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OFFICE OF MANAGEMENT AND BUDGET**

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**Testimony of Daniel I. Werfel
Controller, Office of Management and Budget
before the
Subcommittee on Government Organization, Efficiency, and Financial Management
House Committee on Oversight and Government Reform
March 1, 2012**

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.

Sound financial management is essential to the effective stewardship of taxpayer dollars and enabling agency decision-makers to make tough choices on day-to-day and longer-term management challenges. In this time of tight budgets, families across the country are sitting around their kitchen tables and figuring out how to make the most out of every penny. They should expect nothing less from their Government.

Last year, the Administration launched a Campaign to Cut Waste, dedicated to combing through the entire Federal government and rooting out any areas of waste or inefficiency. We have cut \$1.5 billion in real estate costs and are well on our way to exceed the President's goal of \$3 billion in real estate savings by the end of this fiscal year. We avoided \$20 billion in payment errors by driving the improper payment rate down in Medicare, Medicaid, Pell Grants, Supplemental Nutrition Assistance Program benefits (Food Stamps), and others critical assistance programs. We have closed over 100 Data Centers, and we have established the TechStat program which has resulted in approximately \$4 billion worth of cost implications (savings and cost reductions) in Information Technology (IT) investments. In addition, we told every agency to cut back their spending by 20 percent on administrative costs such as travel, printing, or vehicles, which will reduce their spending in these areas by \$8 billion.

Underlying all of these efforts is a need to provide reliable financial information to enable agencies to make informed decisions about their spending priorities and ways to maximize tight budgets. This financial information is reported through the annual results of agency financial statement audits and the Consolidated Financial Report of the Federal Government, which is what we are here to discuss today.

You may recall that last year I testified before this Committee that 22 of 24 Chief Financial Officers (CFO) Act agencies received an audit opinion. This year, I am pleased to announce that we have moved the bar again—23 of the 24 CFO Act agencies received an audit opinion in 2011. This is the highest number of opinions the Federal government has achieved since the passage of the CFO Act. Moreover, all but three of these opinions were unqualified or “clean” opinions, and auditor-identified weaknesses across the government have been steadily declining.

2011 Audit Results

The CFO Act was an important milestone in Federal financial management when it was passed over 21 years ago. It set out the parameters and rules-of-the-road for how the government should approach financial management, requiring corporate-style accounting of our assets, our liabilities, and our balance sheet. Since that time, agencies have made tremendous strides in financial management, setting out sound policies and practices for managing and reporting our finances and developing a vibrant and diligent financial management community dedicated to carrying out the goals of the CFO Act.

Armed with this experience and expertise, Federal agencies are now able to annually produce reliable, comprehensive financial statements to be evaluated and scrutinized by taxpayers, legislators, and the financial community. We have also made important progress in producing timely financial statements that can pass the scrutiny of our independent auditors. This progress reached its apex in FY 2011, where:

- Twenty-three of the twenty-four CFO Act agencies obtained an audit opinion, the best performance by the Federal Government to date;
- Of the 23 agencies that achieved an audit opinion, all but two achieved an unqualified, or “clean”, opinion;
- We reported 31 auditor-identified material weaknesses for CFO Act agencies, as compared to 61 material weaknesses reported just over ten years ago; and
- Once again, all major agencies met the 45-day deadline for producing audited financial statements at year-end, a timeframe that outperforms the official statutory deadline for financial reporting by more than 100 days.

In recent years, there have been three agencies that have struggled to obtain an audit opinion—the National Aeronautics and Space Administration (NASA) and the Departments of Homeland Security (DHS) and Defense (DOD). These agencies have diligently worked to overcome financial management impediments that have prohibited the achievement of an audit opinion. All three agencies made tremendous progress on the road to clean audit opinions.

Historically, NASA has faced challenges in reporting certain unique assets, such as space exploration equipment. This year, their hard work to overcome these challenges paid off. NASA moved from a position where the auditors could not express an opinion on their financial statements last year, to achieving a clean opinion in 2011 for the first time since 2002.

When DHS was established, the U.S. Government Accountability Office reported 18 legacy material weaknesses in internal controls over financial reporting. In FY 2010, Secretary

Napolitano committed the Department to overcoming these weaknesses and obtaining a qualified audit opinion for the first time. And based on the quality, dedication, professionalism, and hard work of DHS' leadership and financial management teams, they met that commitment by obtaining an audit opinion on their balance sheet, as well as reducing their remaining material weaknesses to five. DHS is now focusing efforts to obtain a clean opinion on all financial statements by 2013, and I am confident in their continued progress towards this goal.

Finally, although DOD was not able to obtain an audit opinion, they have significantly accelerated the efforts to getting there and have articulated at the highest levels the importance of achieving a full audit opinion. Secretary Panetta has expressed his commitment to achieving an audit of the Department's budgetary statement by 2014, establishing a firm foundation for full financial auditability in 2017, as required by law. This cuts in half the time projected for some components. DOD's plan for achieving an audit focuses on improving the information the agency uses most in order to manage mission critical assets. In addition, to support efforts to achieving an audit opinion, DOD has increased resources and established a strong, visible governance structure - all key steps that will enable success for DOD.

As demonstrated above, the achievement of an audit opinion is an important indicator of financial management success. But I believe we should do more. Our Financial Reports need to provide transparency into how we are spending money. Accordingly, OMB, in coordination with the Chief Financial Officers' Council (CFOC), has developed a new Schedule of Spending that shows where and how Federal agencies spend tax dollars. The General Services Administration and the Nuclear Regulatory Commission included pilots of this statement in their FY 2011 Financial Reports, and OMB anticipates expanding the production of this schedule across other agencies in FY 2012 and ultimately including it as an audited financial statement.

Priorities Beyond Financial Statements

Accurate financial reporting and strong internal controls are essential components for ensuring taxpayer dollars are spent appropriately. As I already highlighted, we have made positive strides in these areas. However, financial management must go beyond the balance sheet, and we must aggressively pursue efforts that ensure every dollar spent on programs and services is spent wisely. In today's fiscal environment, wasting money is particularly inexcusable and cannot be tolerated.

To drive forward this commitment to eliminating waste and maximizing efficiencies, the Administration launched the Campaign to Cut Waste last summer to root out waste in every agency.¹ Under the Campaign to Cut Waste, the Vice President has taken the lead in the Federal Government's efforts to cut waste and to hold agencies accountable for identifying and rooting out inefficiencies. The Vice President holds quarterly Cabinet meetings on the Campaign to Cut Waste where he highlights areas agencies can perform better as well as success stories of cutting wasteful spending. For example, at the most recent Cabinet meeting on this topic, the U.S. Mint announced that it was suspending the production of Presidential dollar coins for circulation due to lack of demand, saving taxpayers at least \$50 million per year in production and storage costs.

¹ Executive Order 13576, Delivering an Efficient, Effective, and Accountable Government, 76 Fed. Reg. 35297 (June 13, 2011), launched the Campaign to Cut Waste.

Through these efforts, we have seen considerable progress in identifying and reducing wasteful and unnecessary spending in many critical areas.

- Promoting Efficient Spending. In an effort to reduce the amount of money the Federal government spends on administrative functions, the President signed an Executive Order this past November that requires agencies to reduce spending in certain administrative categories by 20 percent in FY 2013 from FY 2010 levels.² In total, Federal agencies are responsible for reducing administrative costs by \$8 billion in FY 2013 in categories such as travel, printing, employee information technology devices, executive fleet, professional and technical services, supplies and materials, and extraneous promotional materials. Each agency has provided specific targets for how they are reducing spending in these areas, which are included in the President's 2013 Budget released last month.
- Better Management of Federal Real Property. The Federal Government owns or leases roughly 1.1 million real property assets, including land, buildings, and structures. Within this portfolio, there are opportunities for savings by disposing Federal real estate assets and operating Federal space more efficiently. To achieve the goal of shrinking the Federal real estate inventory and reducing operating costs, the Administration has taken several steps to improve the management of Federal real property. In June 2010, the President directed Federal civilian agencies to achieve \$3 billion in savings by the end of FY 2012 by reducing annual operating costs, disposing assets, consolidating existing space, expanding telework, and other space realignment efforts.³ Agencies have already achieved \$1.5 billion in savings to-date and expect to exceed the President's goal and achieve \$3.5 billion in savings by end of FY 2012. The President also introduced a legislative proposal in his 2012 Budget that would create an independent Board that would develop, and present to Congress, recommendations to dispose or consolidate unneeded properties. This approach, modeled after the successful Defense Base Closure and Realignment (BRAC) Commission, would enable the Federal Government to overcome the red tape, financial disincentives, and competing stakeholder interests that have traditionally slowed or halted progress when we have attempted to reduce our real estate footprint one asset at a time. The Board's recommendations would 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 GAO recommendation to target excess Federal real estate as part of our deficit reduction efforts.
- Addressing Improper Payments. This initiative is a central component of the Administration's efforts to eliminate waste, fraud, and abuse. Since November 2009, 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 the establishment of a "Do

² Exec. Order No. 13589, Promoting Efficient Spending, 76 Fed. Reg. 70863 (Nov. 9, 2011).

³ Presidential Memorandum on Disposing of Unneeded Federal Real Estate—Increasing Sales Proceeds, Cutting Operating Costs, and Improving Energy Efficiency, 75 Fed. Reg. 33987 (June 10, 2010).

Not Pay List” to help prevent improper payments from being made.⁴ In addition, the President signed into law the bipartisan Improper Payments Elimination and Recovery Act of 2010. All of these efforts have been critical components in helping to bring down the amount of payment errors made by the government. When the President took office in 2009, improper payment rates were on the rise. Today, we are on track to meet or exceed the President’s goals to cut improper payments by \$50 billion and recapture \$2 billion in overpayments to contractors by the end of this fiscal year. In FY 2011, the government-wide improper payment rate decreased to 4.69 percent, a sharp decline from the FY 2009 error rate of 5.42 percent. If the error rate had not declined as much as it has since FY 2009, the Government would have made over \$20 billion in additional improper payments in FY 2010 and FY 2011 combined. Moreover, in FY 2011, Federal agencies recaptured more than \$1.2 billion in overpayments to contractors. In total, we have recaptured \$1.9 billion in two years combined, putting us less than \$100 million away from meeting the President’s goal. Moreover, we are leveraging technology to prevent and reduce improper payments. In response to the “Do Not Pay” memorandum, the Department of the Treasury has established the GOVerify Business Center, a single-entry point that agencies can access to determine eligibility information prior to making an award or payment, in order to prevent improper payments.

Closing

Over the last year, the financial management community has made great strides. We have been able to successfully achieve audit opinions for 23 of the 24 CFO Act agencies. We have decreased the Government-wide Improper Payment rate and recaptured \$1.2 billion in improper payments. We have saved \$1.5 billion in real property costs through getting rid of unnecessary assets and making better use of our existing space. And we’ve launched a comprehensive effort to cut waste and inefficiencies across government, in order to ensure that we are responsible stewards of the taxpayers’ dollars.

Overall, I believe the financial management community has had one of the best years since the passage of the CFO Act over 21 years ago. But we will not stop here. There is still significant work to be done in getting all Federal agencies to obtain clean audits, continuing to reduce improper payments, driving savings through reforming our real estate portfolio, and cutting waste wherever it may exist. To achieve these goals, we will continue to improve financial management and identify ways to better manage and report on how the Federal Government spends taxpayer dollars.

I 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.

⁴ Exec. Order No. 13520, 74 Fed. Reg. 62201 (Nov. 20, 2009); Presidential Memorandum on Finding and Recapturing Improper Payments, 75 Fed. Reg. 12119 (March 10, 2010); Presidential Memorandum on Enhancing Payment Accuracy Through a “Do Not Pay List,” 75 Fed. Reg. 35953 (June 18, 2010).

Danny Werfel

On October 13, 2009, the United States Senate confirmed Danny Werfel as the Controller of the Office of Federal Financial Management (OFFM) within the Office of Management and Budget (OMB). As Controller, he is responsible for coordinating OMB's efforts to initiate government-wide improvements in all areas of financial management, including financial reporting, improper payments, and real property management. Mr. Werfel is also responsible for coordinating the development of government-wide policy on financial accounting standards, grants management, and financial systems.

Prior to his current position, Mr. Werfel served in multiple capacities within OMB, included Deputy Controller, Chief of the Financial Integrity and Analysis Branch, Budget Examiner in the Education Branch, and Policy Analyst in the Office of Information and Regulatory Affairs. Mr. Werfel also served as a Trial Attorney in the Department of Justice's Civil Rights Division.

Mr. Werfel is a recipient of both national and local awards from the Association of Government Accountants for his contributions to Federal financial management. He was the recipient of the Presidential Rank Award for Meritorious Service in 2008. Mr. Werfel also served as a member of the Federal Accounting Standards Advisory Board from 2006 to 2009.

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.