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OFFICE OF MANAGEMENT AND BUDGET**

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**Testimony of Daniel I. Werfel
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before the
Subcommittee on Government Organization, Efficiency, and Financial Management
House Committee on Oversight and Government Reform
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Thank you, Chairman Platts, Ranking Member Towns, and members of the Subcommittee, for the invitation to discuss the Consolidated Financial Report of the United States Government (*Financial Report*) and Federal financial management with you today.

Improvements in financial management are paramount to the effective stewardship of taxpayer dollars. Specifically, sound financial management enables reliable public reporting of the Government's finances, robust internal controls to mitigate the risks of error and fraud in Government programs, and timely reporting of information to agency decision-makers on day-to-day and longer-term management challenges.

The annual results of agency financial statement audits are an important indicator of progress in carrying out these activities effectively. For the past several years, the vast majority of Federal agencies have achieved an unqualified or "clean" opinion on their annual financial statements and auditor-identified weaknesses across government have been steadily declining. However, not all of our financial audit goals have been met. In particular, four agencies did not achieve a clean opinion in FY 2010, which in part, led to a disclaimer on the government-wide financial statements. The Office of Management Budget (OMB) is committed to working with agencies to make the necessary improvements to financial reporting practices so that all agencies achieve acceptable results on their annual audits.

While audit results signal financial management success in many areas, there are critical financial management objectives not currently evaluated or addressed through standard financial statement audit activities. The recent 20-year anniversary of the Chief Financial Officers Act of 1990 (CFO Act) has sparked a new and important dialogue among Federal financial management stakeholders concerning the gaps in our current reporting process and how best to close them. Informed by these discussions and my experience as the day-to-day leader of Federal financial management efforts across government, I believe there are three improvements to financial reporting that represent the greatest opportunity to drive bottom-line results for taxpayers –

- (i) Improving reporting on where Federal taxpayer dollars are spent;
- (ii) Instituting stronger internal controls to mitigate government waste and error; and
- (iii) Increasing access to reliable information on the cost of agency operations.

As highlighted in my testimony below, while the current financial audit process does not address these issues directly or comprehensively, the Administration and the Federal financial community are focused on improving results in these areas. In particular, through the Accountable Government Initiative, we are preventing and increasing recoveries of improper payments, eliminating unneeded real estate, turning around underperforming technology modernization projects, creating performance benchmarks for improved financial operations, and providing unprecedented transparency into Federal spending.

Over the longer-term, we look forward to working with this Subcommittee and the broader community on aligning these areas so that our tireless efforts to obtain improved audit results serve as a more effective reinforcement of our equally tireless efforts to drive down government waste and make Federal spending more transparent for the public.

2010 Audit Results

Since the implementation of the CFO Act, Federal agencies have made important progress in producing reliable and timely financial statements that can pass the scrutiny of an independent auditor. In FY 2010:

- Twenty of the 24 CFO Act agencies achieved an unqualified or “clean” opinion, as compared to 18 of 24 unqualified opinions in FY 2001;
- We reported 31 auditor-identified material weaknesses, as compared to 61 material weaknesses reported in FY 2000; and
- All major agencies met the 45-day deadline for producing audited financial statements at year-end, a timeframe that exceeds the official statutory deadline for financial reporting by more than 100 days.

However, weaknesses in basic financial management practices continue to prevent four major agencies, and the Government as a whole, from achieving an unqualified audit opinion. The Departments of Defense, Homeland Security, and Labor, as well as the National Aeronautics and Space Administration experienced difficulty, such as implementing a new financial system and reporting on property, plant, and equipment, in achieving an unqualified audit opinion.

One of the largest organizations in the Government, the Department of Defense (DOD), faces several challenges in obtaining an unqualified audit opinion largely due to the size and complexity of the Department. In addition, DOD’s financial processes were established many years ago and designed for budgetary accounting, not proprietary or financial accounting. Accordingly, much of DOD’s systems and processes cannot meet the financial accounting standards called for in the CFO Act. DOD is fully committed to having auditable financial statements by 2017 as mandated by Congress.

To achieve this goal, DOD has established a streamlined path forward that is segmented and focuses on improving information the Department uses most to manage

amount and location of mission critical assets. This new approach has resulted in broader support and participation throughout the Department. To further these efforts, DOD has increased resources dedicated to obtaining auditable financial statements and established a strong, visible governance structure • • • • • † •

our part, OMB is committed to closing out these challenges and working toward a clean opinion at all agencies as well as for the government-wide audit.

In addition to these challenges, weaknesses in the compilation process of the Financial Report contributed to the lack of audited financial statements for the Government. The Department of the Treasury and OMB are aggressively working to clear issues such as appropriately reconciling transactions when two Federal agencies conduct business with each other.

Priorities Beyond Financial Statements

The Federal financial management community is responsible for several critical areas within the Administration's broader Accountable Government Initiative.

- Addressing Improper Payments. This initiative is a central component of the Administration's efforts to eliminate waste. Over the past year and a half, the President has issued Executive Order 13520 on Reducing Improper Payments, a Presidential memorandum on intensifying and expanding agency efforts to recapture improper payments, and a Presidential memorandum directing that a "Do Not Pay" List be established to help prevent improper payments from being made. In addition, the President also signed into law the bipartisan Improper Payments Elimination and Recovery Act of 2010, which amends the Improper Payments Information Act. Based on information submitted by agencies in their 2010 Performance and Accountability Reports or Agency Financial Reports, the 2010 Government-wide error rate was 5.49 percent, a decrease from the 2009 rate of 5.65 percent. As a result, we prevented approximately \$3.8 billion in improper payments in 2010. In addition, agencies recaptured \$687 million in improper payments to contractors and vendors in 2010, an approximately 300 percent increase from 2009. Moreover, the 2012 President's Budget proposed to significantly strengthen the power and scope of our current "Do Not Pay" efforts by adding a forensic technology capacity – following on lessons learned from the Recovery Accountability and Transparency Board. The "Do Not Pay" initiative is part of a larger suite of program integrity proposals in the President's Budget that, if enacted, would result in over \$160 billion in savings over 10 years. In addition, another effort focused on reducing improper payments is the Partnership Fund for Program Integrity Innovation, which was established by the Consolidated Appropriations Act of 2010 (Pub. L. 111-117). This initiative funds pilot projects with the objective of improving delivery of and reducing errors in Federal assistance programs administered through State and local governments or where Federal and state cooperation could be beneficial.
- Accelerating Efforts to Better Manage Federal Real Property. Since day one, this Administration has been focused on improving the management of real property assets.

Federal agencies operate and maintain more real property assets than are needed. This includes 14,000 assets currently designated as excess and 55,000 buildings identified as under- or not-utilized. In June 2010, the President directed agencies to accelerate efforts to remove excess and surplus property for a savings of \$8 billion by the end of 2012. The Department of Defense is on track to achieve \$5 billion in real property cost savings through the Base Realignment and Closure (BRAC) process. To date, Federal agencies have identified \$1.7 billion of the \$3 billion in non-defense savings opportunities that the President has requested. This year the President introduced a proposal in his 2012 Budget that will significantly expand on our current efforts. The proposal creates a corporate-like Board that recommends for Congressional action the elimination or consolidation of excess civilian Federal assets, and the realignment and streamlining of agency field operations. The Board's recommendations will go directly to a floor vote in Congress, where only a "no" vote would prevent the recommendations from moving forward, ensuring that the recommendations are considered as a whole and in an expedited manner. The proposal aligns with the Administration's goal to reduce the Government's carbon footprint and addresses a Fiscal Commission recommendation to target excess Federal real estate as part of our deficit reduction efforts.

- Decreasing the Cost of Financial System Modernizations. Complexity and inefficiency in our financial management operations have led to an increasingly expensive environment for modernizing financial systems. Also, once deployed, our modern systems do not consistently meet our business needs or produce the right information to support decision-making. In June, OMB instituted a review of agency financial system modernizations to identify opportunities to accelerate deployment on mission critical functionality and reduce the cost and complexity of the overall project. To date, 20 agencies have reviewed and realigned their financial system plans through splitting projects into smaller, simpler segments with clear deliverables; focusing on the most critical business needs first; and ensuring ongoing, transparent project oversight. As a result, agencies are more focused on their core business priorities while still being held accountable for demonstrating results.
- Driving Efficiencies Through Benchmarking. In order to drive business intelligence and improve performance, OMB has partnered with Federal Agencies to develop benchmarks for financial management functions. These metrics will compare similar processes across agencies and identify best practices and common challenges. Ultimately, these benchmarks will be used to significantly increase business intelligence for driving functional efficiencies and cost analysis.
- Improving Data Quality for Federal Spending Information. Ensuring the quality of Federal spending information has been central to OMB's efforts in implementing the Federal Funding Accountability and Transparency Act. Access to both prime --- and now sub-award --- data offers the public unprecedented amounts of information on Federal spending. This increased transparency will ensure that the Federal Government is held

fully accountable for the administration of Federal programs. Notwithstanding these accomplishments, efforts must continue to address data quality concerns.

Aligning Financial Reports to the Citizens' Bottom Line

As noted above, the achievement of a clean audit opinion is an important indicator of financial management success, but there are critical financial management objectives not currently captured in our financial statements and audit. Accordingly, OMB in coordination with the Chief Financial Officers' Council (CFOC) is evaluating enhancements to the Federal Reporting Model. The CFOC formed a Reporting Model Task Force to review the current reporting model and provide recommendations on improvements to achieve a better use of resources and better alignment with the financial management environment.

The task force, comprised of both auditors and preparers from the Federal financial management community, identified three areas for improving the current model to better serve the user in today's financial management environment. First, the task force recommended that agencies focus resources on management and taxpayers' needs by developing a new Statement of Spending that shows how and where money was spent. A Statement of Spending would provide a high-level view of how agencies are spending taxpayer money. Implementation of this recommendation will respond to public and management needs and provide needed information for decision-making. As a result, OMB will pilot this Statement in 2011.

Second, the task force recommended that agencies focus resources on increasing the reliability of internal controls by requiring audits of agencies' internal controls for certain high risk areas beyond basic accounting and financial reporting. This recommendation would strengthen accountability throughout the Government by focusing on targeted reviews of programmatic and related financial data. Implementation of this recommendation will help maintain accountability and discipline in the agencies that were achieved through the audited financial statement process.

Third, the task force recommended that the federal government focus asset and liability reporting at the Government-Wide level with a more focused audit on internal controls at the agencies to mitigate fraud, waste, and abuse. The audit coverage of this data for the agencies would be limited to items significant at the Government-Wide level and high-risk areas in the agencies. This approach could also enable more robust requirements around the availability of reliable and timely data on the cost of agency operations. Implementation of this recommendation would maintain accountability to the public at the government-wide level and permit a refocus of resources at the agency level, providing an efficient use of limited resources.

Closing

The Financial Management Community has made critical progress over the last year – decreasing the Government-wide Improper Payment rate resulting in \$3.8 billion less in estimated improper payments, increasing the amount of recaptured improper payments by approximately 300 percent, and identifying \$1.7 billion in non-defense savings opportunities with real property. Despite this progress, financial managers need to move beyond the status quo to address the sweeping challenges in the Government today. The financial management

environment is changing from producing annual audited financial statements to producing financial reports more frequently, at a more granular level, and accompanied by non-financial information. Identifying continued improvements by reviewing what we have achieved during the last 20 years and what would like to achieve during the next 20 years is vital to the Federal financial community—particularly as we enter a new era of accountability, transparency, and open government.

We look forward to working with the Congress, GAO, and the CFO community to achieve our mutual goal of providing reliable and relevant financial information in a readily available and easily accessible format.

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

Biography of
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Daniel Werfel has been the Deputy Controller at the Office of Management and Budget (OMB) since March of 2006. Previously, he served as the Chief of the Financial Integrity and Analysis Branch within OMB, as a budget examiner in OMB's Education Branch, and as a policy analyst in OMB's Office of Information and Regulatory Affairs.

Mr. Werfel has also served as a Trial Attorney in the Department of Justice's Civil Rights Division. Mr. Werfel holds a Masters Degree in Public Policy from Duke University, a Juris Doctor from the University of North Carolina at Chapel Hill, and a Bachelors Degree in Industrial and Labor Relations from Cornell University.