Muhlbauer
NRC	Jesse L. Funches	Peter Rabideau
OPM	J. Gilbert Seaux	Donna Ballard
SBA	Joseph Loddo (A)	Gregory Walter
SSA	Yvette Jackson	Thomas G. Staples

(A) Acting (N) Nominee

http://www.whitehouse.gov/OMB/financial