

THE WHITE HOUSE
WASHINGTON

November 20, 2000

I am pleased and proud to commend the members of the Chief Financial Officers Council as you celebrate the Council's tenth anniversary.

In the decade since passage of the Chief Financial Officers Act, you have been the catalyst for extraordinary progress in improving federal financial management. Because of your efforts, executive agencies now routinely produce financial statements that contain the information we need to manage programs effectively and to fulfill our responsibility to be accountable to the American public.

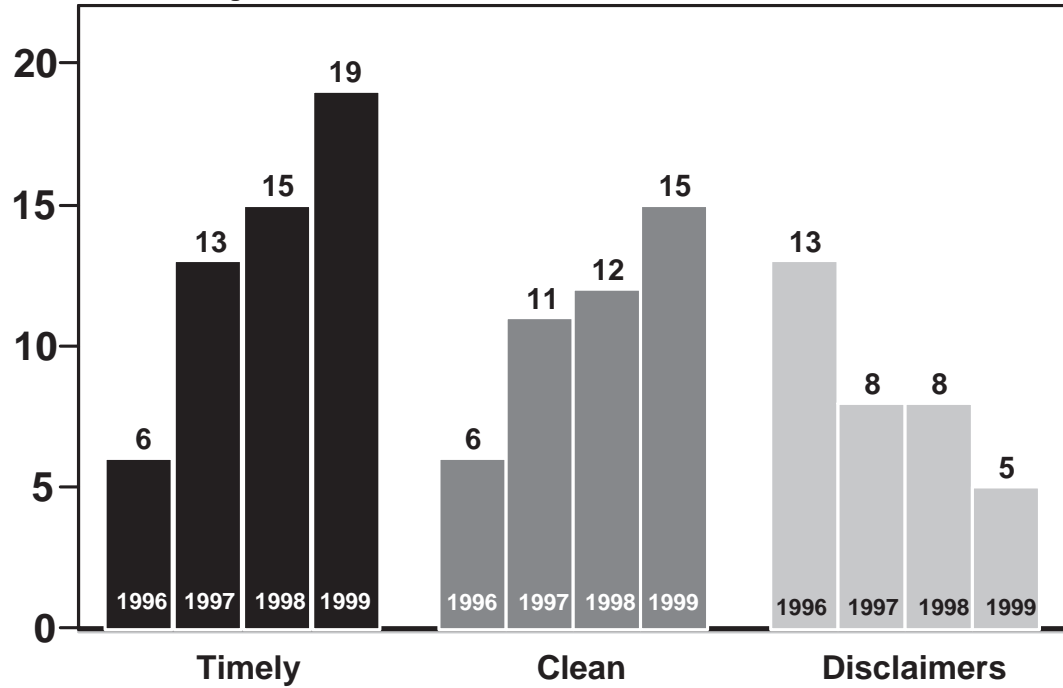
Your accomplishments have provided a strong framework for the next Administration to achieve even more progress in improving federal financial management in this new century, and I am deeply grateful for your leadership and dedication.

Congratulations on marking this milestone, and best wishes for continued success in the years to come.

A handwritten signature in black ink that reads "Bill Clinton". The signature is written in a cursive, flowing style with a prominent "B" and "C".

Federal Financial Statements: Improving in Timeliness and Quality

Out of 24 CFO Act Agencies



Note: Disclaimer category also includes agencies that did not prepare agency-wide financial statements required by the Government Management Reform Act of 1994.

2000 FEDERAL FINANCIAL MANAGEMENT REPORT

TABLE OF CONTENTS

	<i>Page</i>
FOREWORD: FEDERAL FINANCIAL MANAGEMENT TODAY	1
SUMMARY	3
I. IMPROVE FINANCIAL ACCOUNTABILITY	9
II. IMPROVE FINANCIAL PERFORMANCE	19
III. INVEST IN HUMAN CAPITAL	31
IV. MANAGE OBLIGATIONS TO THE FEDERAL GOVERNMENT	37
V. IMPROVE ADMINISTRATION OF FEDERAL GRANT PROGRAMS	49
APPENDICES	
I. Agency Performance on Financial Statements	59
II. Financial Statement Preparation by Components of Executive Departments and Agencies	63
III. Federal Managers' Financial Integrity Act (FMFIA) Tables	65
IV. Federal Accounting Standards Advisory Board (FASAB) Documents	67
LIST OF CHARTS AND TABLES	71
ABBREVIATIONS	73

GENERAL NOTE

All years referred to are fiscal years, unless otherwise noted.

This report is also available at: <http://www.whitehouse.gov/OMB/financial>

FOREWORD: FEDERAL FINANCIAL MANAGEMENT TODAY

Each year, we report on the progress being made in the financial management of the Federal Government. In the past year, much has been accomplished. Nonetheless, much more remains.

A decade ago, the Chief Financial Officers (CFO) Act first demanded modern financial management by the Federal Government. At the time there was much to be improved: Federal agencies could not answer the most basic questions about the state of their finances. The only annual financial reports were limited to guesses about how much an agency had spent in the previous year. Financial information wasn't gathered automatically or consistently, and financial systems were primitive. Even if Federal agencies had wanted to report their finances in accordance with professional standards, there were no such standards for the Federal Government.

The CFO Act sparked many changes. We have made dramatic progress in financial reporting. A decade ago, only a few agencies routinely prepared and issued audited financial statements. Currently—in only the fourth year of reporting—all 24 agencies subject to the CFO Act issue annual audited financial statements. More than 60 percent received clean audits on them. This performance is even more impressive when you compare it to that of state governments, which took a decade even to reach the 50 percent mark. A decade ago, there was no Government-wide financial statement; this year marks the third production of an annual Government-wide financial statement. In 1990, the Federal financial community did not have a set of Government-wide accounting standards. The creation of the Federal Accounting Standards Advisory Board (FASAB) in 1990 led to the development and issuance of a complete set of basic accounting standards and concepts by 1996. In October 1999, as validation of these efforts, the American Institute of Certified Public Accountants

(AICPA) recognized FASAB standards as “generally accepted accounting principles” (GAAP). Recognition of FASAB standards by an independent, internationally-recognized audit standard-setting authority marks a significant milestone.

We have also begun to install and use modern financial systems. A decade ago, agency financial management systems, such as they were, were unable to keep standard accounts. They had been developed in an era in which there was no call for common financial information and no common standards. Agencies had dozens, sometimes hundreds of separate systems. Even within an agency, financial systems could not communicate with each other and provide accurate, timely, and meaningful information. Many of these challenges remain. Nonetheless, today we have developed standards for these systems and established a program of comprehensive testing of commercial systems to ensure that they meet them. Only off-the-shelf systems certified as compliant may be purchased by Government agencies. The vast majority of Federal agencies are hard at work, either modernizing their systems or replacing them entirely. OMB helps by making sure that these critical projects are carefully planned and adequately funded.

These are not the only examples of the progress we are making. Throughout the Federal Government, agencies are taking advantage of new technologies to streamline grantmaking, debt management and other financial activities. In 1999, total delinquent debt dropped from \$60 billion to \$53.3 billion. Also, delinquent debt as a percentage of total non-tax receivables decreased from 22.5 percent to 19.7 percent. The Department of Justice used its authorities as the government's collector of last resort to collect \$1.3 billion in delinquent debt, a 23 percent increase over the previous year.

Working together in interagency councils and individually, agencies are also taking

advantage of the promise of electronic government to reduce waste and improve service. In 1999, the US Government made almost one trillion payments electronically, some 80 percent of all non-tax payments. In addition, transactions using small purchase bank cards instead of purchase orders increased four-fold since 1995 to over 18 million last year, saving an estimated \$450 million in administrative costs.

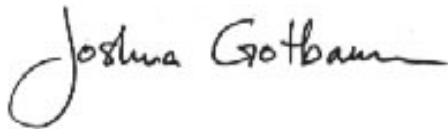
All this is an extraordinary transformation. It requires serious and sustained commitments, both of Federal dollars and trained personnel. We have made that commitment. Throughout the Federal financial community—at OMB, the CFO's, and the inspectors general who are our auditors—thousands of people are working hard. They are developing better, more accurate financial and program information, and installing the systems and training the people to implement them.

Nonetheless, we all recognize there remains much yet to accomplish. In the years to come, agencies will need to complete modernization of their systems and combine financial reporting with information about an

agency's performance and results. They will need to review and reinvent their most basic operations, to improve efficiency and service.

This report is a joint project of OMB and the CFO Council. It is organized in accordance with our Government-wide goals for financial management: (1) improve financial accountability; (2) improve financial programs and the performance of financial systems; (3) invest in human capital; (4) better manage obligations of the Federal Government; and (5) improve the administration of Federal grants.

Although much remains to be done, we are proud of what we have accomplished. We remain fully committed to achieving the vision for the Federal financial community established a decade ago: To provide reliable information, used by Federal agencies to manage and improve their programs; to be accountable for their efforts with Congress and the public; and to provide the better, more reliable service that the American people can and should expect from their Government.



JOSHUA GOTBAUM
EXECUTIVE ASSOCIATE DIRECTOR AND CONTROLLER
OFFICE OF MANAGEMENT AND BUDGET



JOHN J. CALLAHAN
EXECUTIVE VICE CHAIR,
CFO COUNCIL

SUMMARY

When the CFO Act was passed 10 years ago, its objective was to require the U.S. Government to adopt modern financial management practices. In crafting the legislation, Congress recognized the Federal Government lagged far behind private businesses as well as state and local governments in the creation and use of financial information. The Act created the CFO position in major Federal agencies, established the Deputy Director for Management and Controller positions at OMB, and created the CFO Council. Four years later, the Government Management Reform Act (GMRA) took the additional step of requiring annual audited agency financial statements beginning in 1997.

This report highlights how far Federal financial management has come in the past decade and describes additional improvements needed in the future. It is the joint project of OMB and the CFO Council. The Council, chaired by the Deputy Director for Management of OMB, includes OMB's Controller, the Fiscal Assistant Secretary of the Department of the Treasury (Treasury), and the 24 CFO Act agency CFOs and Deputy CFOs.

Greater Accountability to the Public

Financial reporting by the Federal Government provides information for formulating policy, planning actions, evaluating performance, and other purposes. The processes of preparing and auditing financial reports can enhance the Government's overall accountability structure by providing greater assurance that transactions are recorded and reported accurately and consistent definitions are used to describe transactions. Federal financial reporting helps to fulfill the Government's duty to manage programs economically, efficiently, and effectively and to be publicly accountable.

In the past decade, the issuance of independently audited annual financial statements by agencies has been an important step in improving accountability to the public. These agency financial statements have been prepared in accordance with a comprehensive

set of accounting principles recognized in 1999 by the public accounting profession as GAAP. The GAAP designation indicates the Federal Government's finances are reported using standards with the same degree of acceptance as those used to prepare annual stockholder reports in the private sector and in turn, also receive the same degree of audit scrutiny. Some of the key accomplishments in Federal financial management over the past decade are outlined below:

Creation of Federal Accounting Standards: Before 1990, the Federal financial community did not have Government-wide accounting standards. That year, the Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States created the FASAB to develop and recommend accounting standards for the Federal Government. By 1996, FASAB had produced a set of basic accounting standards and concepts. FASAB continues to develop specialized standards and address additional accounting and financial management issues.

Recognition of FASAB Standards as Generally Accepted Accounting Principles: In October 1999, as validation of the Federal Government's efforts, the AICPA recognized FASAB standards as GAAP. Recognition of FASAB standards by an independent, internationally-recognized audit standard-setting authority marks a significant milestone in improving public confidence in Federal financial management.

Preparation of Agency and Government-wide Audited Financial Statements: A decade ago, only a few agencies prepared and issued financial statements. Currently, the 24 largest departments and agencies issue annual financial statements, and the Federal Government has produced its third Government-wide financial statement.

Improved Timeliness and Quality of Agency Financial Statements: The timeliness of financial reports continues to improve. This year, 19 CFO Act agencies met the statutory March 1 deadline for producing financial

statements, an increase of four agencies from 1998. The quality of the financial statements also has improved. In 1996, only six agencies received clean opinions on their financial statements. For 1999, 15 agencies received clean opinions. The number of agencies with disclaimers (i.e., whose accounts were in such shape that no opinion could be expressed) dropped from 13 in 1996 to five in 1999.

What has been accomplished by the Federal Government in the past four years compares quite favorably with the experience of state governments. With few exceptions, individual states began issuing GAAP-based financial statements in the 1970s. In 1980, Standard and Poors, a rating agency, issued a policy statement directing all state bond issuers' financial reports be prepared in conformity with GAAP and audited by independent auditors or else their bond ratings would be affected. Within 10 years, only half of all state governments received clean opinions. By comparison, more than 60 percent of the CFO Act agencies were able to achieve clean opinions in only four years.

Creation of Reliable Financial Systems

Although important, an accurate annual financial statement is only one of our goals. Ultimately, financial systems should provide financial reports automatically, in a reliable and timely way, so financial information can be used to improve Government decision-making. Congress recognized this need by enacting the Federal Financial Management Improvement Act (FFMIA) in 1996. With the push to achieve clean audit opinions of agency financial statements well underway, the financial management community intends to shift its attention to meeting the additional challenge of improving financial management systems.

FFMIA requires that agencies' financial management systems comply with: (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; and (3) the U.S. Government Standard General Ledger (SGL) at the transaction level. For 1999, six of the 24 CFO Act agencies complied with all three of the requirements. OMB and the CFO Council are placing greater emphasis on FFMIA compliance through moni-

toring and education activities. OMB is implementing a comprehensive strategy for improving Federal financial management systems and a methodology for reviewing agency remediation plans. Improving financial systems is a major challenge in an environment dominated by legacy systems that were not designed to support current requirements or technology. These systems improvements are difficult and progress is a long-term process.

We have already taken important steps in this area. During the past year, we established an effort through the Joint Financial Management Improvement Program (JFMIP) to codify our financial systems requirements and test commercial systems for compliance with those standards. OMB has directed agencies only purchase systems that have been tested and meet JFMIP requirements. Key accomplishments include:

Development of Functional Requirements for Federal Financial Systems: JFMIP functional requirement documents define how information is processed and shared with other systems. Increasing compliance with requirement documents will lead to additional Federal financial systems consistently and accurately capturing transactions. JFMIP has developed system requirement documents for core accounting, managerial cost accounting, and six of 13 subsidiary systems, including inventory, travel, human resource and payroll, seized property and forfeited asset, direct loan, and guaranteed loan. Plans are in place to eventually issue requirements for the remaining seven subsidiary systems, including benefit payments, insurance claims, grants, property management, acquisition, revenue, and budget formulation.

Testing and Certifying Compliance of Commercial Systems: In November 1998, JFMIP established an office to develop functional requirements for Federal financial management systems; reengineer and maintain the core financial systems software test and certification process; work with the General Services Administration (GSA) to maintain streamlined procurement processes; and share, via the Internet, information on financial commercial systems capabilities and services.

Better Financial Management

CFOs have made significant progress, including efforts in the areas of:

Electronic Commerce: The emergence of new technologies and tools for doing business has dramatically increased the Government's potential to provide timely and effective services. By taking advantage of the efficiencies offered by electronic commerce, CFOs are making sure Government business is conducted faster and with increased accuracy in a customer-driven environment. Working together in interagency councils and individually, agencies are taking advantage of the promise of electronic government to reduce waste and improve service. In 1999, the US Government made almost one trillion payments electronically, some 80 percent of all non-tax payments, and we are steadily approaching the Congressionally mandated target of 100 percent. States have implemented electronic benefit transfer (EBT) programs to provide food stamps and other benefits electronically. By March 2000, 38 States, the District of Columbia, and Puerto Rico have operational online food stamp EBT systems. Transactions using small purchase bank cards instead of purchase orders increased four-fold since 1995 to over 18 million last year, saving an estimated \$450 million in administrative costs. The CFO Council is now urging agencies to take the next step towards electronic Government by using the Internet for timely implementation of the Government Paperwork Elimination Act (GPEA). GPEA requires Federal agencies by October 21, 2003 to allow individuals or entities the option of submitting information to agencies electronically when practicable. The goal is to conduct secure, private, and authenticated Internet transactions within three years. Two key initiatives discussed in this report include using electronic processing to maximize the use of the Internet for credit and debt management programs and the administration of grant programs.

Improving Management of Debts Owed to the Government: Federal agencies improved credit management and collection of obligations by streamlining portfolio management and using various collection tools. In 1999, total delinquent debt dropped from \$60 billion

to \$53.3 billion. Also, delinquent debt as a percentage of total non-tax receivables decreased from 22.5 percent to 19.7 percent. The Department of Justice used its authorities as the government's collector of last resort to collect \$1.3 billion in delinquent debt, a 23 percent increase over the previous year. SBA's loan asset sale held in August 2000 included approximately 26,000 loans with an unpaid principal balance of \$1.2 billion, and returned \$530 million to the Treasury, a \$225 million premium above the \$305 million value of holding the loans to maturity. Similarly, FHA auctioned 8,053 single-family loans in September 2000, with an unpaid principal balance totaling \$480 million. The sale generated proceeds in excess of \$467 million, or 97 percent of the unpaid principal balance of the mortgage loans, the highest return to date. The CFO Council is now urging agencies to conduct secure, private, and authenticated Internet transactions for debt management programs within three years. The Federal Credit Policy Working Group (FCPWG), working closely with the CFO and Chief Information Officers (CIO) Councils, will establish a subcommittee to identify credit industry standards and Internet best practices related to credit and debt management. The goal is to use the Internet for secure transactions between agencies and their private sector partners by using electronic signature technology, including digital signatures or Personal Identification Numbers (PINs) where appropriate. To assist in this process, GSA has made available to all agencies a schedule of approved contractors for providing validated digital signature certificates known as Access Certificates for Electronic Services (ACES). ACES use the highest level Public Key Infrastructure (PKI) technology. ACES provide identification, authentication, and non-repudiation as a means for individuals and businesses to be authenticated when accessing, retrieving, and submitting information in communications with the Federal Government. To promote acceptance of ACES, the first 500,000 certificates are being offered to Federal agencies for a nominal user fee.

Streamlining Federal Grants: OMB and the agencies are working to make it easier for state, local, and tribal governments and

non-profit organizations to apply for Federal grants and, as recipients, report their progress. The Inter-agency Electronic Grants Committee (IAEGC) and its “Federal Commons” initiative—a project to establish a single point of entry for Federal grant programs—are central to this Government-wide effort to use electronic processing in the administration of agencies’ grant programs. Participating Federal agencies have developed the Federal Commons project in an effort to provide a common face of the Government for the purposes of grants administration.

Building Professionalism

The CFO Council recognizes the challenges of ensuring a quality financial management workforce are great. The past decade has seen the downsizing of administrative and financial management functions in Government along with a marked increase in the number of employees eligible to retire. Recruiting new employees with pertinent competencies is highly competitive in the current tight labor market. The CFO Council’s accomplishments in this area over the past decade include:

- *Defined Core Competencies:* The Federal financial management community defined core competencies that were published by JFMIP during the period of 1995–1998. These core competency documents articulate the appropriate knowledge, skills, and abilities necessary for financial personnel to succeed in their respective careers. These documents have guided the Council’s human capital strategies and efforts relating to professional development, recruitment, and qualification standards.
- *Established a CFO Council Fellows Program:* The CFO Fellows Program is in its third year. It is designed to provide career development opportunities for promising financial managers within the CFO community with the intent of achieving a cadre of experienced and diverse leaders

prepared to assume financial executive positions in the future.

New strategies are needed to recruit, develop, and sustain a workforce prepared to meet the needs of the new decade. Examples of strategies adopted by the CFO Council include: (1) a CFO Careers Program, aimed at attracting a well-qualified, diverse pool of candidates in all financial management disciplines; (2) a CFO Internship Program, which will provide structured on-the-job experiences to undergraduate and graduate students that may lead to permanent job opportunities in the future; and (3) a CFO Scholars Program, in partnership with the Association of Government Accountants (AGA), to provide competitive scholarship opportunities for outstanding Federal financial managers to pursue degree programs and professional certifications.

Much Accomplished, Much Still to be Done

Better financial management will help agencies run better programs. It will also provide accountability to the President, the Congress, and the American people, so they have confidence in the performance of their Government. Much remains to be done, but the Federal financial community has made great strides in the 10 years since the enactment of the CFO Act. This progress is due to the hard work of thousands of people throughout the Government.

This report presents both accomplishments and future initiatives of the CFO Council and central agencies to strengthen Federal financial management. CFOs are working within their agencies and through the CFO Council to achieve the critical objectives described in this report. CFOs will continue to pursue high standards of fiscal discipline for making significant contributions to the improved management of their agencies and the Federal Government.

2000 FEDERAL FINANCIAL MANAGEMENT REPORT

CHAPTER I. IMPROVE FINANCIAL ACCOUNTABILITY

Goal:

Develop useful, reliable, and timely financial and performance information by:

- *Ensuring sound accounting standards that provide the basis for Federal financial statements and consistent, reliable financial information;*
- *Preparing annual financial statements and obtaining “clean,” unqualified¹ opinions for CFO Act agencies; and*
- *Issuing timely, useful, and reliable financial management reports.*

A Decade of Progress

In 1990, Congress recognized the Federal Government lagged far behind private businesses and state and local governments in financial management. Congress mandated the gap be closed by enacting the CFO Act. Later, GMRA extended this mandate by requiring the preparation of the first annual audited agency-wide financial statements beginning in 1997. Some of the key accomplishments over the past decade include:

- *Developed Government-wide Accounting Standards:* In 1990, the Federal financial community did not have prescribed Government-wide accounting standards. The Director of OMB, the Secretary of the Treasury, and the Comptroller General of the United States, who serve as its principals, established FASAB to develop and recommend accounting standards for the Federal Government. By 1996, FASAB produced a set of basic accounting standards and concepts. See Appendix IV for a complete listing of FASAB standards and concepts and instructions on how to obtain copies.
- *Federal Government Accounting Standards Recognized by the AICPA:* In October 1999,

the AICPA recognized FASAB standards as GAAP, validating our progress. Acknowledgment by an independent, internationally-recognized audit standard-setting authority that FASAB standards are GAAP marks a significant milestone for improving public confidence in Federal financial management.

- *Produced Agency and Government-wide Audited Financial Statements:* In the last decade, only a few agencies prepared and issued audited financial statements. The Federal Government as a whole produced only “prototype” financial statements which were not auditable. Currently, the 24 CFO Act agencies engage independent accountants and issue financial statements annually, and the Federal Government has produced its third annual Government-wide financial statements.
- *Improved Timeliness and Quality of Agency Financial Statements:* Clean and timely financial statements are evidence of financial discipline and data integrity. In 1996, only six agencies produced clean financial statements. Four years later, the quality of agency financial statements increased over 100 percent when 15 agencies obtained clean opinions. Similarly, only six agencies were able to produce timely financial statements in 1996. This year, 19 agencies complied with the March 1 statutory due date, an increase of more than

¹An unqualified opinion indicates the auditor believes the financial statements present fairly the financial position and results of operations in accordance with GAAP. It is commonly referred to as a “clean opinion,” a phrase that will be used throughout this report.

200 percent. See Chart 1 for improvements in agencies' financial statements.

- *Financial and Performance Reports Integrated into Accountability Reports:* Prior to GMRA, agencies produced stand-alone or "stovepipe" financial and performance management reports that presented information in a fragmented format. As a result of the GMRA's Accountability Report pilot project, begun in 1995, Congress and the American taxpayer can now turn to agency Accountability Reports to obtain integrated and comprehensive financial and performance information. In November, the President signed the Reports Consolidation Act of 2000, which provided permanent authority for agencies to produce Accountability Reports.

Agency financial accountability remains our priority goal. Some of the most recent achievements in this area are outlined below:

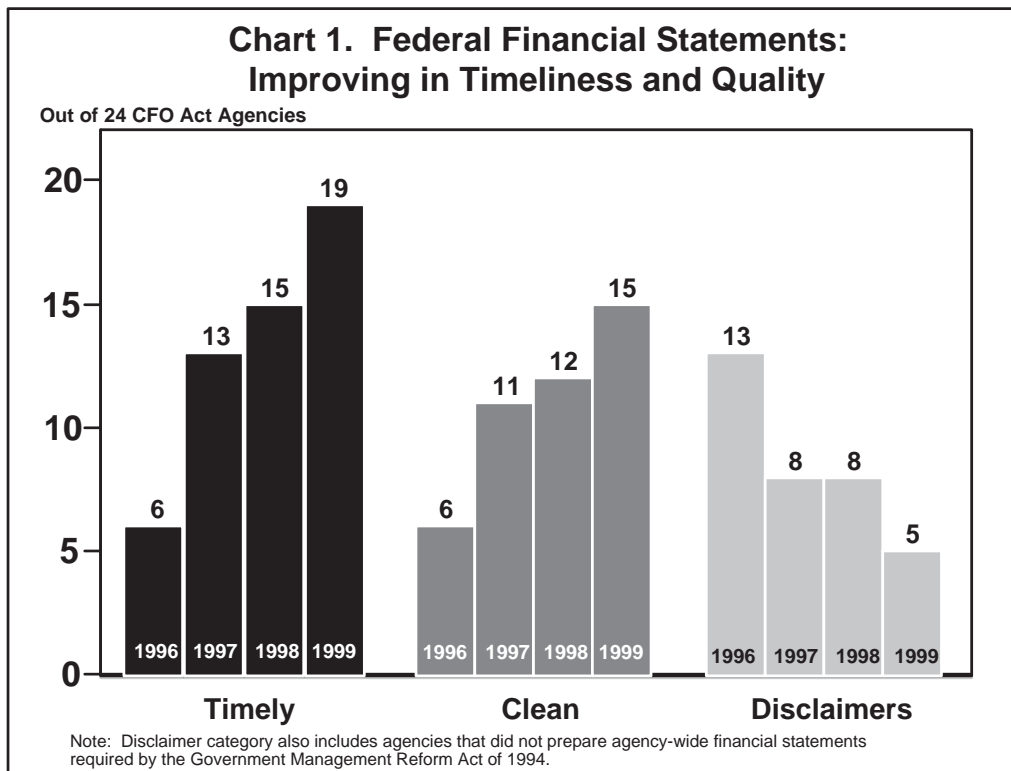
Achievements in the Past Year

Accounting Standards

In 1998, when the basic set of accounting standards for the Federal Government took effect, the Administration sought recognition of FASAB standards by the AICPA. AICPA recognition was necessary to allow Federal entities to state that financial reports were prepared in accordance with GAAP. Some achievements in the past year include:

Recognized by the AICPA: In October 1999 the AICPA recognized FASAB as the source of GAAP for the Federal Government. It found FASAB met the criteria established by the AICPA for GAAP standard-setting bodies, i.e., it makes independent determinations, observes due process, has clear authority to issue standards, has adequate human and financial resources, and develops comprehensive and consistent standards. The significance of meeting these criteria and attaining recognition is twofold:

- The Federal Government has created a sound structure for meeting the account-



ing information needs of the public, the Congress, and the Executive Branch; and

- Federal agency reports are based on standards that have the highest level of acceptance and the same stature as the standards applicable to private sector entities and state and local governments. Auditors can now express an opinion on whether the Federal financial statements present fairly the financial position and results of operations in accordance with GAAP.

Issued New Standards: Over the past year, the FASAB principals adopted standards recommended by the Board. OMB issued one standard on accounting for social insurance and FASAB issued two standards amending accounting for: (1) direct loans and loan guarantees, and (2) property, plant, and equipment.

Provided Guidance on Accounting Standards and Financial Statement Preparation: The Accounting and Auditing Policy Committee (AAPC), a standing committee of FASAB, works to clarify and resolve implementation issues concerning the preparation and audit of financial statements. The AAPC consists of 11 members—three each from the CFO and Inspector General (IG) communities, one each from the FASAB principals (OMB, Treasury, and the General Accounting Office (GAO)), one at-large member, and a non-voting staff member. The AAPC approved a technical release on non-valued seized and forfeited property and developed guidance on allocation of legal costs. In addition, work continued on stewardship reporting, liabilities, and inter-entity costs. The AAPC also sponsored a series of accounting and auditing forums and provided informal guidance on the preparation and audit of financial statements.

Audited Financial Statements

Achieving a clean opinion on the financial statements of individual Federal agencies, and ultimately on the consolidated Government-wide financial statements, is a vital step toward putting the Federal Government's financial house in order. Striving to receive clean opinions leads to the development of better financial information. When clean finan-

cial statements are provided to management on a timely basis, decision-making is improved. For the 1999 statements, the CFO Act agencies made noteworthy progress toward clean opinions on financial statements and Treasury continued to produce consolidated Government-wide financial statements. Accomplishments in the past year include:

- *Improved Timeliness of Agency Financial Statements:* The timeliness of financial reports improved. Last year, 15 of the 24 CFO Act agencies met the statutory March 1 deadline for producing financial statements. This year four additional agencies met the deadline, for a total of 19. Twenty-two agencies submitted their financial statements by March 31. Two agencies submitted later in May and June. Submissions of preliminary data permitted the two agencies' financial results to be included in the Government-wide consolidated financial statements.
- *Improved Quality of Agency Financial Statements:* The quality of these financial statements also improved. By March 1, 1999, only seven of the 24 CFO Act agencies received clean opinions on their financial statements; ultimately 12 did so. This year, 15 agencies received clean opinions. Seven agencies improved measurably over last year, upgrading from a disclaimer or a qualified opinion to a qualified or a clean opinion.

—The Departments of Commerce (DOC) and Transportation (DOT) improved from disclaimers to clean opinions—significant accomplishments for these departments considering agency financial records were in such poor shape the year before that auditors could not provide an opinion.

—The Departments of Health and Human Services (HHS), Energy (DOE), and Veterans Affairs (VA) advanced from qualified to clean opinions.

—The Departments of Education (Education) and Justice (DOJ) moved from disclaimers to qualified opinions.

- *Issued Government-wide Consolidated Financial Statements:* After agencies submitted their 1999 adjusted trial balances on February 1, 2000, Treasury issued

timely Government-wide consolidated financial statements for the third year in a row on March 31, 2000. These statements were issued as part of the 1999 Financial Report of the United States Government at www.fms.treas.gov/cfs.

Streamlined Financial Management Reports

Section 404 of GMRA provided the Director of OMB with the authority to streamline and consolidate financial management reporting. OMB and the CFO Council have used this authority to work with congressional and agency staffs to devise an integrated, comprehensive, user-friendly annual accountability reporting model. In November, the President signed the Reports Consolidation Act of 2000, which provided permanent authority for agencies to produce Accountability Reports.

The goal for the Accountability Report project is to provide, in a single document, a comprehensive view of agency financial and management performance. The CFO Act agencies have made great strides in their efforts to implement Accountability Reports.

Increased Participation in the Accountability Report Pilot: Nineteen agencies produced Accountability Reports for 1999, compared to 18 in 1998. DOC and the Small Business Administration (SBA) issued their first Accountability Reports in 1999. The Office of Personnel Management (OPM) withdrew from the 1999 pilot to focus on the development of its agency consolidated financial statements. See the inside back cover of this report for the Internet sites of agency Accountability Reports.

Integrated Additional Reports in Accountability Reports: In their efforts to provide a more comprehensive picture of agency financial and program management, agencies continue to discover additional ways for integrating and improving their financial and management performance reporting. Six agencies, DOE, DOJ, Department of Labor (DOL), VA, Nuclear Regulatory Commission (NRC), and the Social Security Administration (SSA), integrated their Government Performance and Results Act (GPRA) performance reports with their 1999 Accountability Reports. DOJ and

VA integrated agency-specific annual reports with their 1999 Accountability Reports. SSA's IG included the semiannual reports to Congress in SSA's 1999 Accountability Report.

Agencies Participated in the AGA Certificate of Excellence Program: For 1998, 10 Federal agencies and bureaus submitted their Accountability Reports for review to the AGA's Certificate of Excellence Program. Each agency's Accountability Report received an in-depth review by five knowledgeable persons in Federal management.

For 1998, the National Aeronautics and Space Administration (NASA) and SSA were awarded the Certificate of Excellence in Accountability Reporting, representing a significant accomplishment for these agencies and their management. A number of other agencies were close to earning a certificate. Comprehensive letters sent to participants noted both commendable practices and recommendations for improvement.

For 1999, nine Federal agencies—HHS, Department of the Interior (DOI), DOL, Agency for International Development (AID), NASA, NRC, National Science Foundation (NSF), SBA, and SSA—participated in the 1999 Accountability Report review. The NSF and SSA were honored with Certificates of Excellence in Accountability Reporting from the AGA on October 17, 2000.

Initiatives

Despite noteworthy progress, there is still much to accomplish. Ultimately, we want financial systems that provide reliable and timely financial information for improving Government decision-making and providing accountability. An agency's ability to produce timely, reliable financial information is demonstrated not only by a clean audit opinion, but by compliance with FFMIA. For 1999, six agencies complied with the requirements of FFMIA. Chapter 2 of this report discusses the results and goals for improving financial management systems.

Efforts continue to focus on: (1) ensuring sound accounting standards; (2) preparing annual financial statements and obtaining clean audit opinions; and (3) issuing streamlined financial management reports. Together

these comprehensive efforts are providing the type of consistent and reliable information needed to better manage the Government and gauge its performance.

Accounting Standards

Initiatives to ensure sound Federal accounting standards include:

- *FASAB Projects:* FASAB continues to address issues associated with implementation of the core body of standards. In addition, FASAB is reviewing the reporting model implemented in 1998 and expects to clarify the new model during 2000 and 2001. FASAB has initiated a comprehensive research project intended to develop relevant accounting guidance for national defense property, plant, and equipment (PP&E). Topics identified as potential FASAB projects for future years include: (1) performance measures; (2) accounting for grants, joint ventures, or cooperative agreements; (3) accounting and reporting issues associated with Federally-controlled natural resources; (4) definitions of assets; (5) reporting on internal controls; and (6) reporting on custodial activities and balances, trust funds, and fiduciary funds.
- *Accounting and Auditing Policy Committee Projects:* AAPC will continue projects addressing stewardship reporting and auditing, inter-entity costs, and imputed liabilities. The AAPC plans to conduct a survey on inter-entity costing options. Inter-entity costs are costs incurred by one Federal agency but directly attributable to the operations of another agency.

Building upon AICPA recognition, outreach efforts are underway to increase the public's awareness of the value and purpose of Federal accounting standards. FASAB initiatives include participating widely in educational events, scheduling board meetings outside of the Washington, D.C. area, and increasing the availability of information on the FASAB projects.

Audited Financial Statements

Reliable financial information is needed to enable Congress and the Executive Branch to effectively evaluate the cost and performance of Federal programs and activities.

Clean Opinions on Agencies' Financial Statements: All of the CFO Act agencies have efforts underway to obtain clean opinions on their financial statements. Appendix I presents agency financial statement audit results from 1996 through 1999. Several key Federal agencies are still unable to obtain a clean opinion on their financial statements due to significant and long-standing deficiencies. These challenges are summarized in Table 1. Despite progress over the past year, we still have a number of challenges remaining before the U.S. Government obtains a clean opinion on the Government-wide consolidated financial statements.

Pursuant to a May 26, 1998, memorandum from the President to agency heads, efforts are underway within agencies to correct these reported deficiencies. Endeavors require significant resources and some efforts will extend beyond the end of the fiscal year. Certain efforts are described below:

- *Property, Plant and Equipment, and Inventories:* DOD has engaged significant contractor support to help value real and personal property, improve PP&E internal controls, and develop training for non-financial management personnel so they may better understand the implications their efforts have on financial statements. In addition, DOD is in the process of implementing new, or modifying existing, property systems.
- *Direct Loan and Loan Guarantees:* The Department of Agriculture (USDA) established an executive steering and advisory committee to improve the estimation and re-estimation of direct loans and loan guarantees. In addition, USDA established an interagency working group to improve USDA's loan budgeting and accounting processes.
- *Environmental and Disposal Liabilities:* DOD made significant strides in identifying and recording environmental and disposal liabilities and is working to improve documentation quality. Additional time, however, is needed to conduct inventories, surveys, and site assessments, and to prepare cost estimates.

Table 1. Challenges to Improving Federal Financial Reporting

Area Affected	Description of Challenges
<i>Property, Plant and Equipment, and Inventories</i>	Does not have adequate systems and controls to ensure the accuracy of information about the assets it holds; does not have adequate supporting financial logistical documentation; and cannot ensure all assets are reported. Agency Affected: DOD
<i>Loans Receivable and Loan Guarantee Liabilities</i>	Unable to properly estimate the cost of certain Federal lending programs. Agency Affected: USDA
<i>Environmental and Disposal Liabilities</i>	Environmental and disposal liabilities lack adequate support and may not be complete. Agency Affected: DOD
<i>Military Post-Retirement Health Benefits, and Other Liabilities</i>	Adequate systems and cost data are not available to accurately estimate military post-retirement health benefits liability. Also, some agencies do not maintain adequate records or have systems to ensure accurate and complete data were used to estimate accounts payable and other liabilities. Agencies Affected: DOD for health benefits and various agencies for other liabilities
<i>Cash Disbursement Activity</i>	Agencies are not effectively reconciling cash disbursements. Agencies Affected: Several major agencies
<i>Cost of Government Operations</i>	The Government could not support significant portions of the total net cost of operations due to deficiencies in reporting assets and liabilities and ineffective cash disbursement reconciliations. Also, it could not determine whether the amounts reported in the individual net cost categories on the statement of net cost were properly categorized. Agencies Affected: Treasury and other agencies
<i>Preparation of U.S. Government Financial Statements</i>	The Government does not have sufficient systems, controls, or procedures to properly prepare consolidated financial statements for the U.S. Government. The Government: (1) cannot reconcile certain intra-governmental activity; (2) cannot ensure information in the financial statements is properly and consistently compiled; and (3) does not yet have a process to obtain information to effectively reconcile operation results with budget results. Agencies Affected: Most agencies for intra-governmental transactions; Treasury for compiling the financial statements and for reconciling operation results with budget results.

- *Military Post-Retirement Health Benefits:* In partnership with its Office of Inspector General and GAO, DOD formed a working group to evaluate the use of cost data in

one of its reporting systems as a means to better support and measure the full cost of accrued benefits. DOD also established a project team for improving data quality.

- *Clean Opinion on the Government-wide Financial Statements:* We are still years from being able to achieve a clean opinion on the Government-wide financial statements in the 1999 Consolidated Financial Report of the United States Government. In addition to the agencies' challenges discussed above, two other Government-wide challenges exist that prevent the Federal Government from obtaining a clean opinion on its consolidated financial statements. These challenges are summarized in Table 1.

There is a need to improve the classification of information collected to manage and properly report on the financial results of Government-wide operations. The following are initiatives underway to consistently capture information Government-wide and properly prepare the Government-wide financial statements:

- *Reconcile Intra-Governmental Transactions:* Interagency task forces with representatives from OMB, Treasury, and GAO work with the CFO Council to develop short- and long-term solutions to the complex challenge of identifying and reporting transactions between Federal agencies. The Financial Statements and Standards Committee of the CFO Council is designing a standard, technology-based solution that will enable effective elimination of intra-governmental transactions on the Government-wide consolidated financial statements. The project will attempt to create a technical means of recording classification data at the transaction level for addressing accounting and reconciliation issues. The project will evaluate alternative ways to record and transmit classification and remittance information.
- *Expand the Government-wide Proprietary Data Model to Improve Compilation of Financial Information:* Efforts will begin in late 2000 to review and expand the Federal Agencies' Centralized Trial-Balance System (FACTS) I data model that Treasury uses to collect the financial information it uses in preparing the Government-wide consolidated financial statements.

The FACTS I data model will fit within a Government-wide proprietary data model. It will be a companion model to the budgetary data model published in 1998 by Treasury. Expanding the data model to cover other aspects of financial reporting will reduce form-based reporting to OMB and Treasury. Collection of data by elements rather than standard forms eliminates reporting inconsistencies and improves data reliability. This effort complements the FACTS II data collection effort designed to collect budget execution data. See Chapter 2 for information pertaining to the FACTS II implementation.

- *Evaluate the U.S. Government SGL:* During 2000, Treasury, OMB, and the CFO Council will evaluate the structure of the SGL. As part of this Treasury-led effort, the criteria for adding or changing definitions and data elements will be evaluated. This analysis also will address ways to improve the current process for maintaining the SGL.

Clean Opinions on Agency Components' Financial Statements: OMB requires 20 agency components to prepare audited financial statements separate from their department's consolidated financial statements. Appendix II displays the 1996–1999 audit results for each agency component. In 1999, half of the 20 agency components received clean opinions. Components that were unable to obtain a clean opinion on their financial statements are experiencing problems in the functional issue areas presented in Table 1.

Clean Opinions on Government Corporations' Financial Statements: In addition to the foregoing results for Federal agencies, OMB received 1999 audited financial statements from all 18 Government corporations covered under the Government Corporation and Control Act. (See Appendix I for a listing of the Government corporations.) All but one of the corporations have received clean opinions on their financial statements. A new accounting system that will be operational for 2000 is expected to improve financial reporting for the remaining corporation.

Cost of Improving Financial Management

The CFO Act requires that this report include an estimate of the cost of imple-

menting the Government-wide plan. For 2000, the 24 agencies covered by the CFO Act estimate that the total cost of financial management activities was approximately \$7.6 billion.

MILESTONES TO ACHIEVE GOALS

Ensure sound accounting standards to provide the basis for Federal financial statements and consistent, reliable financial information

<i>Tasks:</i>	<i>Milestones:</i>
Promulgate accounting standards for reconciliation of individual direct loan and loan guarantee programs (FASAB)	
Issue exposure draft	May 2000
Complete standards	December 2000
Promulgate accounting standards for national defense PP&E (FASAB)	
Deliberate	2000
Complete standards	2001
Address priority issues selected from the FASAB Technical Agenda (FASAB)	Ongoing
Assist in the implementation of accounting standards through the AAPC (FASAB)	Ongoing
Provide training support (FASAB)	Ongoing
Speak at conferences	
Review textbook and other instructional material	
Reach out to the academic community	

Prepare annual financial statements and obtain clean opinions for all CFO Act agencies

<i>Tasks:</i>	<i>Milestones:</i>
Identify issues and solutions with intra-governmental transactions (CFO Council and agencies)	October 2000
Update audit requirements for Federal agency 2000 financial statements (OMB)	October 2000
Update form and content requirements for Federal agency 2000 financial statements (OMB)	October 2000
Begin evaluation of the SGL to determine the best structure to meet Government-wide and agency financial information needs (Treasury, OMB, and agencies)	November 2000
Resolve obstacles for a clean opinion on the Government-wide financial statements (CFO Council, OMB, and Treasury)	Ongoing
Remove impediments for obtaining clean audit opinions of agencies and components' financial statements (CFO Act agencies)	Ongoing

MILESTONES TO ACHIEVE GOALS—Continued

Provide quarterly reports on the status of agency plans for resolving financial reporting deficiencies (CFO Act agencies)	Ongoing
Provide training and education on preparing and auditing financial statements (CFO Council, President's Council on Integrity and Efficiency (PCIE), Executive Council on Integrity and Efficiency (ECIE), Treasury, and OMB)	Ongoing
Issue agency 2000 financial statements (CFO Act Agencies)	March 1, 2001
Issue the <i>2000 Financial Report of the United States Government</i> (Treasury and OMB)	March 31, 2001
Expand the Government-wide proprietary data model: (Treasury, OMB, and agencies).	
—Begin Analysis	Spring 2001
—Release Model	TBD

Issue timely and reliable financial management reports

Tasks:	Milestones:
Receive results of the 1999 AGA Accountability Report review (Participating agencies)	September 2000
Obtain congressional approval for permanent report streamlining authority (OMB and CFO Council)	November 2000

See Appendix I of this report for the Internet sites of agency 1999 pilot Accountability Reports.

Related Internet sites for Chapter 1 topics:

<http://www.financenet.gov>

CHAPTER II. IMPROVE FINANCIAL PERFORMANCE

Goal:

Improve the financial performance of the Federal Government by:

- *Developing financial management systems that provide timely, usable, and reliable financial information to increase accountability and improve program management;*
- *Streamlining financial transactions using best business practices;*
- *Offering common administrative services to achieve efficiencies and reduce cost; and*
- *Maintaining a secure systems environment.*

Congress acknowledged in the CFO Act that the Federal Government “is in great need of fundamental reform in financial management requirements and practices.” To succeed, Federal program managers must have ready access to complete and accurate information about the costs of their programs. From the Act’s inception, we recognized that if we were to achieve their missions, Federal financial management performance must be vastly improved. To obtain this magnitude of improvement, we selected three main themes: (1) Federal financial management systems must be modernized to support fiscal and programmatic accountability and conform to uniform accounting concepts and standards; (2) financial operations must be less cumbersome, more responsive, and less costly; and (3) agencies with strong financial management capabilities should be able to assist other agencies by providing consolidated financial services on a competitive basis.

A Decade of Progress

Over the past 10 years, the Federal financial community embarked on ambitious projects to: (1) improve standards for financial management systems; (2) identify and test financial software to see if it meets the core financial system requirements for Federal financial systems; (3) use modern business practices to streamline financial transaction processing; and (4) formalize and strengthen arrangements whereby Federal agencies provide finan-

cial and administrative services to other agencies (“cross-servicing” arrangements). Some of the key achievements over the past decade in these areas are discussed below.

Developed Requirements for Federal Financial Systems: We have developed requirement documents for Federal financial systems that describe the functional standards for Government-wide and individual agency financial systems. These documents also explain how these systems should be integrated. Documents have been developed for core accounting systems, managerial cost accounting systems, and six of 13 subsidiary systems. Plans are in place to issue requirements for the remaining seven subsidiary systems. This will ensure greater consistency in financial management and increase compliance with professional standards.

Established a Core Financial System Software Testing and Qualification Process: We established a new process for testing and certifying core financial management system software packages to: (1) improve quality assurance; (2) provide more comprehensive information on software packages to Federal agencies; and (3) improve communication of Government requirements to vendors. JFMIP completes a comprehensive test of each software package based on its published system requirements. The new testing process collects information about desirable features or characteristics over and above the mandatory re-

quirements. Requirements, test information, and pertinent information about each software package are available on the Internet at www.financenet.gov/financenet/fed/jfmip.

Increased Use of Electronic Business Practices: The emergence of new technologies and tools for doing business has dramatically increased the Government's potential to provide timely and effective services. The Administration's focus on using electronic business methods was highlighted in *Electronic Commerce for Buyers and Sellers; Electronic Purchasing and Paying in the Federal Government*, a report by the Electronic Processes Initiatives Committee (EPIC) of the President's Management Council. This report envisions extensive use of electronic commerce to make Federal purchases and payments. The CFO Council actively supports electronic commerce initiatives through its Financial Implementation Team for Electronic Commerce (FITEC). By taking advantage of the efficiencies offered by electronic commerce, CFOs ensure that Government business is more timely, accurate, and responsive to customers. Some examples of the many Federal initiatives include:

- *Government-wide Small Purchase Bankcard:* Small purchasing has been greatly simplified by expanding the use of the Government-wide small purchase bankcard. For purchases under \$2,500, the number of transactions using Government-wide small purchase bankcards has increased from under four million in 1995 to over 18 million last year. The use of bankcards has also reduced Federal administrative expenses through consolidated invoicing, increased early payment rebates, and reduced prompt payment penalties. Using a conservative cost avoidance estimate of \$25 per transaction, the Federal Government is now saving at least \$457 million annually as a result of the Government-wide small purchase bankcard program.
- *Federal Government Use of EFT:* The Federal Government continues to expand its use of electronic funds transfers (EFT). In April 1996, the Congress enacted legislation, mandating that 100 percent of payments, except tax refunds, be made via EFT by 1999. This is the first year infor-

mation is available on the Government-wide rate for electronic transactions. In 1999, 78 percent of the 959 million payments made by the Federal Government were electronic. This percentage includes Government purchase and fleet card transactions and electronic payments by DOD, non-Treasury agencies, and Treasury (excluding tax payments). Salary payments were 96 percent electronic, vendor payments were 81 percent electronic, and benefit payments were 73 percent electronic.

Improved Financial Management by Offering Administrative Services to Other Agencies: Over the past decade, through cross-servicing arrangements and "franchise fund" pilots, Federal agencies increasingly have provided financial management functions to other agencies or consolidated financial management functions within their agencies, thereby improving efficiency and reducing costs throughout the Federal Government. For example, the Defense Finance and Accounting Service (DFAS) has consolidated over 300 finance and accounting field sites scattered throughout the world into 26 locations, saving \$120 million annually.

In response to a National Performance Review (NPR) recommendation, Congress authorized the establishment of franchise fund pilots through GMRA to provide common administrative services on a competitive basis. Franchises strive to enhance efficiency by providing best-value administrative services to Federal customers. Since implementation of the program, OMB and the Entrepreneurial Government Committee of the CFO Council have been monitoring performance of the six designated franchise pilots, which collectively have generated more than \$1 billion in gross revenue in three years of operation. With the pilot program scheduled to sunset on October 1, 2001, OMB and the CFO Council are pursuing permanent authority for the program.

Achievements in the Past Year

Financial Management Systems

Improving financial systems so that they produce accurate, reliable, consistent, and timely information for program and financial

managers is a major challenge in an environment dominated by legacy systems that were not designed to support current requirements or technology. These system improvements are difficult and progress requires great effort. We are making that effort, recognizing that it is a long-term process. In the past year, the CFO Council, OMB, Treasury, JFMIP, and the Federal agencies made key improvements that are discussed below.

Improved Compliance with FFMIA: The FFMIA requires agency heads to implement and maintain financial management systems that comply substantially with: (1) Federal financial management systems functional requirements; (2) applicable Federal accounting standards; and (3) the U.S. Government's SGL at the transaction level. OMB reviewed 1999 financial statement audits for compliance with FFMIA. Six agencies—DOE, NASA, NSF, SSA, OPM, and the Federal Emergency Management Agency (FEMA)—reported they are in substantial compliance.¹ Many previously-identified problem areas have been corrected by the 18 CFO agencies that have not yet achieved substantial compliance.

Upgraded Financial Management Systems for Year 2000 (Y2K): Upgrading financial systems to bring them into compliance for Y2K has resulted in improvements in many other financial management areas, such as improved security and internal controls.

Improved Budget Data Collection: Treasury began implementing FACTS II to collect information by data elements rather than standard forms. This has eliminated reporting inconsistencies and improved data reliability. This data was used for the President's 2000 Budget and the Treasury's Annual Report, delivered to Congress in February and January, respectively.

Developed System Requirements: JFMIP continues to develop system requirements to ensure Government-wide standards are met. JFMIP:

- Reissued financial system requirements for *Direct Loan Systems* (June 1999), *Travel Systems* (July 1999), and *Seized Prop-*

erty and Forfeited Asset Systems (January 2000).

- Issued system requirements exposure drafts for *Grants Systems* (October 1999) and *Guaranteed Loan Systems* (October 1999).
- Developed system requirements for *Property Systems* and *Benefit Payments Systems* that will be issued in December 2000.

Electronic Transactions

Electronic commerce can be a valuable tool for streamlining Government financial operations and improving the overall integrity of financial information. Federal agencies continued their efforts to improve and expand electronic payment programs during the past year. They expanded Federal credit card programs and launched innovative payroll distribution tests using smart cards, electronic payment and collection systems, and DOT's electronic travel booking pilot test.

Implemented Credit Card Programs: Federal Government credit card programs have substantially reduced paperwork, facilitated payments to vendors, improved employee support, and increased rebates. The use of commercial credit cards is central to the Government's strategy for implementing electronic commerce. They are easy to use and make possible a full, electronic business cycle. Some key programs are described below.

- *Government-wide Small Purchase Bankcard:* The CFO Council's goal for small purchase card use is more than 90 percent of purchases under \$2,500. In 1999, 11 of the 24 CFO agencies exceeded this goal, 17 agencies exceeded 80 percent, and 20 agencies exceeded 70 percent. (See Table 2.) Total purchase card transactions for 1999 increased by two million.
- *SmartPay Program:* The SmartPay program is a Government-wide contract providing purchase, travel, and fleet cards to the Federal Government. Through the program, agencies are able to select one of five banks offering credit card services. In 1999, over two million cards were issued, customer training was completed, electronic invoicing and disbursing between contract banks and Government offices

¹By law, this is an agency-head determination; in some cases their auditors did not agree.

Table 2. CFO Agency Use of Government-wide Small Purchase Bankcard

Small Purchase Card Use Rates	Agencies
Over 90 Percent	DOC, DOD, DOE, HHS, DOI, DOT, Treasury, VA, FEMA, NSF, SBA
Over 80 Percent	USDA, Department of Housing and Urban Development (HUD), DOL, Environmental Protection Agency (EPA), NASA, NRC
Over 70 Percent	Education, DOJ, OPM

were established, and travel agency interfaces for transmission of reconciliation files were completed. Total sales under the SmartPay program exceeded \$14.8 billion in 1999. The Government received over \$55 million in rebate payments from the SmartPay program in 1999. An illustration of the benefits of the SmartPay program is DOI's development of a single, integrated credit card program using the GSA's SmartPay contract. DOI successfully combined the purchasing, travel, and fleet functions into one card. The DOI manages over 60,000 cards under the program, which has an automated interface with DOI's accounting system.

Reduced Support Costs with Stored Value Cards: Treasury and DOD continue to expand the use of stored value cards to replace cash and paper voucher payroll systems for basic trainees. These stored value card programs are the largest in the United States with over \$80 million in transactions to date, representing three million transactions and 375,000 cards. The program is still expanding in the U.S. and also was expanded to Camp McGovern, a peacekeeping base in Bosnia, in December 1999. All soldiers, civilians, and contractors stationed at the camp use stored value cards to receive salary payments from the Army finance office and to make payments to merchants operating on the base. Use of the card in Bosnia has significantly reduced cash requirements and the support costs related to holding and securing cash.

Increased Electronic Payments and Collections: Payments and collections are particularly targeted for improvement by the CFO Council because they are areas in which the Government interacts with individuals,

vendors, and grant recipients. Some key achievements in payment activities and Internal Revenue Service (IRS) collection activities are discussed below.

- *VA Goes Paperless:* VA's totally electronic and paperless payment system, the Prime Vendor Payment Program, automates pharmaceutical company payments. It places orders electronically, processes them against a credit card-like account established at VA's bank, and electronically posts them to VA's accounting system. During 1999, VA successfully processed 315,960 transactions, worth more than \$1.2 billion, under this program.
- *Electronic Benefits Transfer (EBT):* State implementation of the EBT program to provide food stamps and other benefits electronically continues to expand. As of March 2000, 38 states, the District of Columbia, and Puerto Rico have operational online food stamp EBT systems.
- *Student Aid Delivery System Modernization:* The modernization of student financial aid is one of Education's highest priorities. Students can now apply for student financial aid electronically and access their direct student loan information over the Internet. Education pilot tested a new "just-in-time" or demand payment system for student financial aid, which will disburse funds to students as their tuition bills are due rather than in one lump sum. When fully implemented, this program will improve cash management and daily reconciliation of the cash position at more than 6,000 post-secondary schools nationwide.

Electronic Federal Tax Payment System (EFTPS): EFTPS processes electronic pay-

ments from taxpayers to the IRS. In 1999, EFTPS processed 55 million transactions for over 2.3 million taxpayers with an error rate of only .08 percent, a 19 percent improvement in accuracy from the paper-based system it is replacing. In addition, the EFTPS program, which accepts credit cards for IRS Form 1040 tax payments, was expanded to include credit card payments for extension filings and estimated tax payments. The vendors collect funds from taxpayers by credit card and send them to Treasury by EFT through EFTPS. EFTPS is the world's largest collection mechanism, which in 1999 accelerated Treasury's collection of over \$1.3 trillion by more than one day.

Pilot Tested Electronic Booking of Federal Travel: In March 2000, DOT began a pilot test of an operation whereby Federal agencies will be able to make their travel arrangements directly with the provider. It is expected to reduce transaction fees by \$10.92 per booking and cut other costs of making travel arrangements. DOT plans to establish direct connections with airlines and car rental companies to bring economies to those Federal agencies channeling their bookings through the booking engine to their designated travel agents. Savings are anticipated from elimination of credit charges, fees to computer reservation systems, and accounting for commissions and rebates.

Common Administrative Services

As part of the GMRA in 1994, Congress authorized the establishment of franchise fund pilot programs to provide common administrative services on a competitive basis. Examples of these common administrative services include financial and administrative systems operations, payroll processing, records management, and financial and management training. In 1997 six franchise fund pilots were established at DOC, HHS, DOI, Treasury, VA, and EPA.

Increased Use of Franchise Funds: From 1997–1999 franchise funds generated \$1.2 billion in gross revenues. (See Chart 2.)

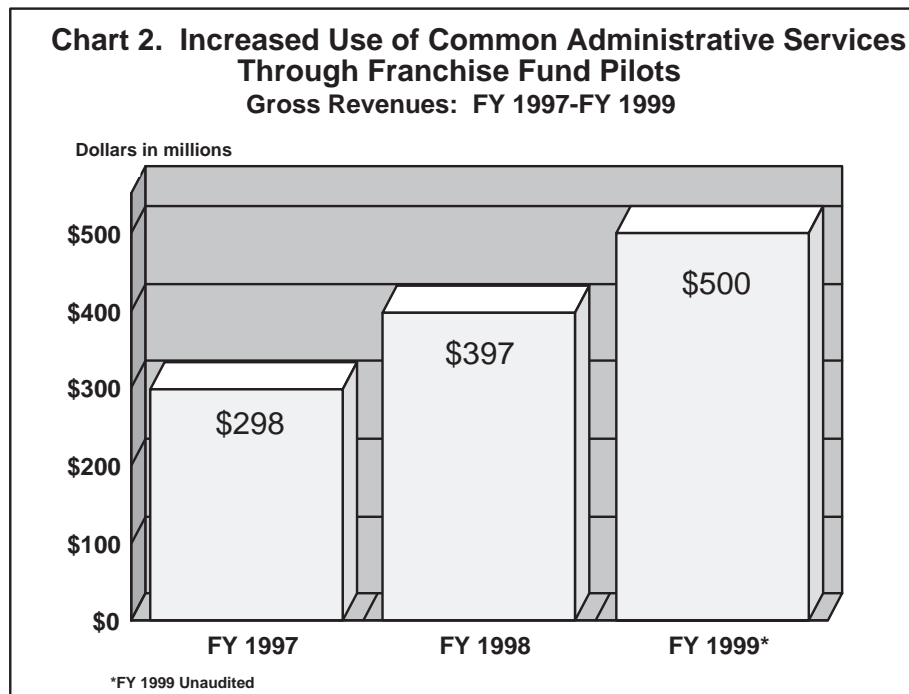
Monitored Franchise Fund Performance: Over the past three years, OMB and the CFO Council, through the Council's Entrepreneurial Government Committee, have mon-

itored performance of the franchise fund pilot. A legislatively-mandated report was submitted to Congress in April 1998 on the interim performance of the pilot. Over the past year, OMB and the CFO Council's Electronic Government Committee have been conducting a follow-up assessment of the pilot program, focusing on three key elements: (1) value to Government; (2) financial responsibility and integrity; and (3) competition.

Security of Financial Management Systems

Virtually every agency conducts business using various aspects of the electronic environment, such as the Internet, intranets, and local and wide-area networks. The electronic environment is greatly changing the way the public, industry, and state and local governments interact with the Federal Government. To meet public and private demand, agencies are offering more online services as well as electronic form and transaction capabilities. Today's financial management environment depends on this technology, presenting it with a new security challenge. Through the Computer Security Act of 1987, the Paperwork Reduction Act of 1995, the Clinger-Cohen Act of 1996, and the Government Paperwork Elimination Act of 1998, Congress has provided a sound statutory framework to provide that security. Within that framework, OMB and the National Institute for Standards and Technology (NIST), respectively have the responsibility for setting security policy and developing guidance for the agencies. Departments and agencies must implement the policy and guidance in a risk-based and cost-effective way that enables their business operations.

To assist agencies in their security responsibilities for all systems, including financial systems, OMB issued two memoranda. OMB Memorandum No. 00–07, *Incorporating and Funding Security in Information Systems Investments*, provides specific security criteria that must be met to obtain new or continued funding for information systems and includes guidance on accounting for security costs over the life of the system. OMB Memorandum No. 00–10, *OMB Procedures and Guidance on Implementing the Government Paperwork Elimination Act*, outlines how agencies are



to ensure security while moving towards an even greater electronic environment.

OMB is working with the CFO and CIO Councils, the PCIE, and NIST to develop additional strategies to ensure the continued confidentiality, availability, integrity, and authenticity of Government financial information and systems. In addition, agencies must ensure basic security management requirements such as password management, audit management and logs, integration of application and database security, and role-based access control are included with the overall management of agency systems.

Initiatives

The Federal Government must continue to improve its financial performance. Now, more than ever, effective management and accountability require ready access to timely and accurate financial data. Individuals and organizations with which the Government does business, as well as Federal program managers, justifiably expect programs to be more responsive, to cost less, and to be secure. To meet these expectations, financial management systems must be improved and made secure. The use of electronic transactions must be expanded and entrepreneurial tech-

niques must be used to provide common administrative services wherever it is appropriate.

Financial Management Systems

Improved financial performance requires quality financial management systems. These systems must be capable of supporting effective decision-making and ensuring accountability. Systems enhancements must be timely, within budget, and provide quality support to system users. Future financial management system initiatives of OMB and the CFO Council fall into three general categories: (1) assisting agencies in making financial management system improvements; (2) improving the data and functional requirements for Federal financial management systems; and (3) improving central agency (Treasury and OMB) systems.

Improve Agency Financial Management Systems: Over the course of the next five years, it is anticipated that the vast majority of agency financial system applications will be upgraded or replaced. The CFO Council, OMB, and JFMIP are assisting agencies in making improvements to financial management systems through the following initiatives:

- *Update Policy:* OMB Circular A-127, *Financial Management Systems*, prescribes the policies and standards that executive departments and agencies must follow in developing, operating, evaluating, and reporting on financial management systems. It will be revised during 2001 to provide: (1) a process for reviewing the FFMIA remediation plans, tracking performance, and performing compliance reviews; (2) guidance on procurement of financial management systems and services; and (3) clarification of financial management system requirements.
- *Emphasize FFMIA Compliance:* OMB and the CFO Council will emphasize FFMIA compliance through more vigorous monitoring and outreach to the agencies. At the same time, OMB is revising the standards for compliance with FFMIA, to focus agencies on the financial standards and systems requirements that are at the heart of the Act. A collaborative group that includes the agencies, multiple offices within OMB, the CFO Council's Systems and Electronic Commerce Committees, the CIO Council, and the Procurement Executives Council will help agencies develop plans to modernize financial management systems and track implementation. Group monitoring will ensure that agencies are complying with FFMIA and taking action to correct other system problems. It will also ensure that resource needs are appropriately defined; actions are integrated with financial management, information technology, and business planning processes; capital asset plans are being developed where needed and supported by agency management; and implementation is on schedule. The CFO Council's Systems Committee, along with input from the PCIE, expects to issue an exposure draft later this year presenting guidance to assist agency management in reviewing and monitoring financial systems for compliance with applicable policies and regulations, including FFMIA.
- *Improve Capital Asset Planning:* Improving the planning, budgeting, and acquisition of capital assets, including financial management systems, has been a widespread concern. During the 2001 budget process, OMB provided agencies with assessments of agency capital asset plans, information technology investment summaries, and overall capital planning and investment control (CPIC) processes. OMB recommended funding commensurate with the quality of agencies' CPIC processes. Agencies are continuing to improve their processes based upon these recommendations. In addition, a new automated database linking information technology spending summaries with capital asset plans and justifications is planned to allow tracking of costs, schedules, and performance for key systems across the Government, beginning with the 2002 budget. Future plans are to link this information with initiatives included in agency financial management system plans.
- *Use Information Technology Resource Board (ITRB):* The CFO Council and OMB will encourage agencies to use the ITRB, a legislatively-established group charged with helping agencies assess information technology systems, in reviewing agency project plans and risk assessments, and in analyzing specific financial management system problems that could prevent an agency from achieving FFMIA compliance.
- *Ensure Quality Core Financial System Software Packages:* The JFMIP will test system requirements issued since the last test of software packages. Commercial financial software for the Federal Government must pass the test to retain a certificate of compliance. JFMIP, together with the CFO Council's Systems Committee and OMB, will assess whether the core systems test should be expanded to cover application service providers and custom-developed software. In 2000, JFMIP will test and qualify software for compliance with Treasury FACTS II reporting requirements. In the future, JFMIP also plans to test non-core financial systems based on functional requirements.
- *Identify Best Practices to Support Successful System Implementation:* JFMIP will compile financial system implementation resources and post them on its Internet site. Also, the CFO Council's Systems and

the Human Resources Committees will collaborate to identify recruitment, retention, and training strategies necessary to successfully implement and manage Federal financial systems.

Improve Classification of Data: There is a need to improve the classification of information collected to manage and report on the financial results of Government operations. Collection of data by elements rather than standard forms eliminates reporting inconsistencies and improves data reliability. For example, the FACTS II system collects data by elements rather than standard forms. Treasury and OMB are urging agencies to increase their participation in FACTS II reporting to the 90 percent level by November 2000. By the end of 2001, all agencies must submit budget execution reports through FACTS II. Other initiatives to improve classification of data such as FACTS I and the SGL are discussed in Chapter 1.

Continue Updating and Developing System Functional Requirement Documents: During 2000, JFMIP will issue requirement documents for grants, guaranteed loans, and property systems, and continue work on benefit systems. The goal is to issue financial system requirements for the balance of subsidiary systems in 2001. JFMIP and the CFO Council's Financial Systems Committee will define appropriate data exchange and processing connections between critical financial management systems in the Federal Government. Efforts to develop and implement standardized interfaces will also be reviewed and evaluated.

Improve Central Agency Systems: Improvements to central agency systems are necessary to ensure adequate, consistent, and timely financial information for Government-wide reporting. Several new central systems, critical to Government-wide financial reporting, are described below.

- *Improve Central Accounting Processes:* Treasury Financial Management Service (FMS), OMB, and the CFO Council are developing a strategy for improving central accounting and reporting functions, and central processes associated with budget execution. The vision is to provide Government-wide accounting information almost in real time. It is anticipated that

agency systems will need to be modified as central processes change. As an interim improvement, a web-enabled application is being developed to provide agencies with more current information from the FMS legacy systems.

- *Replace GOALS:* Treasury FMS is making the Government On-Line Accounting Link System (GOALS) more user-friendly, in part, by migrating its applications to a new Government platform. FMS expects to begin implementing the GOALS application in the fourth quarter of 2000. Movement to a new platform will make it easier for agencies to enter their financial data into the GOALS system. The objective is to allow agencies and FMS to exchange accounting, budget, and financial information through data file transfers.

Electronic Transactions

Streamlined processing will make financial management more effective. Federal agencies are beginning to re-engineer business practices to provide better service at reduced cost. Agencies are adopting electronic commerce and developing innovative relationships with the private sector, like the SmartPay program. Electronic business techniques available today and those that will be available in the future will fundamentally change the way the Government does business. Investments today in electronic business techniques will improve future delivery of services both within the Government and to the public.

- *Improve Payment Performance under the SmartPay Program:* At this time, delinquency rates for individually billed accounts for travel are at 12 percent of amounts due. Delinquency rates for centrally billed travel and purchase accounts are 11 percent, and 2 percent, respectively. Delinquency rates are having an adverse impact on the benefits from the program. OMB will negotiate delinquency rate reduction goals with each agency. Quarterly reports will be published to track agency performance to their established goals.
- *Improve Access America for Students (AAFS):* Through the collaborative efforts of agencies and private-sector companies, AAFS has developed pilot projects to ex-

pand and improve secure electronic access to educational services and information for students. In 2000, AAFS expanded its award-winning web portal “students.gov” linking to commercial sites offering student services and information. The site includes searchable categories such as plan your education, pay for your education, taxes, community service, and career development. Four AAFS agencies, Education, VA, DOL and the U.S. Postal Service, implemented a pilot test this summer of digital signature use using GSA’s Access Certificates for Electronic Services (ACES) contract to acquire digital signature services. The ACES contract is being used to test multi-agency use of a common electronic identification. The expansion of AAFS allows students searching for information on education and careers to come to one location to start their research.

- *Encourage Businesses to Pay Taxes Electronically:* An IRS and FMS Internet pilot program will begin in mid-2000 encouraging businesses to pay taxes electronically through EFTPS. The web application is being developed to allow businesses and other taxpayers to enroll, pay taxes, view their account details, and obtain customer service over the Internet.
- *Implement Point-of-Sale Check Conversion System:* Treasury’s point-of-sale check conversion pilot is designed to change paper checks into EFT transactions. This process of “check conversion” from paper to an electronic transaction results in more reliable and efficient payments. A consumer leaves each transaction with a canceled check and a transaction receipt. As of December 1998, there are four agency sites that convert consumer checks to EFT transactions.
- *Develop Intra-governmental Payment and Collection (IPAC) System:* Treasury FMS and the Federal Reserve Bank are developing IPAC to replace the current on-line payment and collection applications for all type of non-retail intra-governmental transfers. The new IPAC system is expected to give agencies improved transaction processing. Development of the sys-

tem is underway and user testing will begin in 2000. Implementation and integration of IPAC with GOALS II is expected in spring 2001.

- *Implement Central Contractor Registration (CCR):* DOD implemented a central contractor repository for vendor information that permits vendors to register just once, yet offer services to many agencies. The CCR is a web-enabled, self-service database accessible to vendors and Government officials. The CCR allows all registered vendors to be paid via EFT. Agencies use the CCR as a vendor database for procurement and EFT information. Agencies provide contract and EFT data to Treasury FMS for payments. Several agencies are using the CCR and further expansion to other agencies is anticipated over the next year.

Common Administrative Services

Applying entrepreneurial techniques is changing the way the Government provides services. This approach is improving the Government’s financial performance. Franchise operations are based on a set of fundamental “Business Operating Principles” that encourage full cost recovery, performance measurement, and benchmarking. The goal is to put public and private sector providers on a level playing field. The playing field is leveled primarily by the ability and requirement of franchises to account for and recover the full cost of providing their services. Since the inception of the pilot, franchises have made full cost accounting a priority and continue to address this issue both individually, through systems development and the use of financial statement audits, and collectively, by comparing best practices.

The CFO Council’s Entrepreneurial Government Committee has been instrumental in providing a forum in which to identify issues and develop solutions for franchises and other reimbursable organizations. To provide for continued innovation, the Administration proposed legislation to make the franchise fund concept permanent.

Security of Financial Management Systems

Virtually every agency conducts some part of its business electronically via the Internet. This is greatly changing the way citizens and industry interact with the Federal Government. To meet public and industry demand, agencies are offering more online services through Access America-type initiatives as well as electronic form and transaction capabilities. To further promote electronic interaction, the Government Paperwork Elimination Act of 1998 requires that by October 21, 2003, Federal agencies provide an electronic option to those persons who are required to interact with the Federal Government to maintain, submit, or receive information.

While Internet access can provide great efficiency benefits, it also introduces significant risks and challenges for security and privacy in agency systems. This is especially true for Federal financial and administrative systems that are Internet accessible. For example, to ensure that these systems are available only to authorized users, each user's identity must be authenticated before they are granted electronic access. The Federal Government is implementing PKI technology and other technologies such as smart identification cards to provide this authentication. Similarly, assurance is necessary to preserve the appropriate levels of information confidentiality, availability, and integrity, in financial and administrative systems.

To ensure that security is an integral element of all Government systems, especially those providing online access, OMB issued Memorandum No. 00-007, *Incorporating and Funding Security in Information Systems Investments*, which sets forth specific security criteria that agencies must meet to obtain new or continued funding for those systems. Additionally, the CFO Council is working with OMB, the CIO Council, the PCIE,

NIST, and others to assist agencies in identifying and employing the controls necessary to provide and maintain the appropriate level of security for all Federal information systems, including financial and administrative systems, web-based information services, procurement systems, financial transactions with the public, etc.

Conduct "Best Practices" Workshops: The CFO Council in partnership with the CIO Council and the Information Technology Association of America is sponsoring "best practices" workshops to examine security and privacy initiatives that could assist Federal agencies.

Develop Benchmarks: The CFO Council's Systems Committee and CIO Council are working collaboratively to develop and distribute fact-finding surveys to gather information on "best practices." These surveys will be used in developing future guidance on security for both electronic Government initiatives and financial systems.

Identify and Promote a Minimum Set of Security Controls Necessary to Secure Federal Financial and Administrative Systems: Government-wide financial performance can be greatly improved by direct user access to financial and administrative systems via the Internet. However, access must be secure. In 2000, OMB, the CFO and CIO Councils, the PCIE, NIST, and others will develop an agreed upon set of minimum security controls for agency financial and administrative systems and information. These controls will address all elements of security, i.e., confidentiality, availability, integrity and authenticity. The challenge will be to provide some level of uniformity while maintaining sufficient flexibility for unique agency needs and circumstances. The effort will explore uniform security methods through PKI, digital certificates, and smart identification cards.

MILESTONES TO ACHIEVE GOALS

Improve development of financial management systems that provide timely, usable, and reliable financial information to increase accountability and improve program management

Tasks:**Milestones:***Support Agency Financial Management System Improvements*

Establish core accounting systems test and qualification process for compliance with new FACTS II requirements (JFMIP)	August 2000
Compile system implementation resources for agencies and develop a human resources strategy (CFO Council and JFMIP)	September 2000
Establish a process to improve financial systems using agency FFMIA remediation plans (OMB)	October 2000
Revise FFMIA implementation guidance to focus agencies on the core financial systems and standards requirements	January 2001
Revise OMB Circular A-127 to include: (1) FFMIA review and reporting requirements; (2) guidance on procuring financial management systems and services; and (3) clarification of current financial management systems requirements (OMB)	September 2001
Provide agencies with assessments of capital asset plans, information technology investment summaries, and overall capital planning (OMB)	Ongoing

Issue Functional Requirements

Issue system requirements documents: (JFMIP)	
—Issue requirements for grants, guaranteed loans systems, and property systems	2000
—Issue an exposure draft for benefit payment system requirements	2000
—Issue exposure drafts for the balance of subsidiary system requirements	2001

Streamline financial transactions using good business practices

Tasks:**Milestones:**

Develop IPAC System: (Treasury)	
—Test IPAC	November 2000
—Implement IPAC with GOALS II	June 2001
Establish agency SmartPay program payments goals and monitor quarterly delinquency reports (OMB, CFO Council, and GSA)	Quarterly
Continue Access America for Students: (Education and agencies)	
—Improve functionality and design of “students.gov” portal site	Ongoing
—Build authentication strategies to be used throughout the Government	Ongoing
—Test digital certificates	Ongoing

MILESTONES TO ACHIEVE GOALS—Continued

Provide common administrative services to achieve efficiencies and reduce cost

Tasks:	Milestones:
Propose legislation to make the franchise fund authority permanent (OMB)	September 2000
Update operating guidance to include full cost accounting (OMB)	March 2001

Establish and maintain a secure systems environment that ensures appropriate information access and exchange

Tasks:	Milestones:
Conduct “best practices” workshops to examine security and privacy (CFO and CIO Councils)	Ongoing
Develop benchmarks (CFO Council Systems Committee)	TBD
—Develop survey questions	
—Mail surveys	
—Analyze surveys	
Develop secure Internet access minimum requirements for financial and administrative systems	October 2000
—Design a plan which establishes a framework for minimum security controls	

Related Internet sites for Chapter 2 topics:

<http://www.fms.treas.gov>
<http://www.financenet.gov/jfmip>

CHAPTER III. INVEST IN HUMAN CAPITAL

Goal:

Develop and maintain a high quality Federal financial management workforce by:

- *Assisting agencies in recruiting and retaining qualified financial management personnel; and*
- *Promoting effective financial management education and training within the Federal Government.*

The CFO Act defined the need for a new class of financial managers within the Federal Government. Agency CFOs recognize their organizational success depends upon a highly talented and multi-disciplinary workforce. Indeed, our ability to deliver on any of our goals depends on the qualifications, productivity, and motivation of our workforce. The CFO Council continues to lead efforts to develop such a diversified corps of financial management professionals for the Federal Government.

A Decade of Progress:

Some of the Council's key accomplishments over the past decade include:

- *Defined Necessary Knowledge, Skills, and Abilities (KSAs):* The Federal financial management community defined and published KSAs, also known as core competencies, during 1995–1998. These core competency documents articulate the appropriate knowledge, skills, and abilities necessary for financial personnel to succeed in their respective careers. These documents have guided the Council's human capital strategies and efforts relating to professional development, recruitment, and qualification standards.
- *Established a CFO Council Fellows Program:* The CFO Council continues to sponsor a CFO Fellows Program, currently in its third year. The program is designed to provide career development opportunities for promising financial managers within the CFO community with the intent of developing a cadre of experienced and diverse leaders prepared to assume financial executive positions in the future.
- *Compiled Personnel Management Tools:* The CFO Council compiled and posted on the Internet *An Executive Tool Kit—Building a Financial Management Development Plan*. It can be found at www.financenet.gov/financenet/fed/cfo/hrc. The kit assembles, at one site, useful personnel management tools for financial managers. The information guides managers in assessing their workforce needs and developing workforce skills for the future. The tool kit brings together in one place KSAs, model individual development plans, promotional materials, and best practices.
- *Improved Recruitment Strategies:* The CFO Council and OPM issued *Recruiting and Retaining Financial Management Employees—Useful Tools*. This publication is organized around common problems in recruitment and retention reported by financial managers and provides solutions to these problems. This publication has been very popular and has been used as a model by other groups. It is posted at www.opm.gov/iag/public/recruiti.htm.
- *Established Training Guidelines for Federal Financial Management Personnel:* The CFO Council issued a *Statement of Principles for Federal Financial Education and Training* providing guidelines for planning and evaluating education and training programs. It has been widely distributed to the financial and human resources com-

munities, training and education providers, and is posted on financenet.

Achievements in the Past Year

Financial Management Personnel

- *Established a Core Competencies Review Board:* A Core Competencies Review Board was established to ensure KSAs do not become outdated as financial management requirements continue to evolve. In 1999, revised core competencies' documents were issued for budget analysts, financial managers, and accountants.
- *Established CFO Council Impact Awards:* Personal recognition is a key element to any successful retention strategy. The Council has initiated the *CFO Council Committee Impact Awards* to publicly recognize individuals who, working within the Council's committee structure, are advancing the goals of the Council. Seventeen outstanding financial employees were recognized at the annual JFMIP Conference in March 2000.
- *Established the CFO Council Recruitment Consortium:* The CFO Council Human Resources Committee completed a survey of CFO Council members to gauge their interest in pooling resources for consolidating the recruitment of financial personnel. The effort led to the establishment of the CFO Council Recruitment Consortium. The Consortium consists of six CFO Act agencies committed to working together to gain leverage in the hiring market at selected colleges and universities. Recruitment trips have been completed to three universities and two more are scheduled in late October. The current common vacancy announcements have attracted 35 applicants for the accountant position, 73 applicants for the budget analyst position, and 74 applicants for the financial specialist position, as of October 16, 2000. OPM is ready to begin issuing certificates of eligible candidates immediately upon request. Requests may come from either the financial office or the human resources office of participating agencies.
- *Revised Qualification and Classification Standards:* OPM issued a draft revision

of its qualification and classification standards for GS-510 accountants. The Human Resources Committee worked closely with OPM in developing these revised standards, focusing on qualitative measures based on demonstrated competencies rather than quantitative measures, such as the number of accounting credit hours or years of experience. Seven agencies volunteered to pilot the new standards beginning in April 1999.

Education and Training

Improved Professional Education Opportunities: Recognizing the opportunities presented by rapidly evolving electronic learning technologies, the CFO Council took an active role in the Federal Training Technology Initiative, which led to issuance of the President's Executive Order 13111, *Using Technology To Improve Training Opportunities for Federal Government Employees*. The CFO Council contributed to the work of the Presidential Task Force on Federal Training Technology, established by the Executive Order. The final report to the President was issued in July 2000 and is posted at OPM's Internet site. It recommends use of the Federal Learning eXchange (FLX) as a virtual yellow pages of education and training opportunities for Federal workers. FLX will also offer other learning tools such as the "Marketplace," a site for agencies to collaborate in the development of training and sharing resources.

Initiatives:

In today's dynamic environment, new strategies are needed to recruit, develop, and sustain a workforce prepared to meet the needs of the next decade. Financial management legislation subsequent to the CFO Act, an increasing rate of new and revised professional standards, and new opportunities presented by rapidly evolving technologies mean significant changes to the practice of Federal financial management. The past decade has seen the downsizing of administrative and financial management functions in Government along with a marked increase in the number of employees eligible to retire. CFOs are reassessing the appropriate level, skills mix, and location of staff while taking into account their overall resources.

The themes of this year's human resources plan are to: (1) continue progress in developing new recruitment strategies; (2) promote real improvements in professional development; and (3) reach out to the academic community. Taken together, these initiatives offer a framework for a comprehensive investment in human capital.

Financial Management Personnel

Recruitment Consortium: In 1999, the Council established a recruitment consortium consisting of six CFO Act agencies who committed to work together in order to gain leverage in the hiring market at selected colleges and universities. The desired outcome of this project is faster, more cost-effective placement of well-qualified individuals into Federal financial management positions. The consortium has outlined a framework for this effort and will take action in 2000/2001 to build a sustainable pipeline of talented people to fill positions.

The consortium will also produce a program for use by other agencies to make their recruiting efforts more effective. This effort, the CFO Careers program, will include targeted recruitment aimed at attracting a well-qualified, diverse pool of candidates who will be offered unprecedented opportunities for early career development through structured training and rotational assignments leading to the full performance level within their field. This program will target positions in all financial management disciplines, including budget analysts, financial systems specialists, accountants, and financial management specialists.

Presidential Management Intern (PMI) Program: One of the most successful hiring programs in Government is the PMI program. The PMI program consistently delivers high quality candidates to Federal agencies for public policy positions. These candidates often rise to leadership positions within Government.

However, the PMI program has not worked well for financial management positions. The historical focus of the program on public policy positions overlooks comparably skilled financial management candidates. To address this problem, the CFO Council will work with OPM to strengthen the program's emphasis on Federal finance.

Internship Opportunities: One of the most pointed lessons we have learned is recruitment for top candidates begins well before the end of an academic program. In fact, many of our competitors for talent use summer jobs and internships to attract students in undergraduate and graduate programs, providing practical exposure to the career options available, and promoting a good fit between employer and employee well before a permanent job offer is made.

Federal financial management organizations are ideally suited for providing challenging internship opportunities to talented students. To maximize our competitive position for these talented candidates and to promote a broader understanding of Federal financial management, the CFO Council will initiate a CFO Internship program, providing structured on-the-job experiences to undergraduate and graduate students that may lead to permanent job opportunities in the future.

Partnership with Colleges and Universities: The CFO Council has a great opportunity for a natural alliance with colleges and universities that will enable the Federal financial management community to strengthen its human capital. This alliance spans the recruitment and professional development goals of the Council. The CFO Council will reach out to the academic community in the following ways:

- Partnerships in support of the recruitment consortium, including support for the CFO Careers program;
- Establishment of the CFO Internship program, which will host undergraduate and graduate-level interns at CFO agencies;
- Encouraging the development of course content focusing on Federal financial management issues; and
- Partnerships in innovative delivery of structured professional development courses to the financial management community.

Education and Training

Scholarship Program: The CFO Council will partner with the AGA to provide competitive scholarship opportunities to outstanding Fed-

eral financial managers to pursue degree programs and professional certifications through the CFO Scholars program. AGA's administration of a scholarship fund and a competitive program for placement will provide unprecedented opportunities for our most valued employees to obtain the skills needed to enable us to meet our performance goals in the coming years. This program will also complement our recruitment efforts, as it provides further evidence of our long-term commitment to excellence in the workforce.

Development of the Federal Financial Workforce: The past decade has produced the infrastructure for individual agencies to establish performance goals for investing in human capital in the following areas:

- *Needs Assessments:* The CFO Council will promote periodic assessments of applicable financial organizations and respective employees to identify current and emerging skill requirements for organizations, employees, and prospective employees. Responses to a recent informal survey of CFO Council members indicated 14 CFO Act agencies conducted at least a partial organizational needs assessment within the last two years.
- *Professional Education:* Continuing professional education is one of the key factors for improving and maintaining performance and is a sound retention strategy. The CFO Council will foster and support investments in continuing professional education for financial management workers, and will promote the use of structured planning techniques, such as assessments, for targeting these investments. A March 2000 survey of financial management employees indicated over 50 percent of respondents had attended 20 hours or more of education and training in calendar year 1999. About 20 percent of respondents reported they had no education and training in the same period.
- *Professional Certification:* Earning and maintaining a professional certification is a strong indicator of proficiency and a commitment to keep up with advances in the financial management professions. Employees will be encouraged to pursue and maintain certifications appropriate to their career goals. About 20 percent of financial employees responding to a survey in March 2000 reported they hold one or more professional certifications pertinent to their professions.

MILESTONES TO ACHIEVE GOALS

Assist agencies in recruiting and retaining qualified financial management personnel

Tasks:

Milestones:

Develop materials to help agencies recruit financial personnel (CFO Council)	June 2000
Issue a report on the pilot implementation of qualification and classification standards for the GS-510 accountant series (OPM and CFO Council)	January 2001
Establish the CFO Careers program to enhance early career development and to attract entry-level recruits (CFO Council)	February 2001
Work with OPM to strengthen the PMI Program's emphasis on Federal finance (CFO Council)	Ongoing

MILESTONES TO ACHIEVE GOALS—Continued

Promote effective financial management education and training within the Federal Government

Tasks:**Milestones:**

Represent the CFO Council on the Presidential Task Force on Federal Training Technology (OPM, DOL, and CFO Council)	through September 2000
Establish an “electronic marketplace” for education providers and the financial community to meet and exchange information (OPM, DOL, and CFO Council)	June 2000
Establish a CFO Scholars program with AGA (CFO Council and AGA)	January 2001
Launch a CFO Council Internship program (CFO Council)	January 2001

Related Internet sites for Chapter 3 topics:

<http://www.opm.gov/UsingIT/index.htm>

<http://www.financenet.gov/financenet/fed/cfo/hrc>

<http://www.financenet.gov/financenet/fed/cfo/fellows/fellows.htm>

<http://www.financenet.gov/financenet/fed/jfmip/jfmip.htm>

CHAPTER IV. MANAGE OBLIGATIONS TO THE FEDERAL GOVERNMENT

Goal:

Improve credit management and collection of obligations to the Federal Government by:

- *Continuing to improve debt collection practices;*
- *Streamlining portfolio management through asset sales; and*
- *Maximizing the use of the Internet for credit and debt management programs.*

A Decade of Progress

The 1990s saw major legislative initiatives that changed the way Federal agencies manage credit and debt. Along with the CFO Act, the Federal Credit Reform Act (FCRA) of 1990 and the Debt Collection Improvement Act (DCIA) of 1996 changed the way Federal credit agencies do business.

The FCRA revolutionized the budgeting and financial management of Federal credit by requiring the cost¹ of the direct loans or loan guarantees to be recorded in the budget when the loan is disbursed, bringing the Government closer to private sector practice. Formerly, the budget recorded the cash flows in the year they occurred. In 1993, FASAB issued an accounting standard for direct loans and loan guarantees for Federal accounting to support the budget treatment of credit programs. Several changes occurred in order to support the revised standard, including: FMS developed detailed case studies to explain the credit accounting; several inter-agency groups improved and simplified the procedures; OMB refined and simplified its initial budget instructions; and the FCRA was amended in 1997 to make changes reflecting the initial experience in implementation. With the above changes, agencies are encouraged to reduce the cost of extending new loans or guarantees and to manage their portfolios in ways to reduce defaults.

¹The cost of the loan or loan guarantee is the present value of estimated cash overflows less the present value of estimated cash inflows to the Government.

The improved accounting information and budget incentives under credit reform have enhanced the Government's control over the risk incurred from its credit programs.

The DCIA has revolutionized debt management just as FCRA has revolutionized credit reform. As a result of the enactment of the DCIA, many of the improved management practices envisioned by Congress when it passed the CFO Act of 1990 have been implemented. DCIA was drafted and implemented through the cooperative efforts of the Federal Credit Policy Working Group (FCPWG). The DCIA significantly enhanced the Federal Government's ability to service and collect its obligations by creating and enhancing tools for agencies to reduce losses and increase collections. The key debt collection tools include use of private collection agencies, administrative offset, litigation, tax refund offset, and referral of debts to Treasury for collection (cross-servicing). The passage of the DCIA has resulted in increased collections of delinquent non-tax debt and improved management of the Federal Government's portfolio of non-tax delinquent debt.² In 1999 the Federal Government reported \$271 billion in non-tax receivables. See Table 3 for a detailed listing of agency delinquent debt. Delinquent non-tax debt receivables include:

²Total non-tax receivables reported on the Treasury Report on Receivables (TROR) reflect unaudited outstanding balances owed to Federal agencies. The amount listed in the balance sheet in the Government-wide financial statement reflects the net current value of these receivables as recorded for credit reform budgeting. Historically, the Internal Revenue Service has been the only agency with jurisdiction over tax receivables.

(1) direct loans; (2) loans acquired as a result of claims paid on defaulted guaranteed loans; and (3) non-credit receivables. These debts arise under a myriad of Federal programs authorizing Federal agencies to loan money directly to citizens; to guarantee loans citizens obtain from private financial institutions; or to collect amounts due the United States from fees, leases, services, overpayments, civil penalties, and other similar sources. The non-tax delinquent debt portfolio includes unpaid and overdue balances on Federal housing, small business, agricultural, and student loans as well as other Government receivables such as civil fines and judgments.

Achievements in the Past Year

Increased Collections

Increased Government-wide Collection of Non-tax Receivables: In 1999, Government-wide collections of non-tax receivables increased by \$6.6 billion (see Table 4). Total non-tax debt owed to the Federal Government was

\$271 billion in 1999 compared to \$267 billion in 1998. Government-wide collection of all non-tax debt was \$94.2 billion in 1999.³ See Table 3 for a detailed listing of agency non-tax receivables and collections.

Table 3 presents the ending balance, collections, write-offs, delinquencies, and delinquencies greater than 180 days for the credit agencies with the highest ending balances. It groups all other agencies into a single category. Total receivables owed to the Federal Government is \$271 billion. Of this amount, 91 percent belongs to the 12 agencies listed below. The remaining nine percent is owed to the remaining 52 agencies (grouped into the "all other" category). Total collections in 1999 were \$94.2 billion, an increase of \$6.6 billion over 1998.

Increased Tax Refund Offsets: Tax refund offset collections increased \$574 million over calendar year 1998. Of the \$2.6 billion col-

³\$11.5 billion of the \$94.2 billion was delinquent debt, compared with collection of all non-tax debt in 1998 of \$87.6 billion.

Table 3. Accounts Receivable and Delinquent Debt
(As of September 30, 1999)

(Dollars in millions)

Agencies with Large Receivable Balances	Ending Balance	Collections	Write-offs	Delinquencies	Delinquencies >180 Days ¹
USDA	103,384	18,971	486	6,415	5,876
Education	57,258	7,045	696	15,317	5,389
HUD	13,818	5,193	170	2,364	2,121
EX/IM	12,183	1,507	16	2,757	2,652
AID	11,303	1,079	1	744	687
HHS	9,769	14,270	2,995	4,763	3,193
SBA	8,675	2,023	646	1,748	1,347
FCC ²	9,072	412	28	8,273	8,031
DOE	6,756	4,144	106	2,363	2,315
SSA	6,500	2,246	808	880	400
DOI	4,779	1,096	12	524	468
VA	3,297	2,180	618	1,116	958
All Other ³	23,756	34,083	468	6,044	5,078
Gov't Total	270,550	94,249	7,050	53,308	38,515

¹ Delinquencies greater than 180 days are reported in Part I, Section B of the TROR.

² Federal Communications Commission

³ Includes the remaining CFO Act agencies and non-CFO Act agencies.

Table 4. Government-wide Collection of Non-tax Receivables

(Dollars in billions)

Year	Total Non-tax Receivables Outstanding	Delinquent Non-Tax Receivables	Percent Delinquent	Total Government Collections	Percent Collected
1998	\$267	\$60.0	22.5%	\$87.6	33%
1999	\$271	\$53.3	19.7%	\$94.2	35%

lected in calendar year 1999, half was collected for delinquent child support obligations⁴ and the remaining \$1.3 billion was for delinquent Federal non-tax debt such as direct loans, loans acquired as a result of claims paid on defaulted guaranteed loans, and non-credit receivables. The dramatic increase in tax refund offset collections can be attributed to a number of factors:

- System enhancements allowing offset matching on both social security numbers on joint tax returns;
- An increase in debt referrals of \$11.7 billion for child support and Federal non-tax debt;
- System flexibility that allows creditor agencies to add and update debt records on a continuous basis; and
- An increase in the average amount and number of tax refund payments due in part to new tax credits.

Increased Child Support Collections: HHS' Office of Child Support Enforcement program supports children by assisting states in locating parents, establishing paternity, and enforcing child support orders. Total child support

collections in 1999 were \$15.8 billion, an increase of more than eight percent over total collections in 1998. FMS collected \$1.3 billion of the total \$15.8 billion.

Increased Recovery of Civil Debts: DOJ serves as the Federal Government's collector of last resort. It pursues civil debtors, using litigation and enforced collection remedies upon referral from agencies or the Treasury after debt collection procedures provided for under DCIA have been unsuccessful. At the end of 1999, DOJ collected over \$1.3 billion in civil cash collections, a 23 percent increase over 1998. As reported in Table 5, in 1999 over \$1 billion was collected in civil cash collections for the sixth consecutive year. DOJ cash collections vary from year to year, depending in part on the volume of agency referrals as indicated in Table 6. Further, because legally complex referrals may be litigated over a period of years, large collections generated from the litigation in any single year may not be directly related to efforts expended in the same year.

⁴Child support obligations are not reported as receivables of the Federal Government.

Table 5. Civil Cash Collections On Litigated Debt

(In thousands)

1994	1995	1996	1997	1998	1999
1,774,029	1,175,294	1,229,809	1,829,968	1,123,017	1,376,652

Table 6. Number of Civil Debts Referred to DOJ

1996	24,290
1997	45,585
1998	44,876
1999	88,228

In 1999, DOJ received a total of 88,228 new civil debts, a 97 percent increase over 1998. Education referred the largest number of debts to DOJ for collection, and USDA referred debts with the largest outstanding balances.

Improved Debt Collection Practices

Developed System for State Tax Collection: Under provisions of the Internal Revenue Service Restructuring and Reform Act of 1998, the Federal tax refund of a taxpayer who owes a past-due, legally enforceable state income tax obligation may be reduced, or offset, by the amount owed to the state. As required by law, FMS modified its Treasury Offset Program (TOP) on January 1, 2000 to accept delinquent state income tax debts. Even though the program is voluntary for the states, as of June 2000, seven states have submitted debts and over \$21 million has been collected. FMS will continue its partnership with the Federation of Tax Administrators (FTA), which includes the principal tax collection agencies of the 50 states, to actively pursue state participation in the tax collection program. FMS' goal is to have all 42 states that collect income taxes participating in the program.

Merged the Tax Refund Offset and Treasury Offset Programs: This past year, FMS successfully merged the Tax Refund Offset and the Treasury Offset programs. Under this merged program, a payee's name and taxpayer identification number are matched against a Treasury database of delinquent debtors for an automatic reduction or "offset" of funds to satisfy a person's overdue Federal debt or child support obligations. As of September 30, 1999, the value of debts in the delinquent debtor database was \$70.5 billion (\$23.3 billion in non-tax debt and \$47.2 billion in child support obli-

gations). The current payment types subject to offset include: OPM retirement annuity payments, IRS tax refunds, vendor payments, and some Federal salary payments.

Referred Debt to Private Collection Agencies (PCAs): Education and HHS were officially designated by Treasury as debt collection centers during 1999. In addition to Treasury, the Education and HHS debt collection centers refer debts to PCAs for collection. Total collections reported for 9 months in 1999 by PCAs exceeded \$213 million. (See Chart 3.) Over \$11.8 billion in debt was referred to PCAs by Education, Treasury, and HHS in 1999.

Referred More Agency Debt to Treasury: Cumulative referrals to Treasury for cross-servicing through September 1999 totaled \$2.9 billion, an increase of \$1 billion over the previous year. Since enactment of the DCIA, through May 2000, Treasury collected \$63.4 million, of which \$23.5 million was collected in 1999. In addition, repayment agreements totaling \$160.4 million have been established through Treasury's collection efforts.

The seven major credit agencies continue to make significant progress in identifying debt for referral to Treasury for offset. Table 7 summarizes debt at the major credit agencies referred to Treasury for offset as of December 31, 1999.

Agencies are beginning to make significant progress in referring debt to Treasury for cross-servicing. Table 8 shows the level of referral by the major credit agencies.

Developed Policy to Write-off Debt: Under the sponsorship of the FCPWG, OMB Circular A-129, *Federal Credit Programs and Non-Tax Receivables*, was revised to include a debt write-off policy that seeks to accurately portray the true economic value of receivables on the balance sheet, while preserving management options that will maximize collection of delinquent debt. Generally, debt write-off is mandatory for delinquent debt older than two years, unless a waiver is documented and justified to OMB in consultation with Treasury. Once the debt is written-off, the agency must either classify the debt in a new reporting category entitled currently not collectible (CNC) or close out the debt. Debts in CNC status are reported in the TROR and cost-effective collection ef-

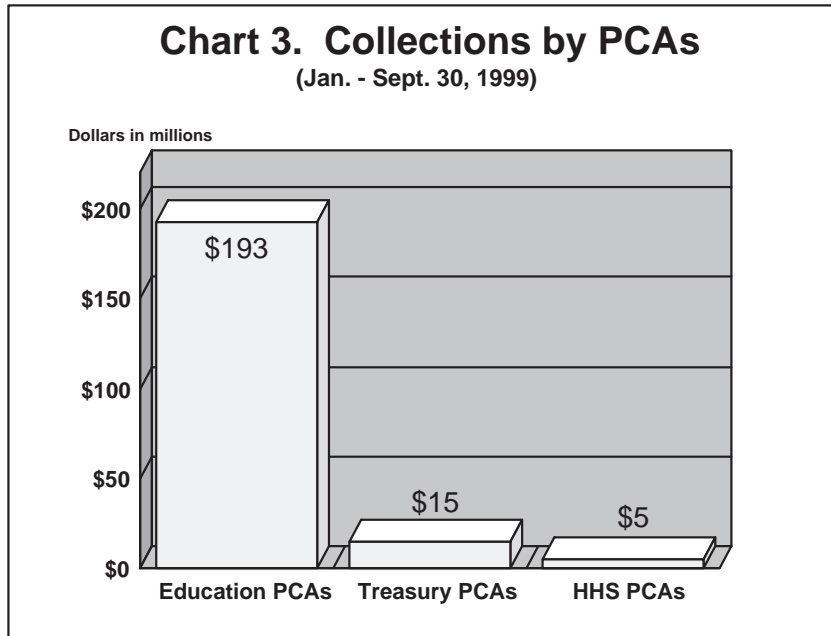


Table 7. Debt Referral to Treasury for Offset
(Dollars in millions)

Agency	Eligible Debt (As of 9/30/99)	Referral Goal	Percent Referred (As of 12/31/99)
USDA	\$825	90%	100%
ED ¹	\$22,270	100%	73%
HUD	\$274	90%	100%
SBA	\$1,148	100%	90%
VA	\$327	90%	78%
HHS ²	\$3,899	50%	18%
SSA	\$390	100%	100%

Source: Treasury

¹ Education's eligible debt includes \$17.2 billion of "currently not collectible" (CNC) debt not reported on the TROR.

² HHS eligible debt includes \$2.7 billion of CNC debt not reported on the TROR.

forts continue on CNC debt. The write-off policy requires agencies to continuously review CNC debt and annually reclassify CNC debt that should be closed out or included in asset sales.

The new write-off policy has resulted in a decrease of delinquent non-tax receivables from \$60 billion in 1998 to \$53 billion in 1999, primarily from a reclassification of \$17 billion in Education's debt portfolio to CNC (see Chart 4). The rationale for

status reclassification of the \$17 billion as CNC is that delinquent student loans, which have no statute of limitations, have a high probability of repayment because former student debtors generally need to establish good credit over the long run. Education's decrease in total delinquencies was partially offset by a \$6 billion increase in the Federal Communication Commission's total delinquencies, due to the reinstatement of defaulted loans for block sales of airwave licenses.

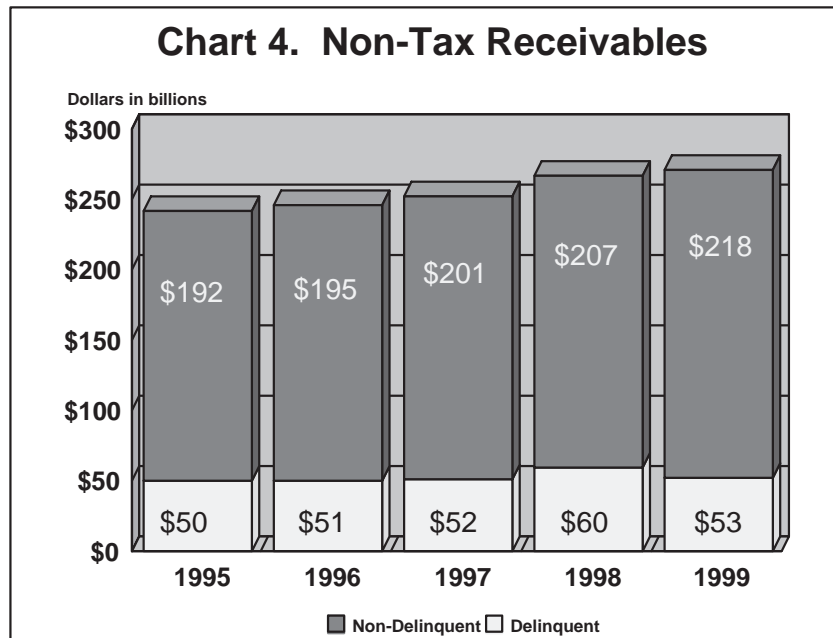


Table 8. Debt Referral to Treasury for Cross-Servicing
(Dollars in millions)

Agency	Eligible Debt (As of 9/30/99)	Referral Goal	Percent Referred ¹ (As of 12/31/99)
USDA	\$461	80%	23%
ED ²	\$790	100%	100%
HUD	\$194	85%	100%
SBA	\$903	100%	100%
VA	\$464	90%	1%
HHS	\$1,122	57%	23%
SSA	\$390	0%	0%

Source: Eligible debt was reported by agencies on the quarterly TROR. Referral goals are taken from the 1999 Federal Financial Management Status Report and Five Year Plan.

¹ Percentages referred are based on cumulative referrals since the program inception in September 1996.

² This amount is non-student loan debt. Because Education operates an efficient debt collection center for delinquent student loans, these loans are not referred to Treasury.

Issued Credit Reform “Best Practices” Report

To address resource and workload issues associated with credit and subsidy analyses that support the preparation of budget estimates for credit programs, the Credit Reform Best Practices Committee of the FCPWG convened a “best practices” seminar in April and conducted a preliminary survey of the

major credit agencies to identify the issues and obstacles they face in this area. A summary report of committee recommendations was presented to the FCPWG and referred to OMB for further consideration.

Streamlined Portfolio Management Through Asset Sales

Agencies are streamlining their portfolio management by transitioning to lender oversight in their guaranteed/insured loan programs and by utilizing loan asset sales for their receivables. For example, over the past several years SBA has significantly increased loan portfolios, increased collections, reduced staff, and delegated loan-servicing authority to its private sector partners as a result of its asset sales initiative.

SBA Sold Loans for \$725 Million: In August 1999, SBA collected \$195 million from the sale of a portfolio of just over 4,000 direct loans and defaulted guaranteed loans with an unpaid principal balance of \$332 million. Approximately half the loans sold were classified as nonperforming or under-performing. Over 20 percent of delinquent borrowers paid off their loans when notified their loan would be sold. SBA's second loan asset sale was held in August 2000 and included approximately 26,000 loans with an unpaid principal balance of \$1.2 billion. The second sale included business and disaster loans which returned \$530 million to the Treasury, a \$225 million premium above the \$305 million value of holding the loans to maturity. The total from the two SBA loan sales was \$725 million.

HUD Sold Loans for \$467 Million: The Federal Housing Administration (FHA) Asset Sales program is taking action to sell HUD's entire inventory of Secretary-held single family and multifamily mortgage notes in a series of sale initiatives. On September 22, 2000, the FHA auctioned 8,053 single family loans, with an unpaid principal balance totaling \$480 million. The sale generated gross proceeds in excess of \$467 million, or 97 percent of the unpaid principal balance of the mortgage loans, the highest return to date.

Established GSA Schedule for Financial Asset Services: A recent achievement by the FCPWG is the General Procurement Schedule for Financial Asset Services administered by GSA. This initiative was started by the FCPWG in 1998 in an effort to make asset sales of delinquent loans a standard operating procedure as required by DCIA. Using HUD and Resolution Trust Corporation (RTC) asset sales procurement documents as baseline mod-

els, an interagency team of experts drafted statements of work for six categories of financial and legal advisors. As of October 2000, the GSA Schedule listed 97 approved contractors. The GSA Schedule has been used by HUD, Federal Deposit Insurance Corporation (FDIC), SBA, USDA, Education, Navy, Air Force, Treasury, Overseas Private Investment Corporation, and the District of Columbia Government for consultation on and/or execution of asset sales.

Initiatives

Future initiatives to improve the management of obligations of the Federal Government are outlined below:

Improve Debt Collection

- *Increase Agency Debt Referral to Treasury:* Agencies are establishing target dates for referral to Treasury of debts over 180 days delinquent as required by DCIA. Treasury is tracking the debt referral performance of the 24 CFO Act agencies for both Treasury offset and cross-servicing. Each quarter, FMS reports to the FCPWG and OMB the performance data for USDA, Education, HUD, SBA, VA, HHS, and SSA. Eventually, FMS will expand reporting to all 24 CFO Act agencies.
- *Expand the TOP Program:* FMS has partnered with several creditor and payment agencies as well as FTA and the states to enhance the TOP. Tax levies are scheduled for July 2000. The Taxpayer Relief Act of 1997 permitted the IRS to direct Treasury FMS to collect tax debts from Government payments to a taxpayer. Tax levies are established after all taxpayer rights and remedies have been observed. Also, SSA benefit payments offsets are scheduled for implementation in February 2001, and expanded Federal salary payment offsets are scheduled to be implemented in the third quarter of 2001.

Improve Lender Monitoring and Credit Underwriting

- *Improve Lender Monitoring:* In July 2000, housing agencies began accessing lender performance information via the Internet. The Housing Consortium members (OMB,

Ginnie Mae, FHA, VA, and USDA Rural Housing Service (RHS)) are building on the use of the Government Portfolio Analysis Database System (GPADS), which facilitates and improves lender performance management Government-wide, (e.g., monitoring lender default and delinquency rates). GPADS, operated by GinnieMae, now permits housing agencies to access the "Lender Data Warehouse" through Ginnie Mae's website. GPADS is a valuable tool for targeting high-risk lenders for field audits.

- *Increase Use of Credit Bureaus:* DCIA requires Federal agencies to report all eligible delinquent debt to consumer credit bureaus. FMS is currently working with Federal agencies and the credit reporting industry to assist compliance with DCIA. Treasury FMS will work with OMB to determine if there is a need to publish an OMB Bulletin directing agencies to fully utilize credit bureaus in all phases of credit and debt management reporting. The credit bureau is an inexpensive tool to assist Federal agencies with improving the Government's credit management and debt collection programs. Agencies can access accurate data from credit bureaus for credit screening, debarment lists, and the collection and verification of tax identification numbers. Further, the credit report can be used to conduct credit scoring, skip tracing, and asset determination.
- *Expand Database and Improve Access to Data for Credit Screening:* The Credit Alert Interactive Voice Response System (CAIVRS), operated by HUD, is the Gov-

ernment's only borrower credit screening database. Agencies report borrowers in default to CAIVRS and screen new borrower applicants against CAIVRS files. With some exceptions, borrowers found to be in default in one Federal program may be denied credit in all Federal programs. CAIVRS, with a budget of \$830,000, produces immediate payoffs on delinquent loans averaging \$6 million a year and is estimated to save billions in loan losses on bad loans avoided.

The use of CAIVRS to screen borrowers has grown steadily (see Table 9). Over the past five years, the number of prospective borrowers which CAIVRS found in default on Government loans tripled from 31,916 in 1995 to 92,276 in 1999. Inquiries from direct and guaranteed lenders averaged five million per year from 1996 through 1999. However, not all agencies are reporting defaults in a timely manner or using this credit screening tool. Agencies are being encouraged to become compliant with OMB Circular A-129 in this regard. To this end, the FCPWG formed a subcommittee in September 2000 to evaluate credit reporting and screening compliance and effectiveness. To improve access for agency direct and guaranteed lenders, HUD is planning aggressive system upgrades to expand Internet access. Currently, Internet inquiries account for half of total inquiries. The remaining inquiries are made using telephone touchtone, Electronic Data Interchange (EDI), and computer to computer batch transmissions.

Table 9. Use of CAIVRS for Loan Inquiries

Year	Loan Default Records	Number of Lenders and Agency Users	Lender Inquiries on Loan Applicants	Default Matches	Percent in Default
1995	1,838,637	105,713	2,453,747	31,916	1.29
1996	2,084,589	114,290	4,828,781	57,176	1.19
1997	2,505,620	127,471	4,952,324	61,625	1.24
1998	2,595,427	131,282	5,049,201	86,501	1.71
1999	2,680,576	146,975	5,272,105	92,276	1.52

- *Access National Directory of New Hires:* An effort is underway to implement a match of delinquent student loan debtor information with the National Directory of New Hires maintained by HHS. In 1999, authority to access the national employment database of new hires was expanded from delinquent child support to delinquent student loans. Education can now pursue debtors who have moved without leaving forwarding addresses (i.e., through skip tracing or contacting their employers). Education estimates that with the new hire database they will collect an additional \$1 billion from borrowers with defaulted loans.
- *Improve Credit Reform Compliance:* The complexity of credit reform accounting and the growing number of cohorts (loans of a given program in a given year) being tracked have resulted in material weaknesses at several agencies. USDA, which presently reports on over 300 cohorts, has embarked on a corrective action plan to overcome non-compliance with credit reform requirements. USDA has established an executive steering and advisory committee to improve estimation, re-estimation, and cost reporting. USDA established a credit reform working group comprised of personnel from OMB, USDA agencies and the IG, with GAO acting as an advisor to the group. The group developed a consolidated plan for improving USDA's loan budgeting and accounting processes.

Increase Loan Asset Sales

In the coming year, agencies will be reviewing their debt portfolios and analyzing the feasibility of debt sales. Several agencies have also taken advantage of the GSA's new Multiple Award Schedule for Financial Asset Services and have hired program financial advisors (PFA) to analyze existing asset portfolios for determining the feasibility of loan sales. Education, HUD, and SBA took early action for hiring PFAs to analyze disposition alternatives for loan portfolios.

Section 601 of the Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Act of 1999, passed

in October 1998, provided FHA with additional flexibility to choose the most cost-effective methods of paying insurance claims and disposing of acquired notes or properties under the FHA single family programs. It authorizes FHA to take assignment of notes and transfer them to private parties for servicing, foreclosure avoidance, property management, and asset disposition. Section 601 (d) amends Section 204 (g) of the National Housing Act to allow a structured financing for asset disposition in which FHA retains an equity interest. FHA hired a PFA from the GSA schedule to develop the program and draft regulations for taking advantage of the new authority granted in this legislation. FHA also announced the sale of its \$800 million multifamily and healthcare loan portfolio, which is projected to take place in December, 2000.

Maximize Use of the Internet for Credit and Debt Management Programs

All Federal agencies have access to the Internet to publicize or reference credit and debt management programs and regulations through financenet. Financenet is also the home of the "govsales" site, the clearing site for information on the public sale and auction of surplus U.S. Government property. The "govsales" site is receiving 30 million hits per year.

The CFO Council is now urging agencies to take the next step in electronic government by using the Internet for timely implementation of Government Paperwork Elimination Act (GPEA). GPEA requires Federal agencies by October 21, 2003 to allow individuals or entities the option to submit information or transact with agencies electronically when practicable. The goal is to conduct secure, private, and authenticated Internet transactions within three years. The FCPWG, working closely with the CFO and CIO Councils, plans to establish a subcommittee in 2001 to identify credit industry standards and Internet best practices related to credit and debt management. A major threshold to reach in using the Internet is the execution of secure transactions between agencies and their private sector partners using electronic signature technology, including digital signatures or PINs where appropriate.

To assist in this process, GSA has established a procurement schedule, available to all agencies, of approved contractors to provide validated digital signature certificates known as ACES. ACES use the highest level PKI technology. ACES provide identification, authentication, and non-repudiation as a means

for individuals and businesses to be authenticated when accessing, retrieving, and submitting information in communications with the Federal Government. To promote acceptance of ACES, the first 500,000 certificates are being offered to Federal agencies for a nominal user fee.

MILESTONES TO ACHIEVE GOALS

Continue to improve debt collection practices

Tasks:	Milestones:
Ensure that debts 180 days delinquent are referred to Treasury for collection action as required by DCIA unless the debts are in an exempt status (Treasury, OMB, and agencies)	Review Quarterly
• Evaluate agency loan portfolios for potential debt referrals and collections (Treasury, OMB, and agencies)	Ongoing
• Analyze delinquent receivables included on the “Report on Receivables Due From the Public” (Treasury)	Ongoing
• Monitor agency debt referral schedules to ensure compliance (Treasury, OMB, and agencies)	Review Quarterly
• Implement administrative wage garnishment (Treasury and agencies)	December 2000
• Begin Federal salary offset (Treasury)	September 2001
• Promote Federal agency use of the credit bureaus (Treasury, OMB, and agencies)	Ongoing
• Provide guidance to Federal agencies on the use of credit bureaus and credit reports (Treasury)	Ongoing
Review agency applications for designation as debt collection centers and make determinations in accordance with standards published in October 1999 (Treasury)	Ongoing

Streamline portfolio management through asset sales

Tasks:	Milestones:
Hire PFA to coordinate and oversee the sales initiatives and hire transaction specialists to design and implement single family and multifamily mortgage sales (HUD)	February 2000
Complete second loan asset sale (SBA)	August 2000
Conduct a sale of 8,000 FHA single family loans with an unpaid principal balance of \$480 million (HUD)	September 2000

MILESTONES TO ACHIEVE GOALS—Continued

Participate in Intergovernmental Asset Sales Team feasibility study and business plan for Internet auction of physical assets, real property, and financial assets (Credit agencies)	October 2000
Conduct sales of HUD held mortgage notes—\$800 million multifamily and nursing home notes (HUD)	December 2000
Conduct third loan asset sale (SBA)	December 2000

Maximize use of the Internet for credit and debt management programs

Tasks:	Milestones:
Establish a subcommittee under the FCPWG and liaison with CFO and CIO Councils (CFO agencies and Treasury)	February 2001
Create Internet modernization plans and pilot project proposals consistent with Internet development plans required by GPEA (Credit agencies)	June 2001
Conduct secure Internet monetary or confidential transactions using ACES (Credit agencies for loan origination, loan repayment, or asset sales)	TBD

Related Internet sites for Chapter 4 topics:

<http://www.fms.treas.gov/debt>
<http://www.financenet.gov>
<http://www.govsales@financenet.gov>
www.whitehouse.gov/OMB/financialINDEX.html
www.fms.treas.gov/ussg/creditrefrom/index.html

CHAPTER V. IMPROVE ADMINISTRATION OF FEDERAL GRANT PROGRAMS

Goal:

Provide better management of the over \$300 billion in grants awarded annually to our inter-governmental and non-profit partners by:

- *Improving the framework of grant policy;*
- *Simplifying Federal programs' administrative requirements;*
- *Exploring electronic processing options;*
- *Streamlining the delivery of payments; and*
- *Furthering audit and oversight policy.*

A Decade of Progress

The Federal Government annually awards over \$300 billion in grants to non-Federal entities (States, local governments, and non-profit organizations). OMB establishes Government-wide policies to assure these dollars are managed properly and spent in accordance with laws and regulations. However, it is the Federal agencies that implement these policies and work with our non-Federal partners to administer grant programs.

The main goal of grants management is to ensure Federal dollars are spent in accordance with their intended purpose. To achieve this there must be accountability at the Federal level, the grantee level, and even at the level of sub-grantees where applicable. A second and sometimes conflicting goal is to minimize administrative burden throughout the process. In the spirit of the CFO Act, OMB and the CFO Council recognize the need to improve grants management procedures and policies. Some key accomplishments of the Federal grant community over the past decade include:

- *Simplified Grants Management Procedures:* Throughout the 1990s, OMB and the agencies, in consultation with Congress and the grantee community, streamlined and simplified various grants management procedures. In 1993, OMB re-

issued Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations*, with a new format that provided consistent requirements for grants for all non-profit organizations (other than state and local governments). In 1995, OMB revised and reformatted Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, to improve its consistency with the other cost principle circulars, i.e., A-21, *Cost Principles for Educational Institutions* and A-122, *Cost Principles for Non-Profit Organizations*. Cost principles are used to determine allowable and unallowable expenditures for Federal grants.

- *Improved Grant Audits:* As a result of the Single Audit Act Amendments of 1996, we have both streamlined audits of Federal grants and made them more effective. To implement this law, OMB issued a revised Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which: (1) brought all non-Federal entities under common audit requirements; (2) required that detailed audit coverage be determined based on risks to the Federal Government; (3) required more timely audit reporting; and (4) created a Government-wide database of the results

of the over 25,000 single audits performed annually.

- With the cooperation of the agencies, OMB annually issues the Circular A-133 Compliance Supplement, which identifies for auditors the key compliance requirements and suggested audit procedures for 141 of the largest Federal grant programs.

In addition to these accomplishments, long-term grant reform initiatives are underway for the next decade. Streamlining Federal grants management was designated as a Priority Management Objective in the President's 2001 budget. The agencies are working to make it easier for state, local, and tribal governments and non-profit organizations to apply for Federal grants and, as recipients, report their progress. Also, on November 20, 1999, the President signed Public Law 106-107, the Federal Financial Assistance Management Improvement Act of 1999. This law requires OMB to direct, coordinate, and assist the agencies in a process to: (1) streamline application and reporting forms used in the administration of grants; (2) provide uniform administrative requirements for use in all Federal grant programs; and (3) provide an electronic option for the administration of grants. Recent accomplishments of the grant community are outlined below.

Accomplishments in the Past Year

Improving the Framework of Grant Policy

Issued Draft Grant Financial System Requirements: In early 1999, the JFMIP asked the CFO Council's Grants Management Committee to develop a document to provide guidance to agencies on the requirements for a grant financial system. The result of their work, *Grant Financial System Requirements*, was issued as an exposure draft seeking public comment in October 1999. After review of public comments, the document was issued in final form in June 2000, and is available at www.jfmip.gov.

Simplifying Federal Programs' Administrative Requirements

- *Defined Data Access Policy:* On March 16, 2000, 15 agencies published a joint notice

of interim final revision to amend their codifications of OMB Circular A-110. This joint notice defines procedures that agencies will use to provide the public access to Federally-funded research data, after it has been published and cited in an action that has the force and effect of law. This notice implements the final revision to the Circular, issued on September 1, 1999, as required by the FY 1999 Omnibus Appropriations Act.

- *Inventoried Grant Application and Reporting Forms:* On March 29, 2000, OMB sent Congress an inventory of Federal grant programs, which was compiled with the assistance of 22 agencies. The inventory provides a listing of all application and reporting forms used by almost 1,000 programs. It will serve as a starting point for future efforts to streamline the administration of grant programs, as Public Law 106-107 requires.
- *Developed Standard Format for Facilities and Administrative Proposals:* OMB, with assistance from the agencies and university representatives, developed a standard format for submitting the facilities and administrative proposal in accordance with Circular A-21. The standard format will streamline the overhead rate negotiation process between the Federal Government and educational institutions and assist them in completing their proposals more effectively. The format will also help cognizant agencies responsible for overhead cost rate negotiation to review proposals on a more consistent basis. The proposed standard format was published on August 12, 1999 and will be effective for all proposals submitted on or after July 1, 2001.

Exploring Electronic Processing Options

- *Established Internet Site for Single Point of Entry:* The Interagency Electronic Grants Committee (IAEGC) has established an Internet site for its Federal Commons project (www.fedcommons.gov) and begun to pilot test its concept of a single point of entry for Federal grant programs. The agencies have begun to create the necessary architecture that will allow information to be passed from this site to

agency-specific systems, such as HUD's Departmental Grants Management System or EPA's Integrated Grants Management System, and vice versa.

- *Connected Grant Efforts to Other Electronic Initiatives:* The IAEGC has worked with GSA to create a connection between the Federal Commons project and Firstgov.gov, a portal to all Federal websites. We have also linked to FedBigOps.gov, which currently provides a central listing of procurement opportunities for the Federal Government and could be expanded to accommodate postings of grant funding availabilities. It is also collaborating with the CIO Council in piloting its Federal Commons architecture as a demonstration of the Federal Enterprise Architecture Framework.
- *Issued Grants Data Dictionary:* The IAEGC has published a dictionary of data elements covering all information requirements for grant applications and awards used by participating Federal agencies. This document forms the basis for the addition of remaining grant transaction data, as well as for mapping among the various technologies to be employed in transmitting the data (e.g., EDI, HTML, and XML).

Streamlining the Delivery of Payments

- *Issued Advance Notice On "Pooling" Cash Drawdowns:* On May 1, 2000, OMB issued an advance notice of proposed revision to Circular A-110. The advance notice seeks comments on a proposal by the CFO Council to require agencies to offer recipients the option to request cash advances on a pooled basis, which might reduce the burden on grantees. Before formally making this recommendation, the CFO Council is seeking comments from recipients and agencies on the merits of pooled and grant-by-grant payment systems.
- *Consolidated Payment Systems:* Over the past year, the civilian agencies have begun to designate which of two payments systems they will use to process their grant payments. Currently, there are numerous payment systems in use throughout the Federal Government. Table 10 shows which agencies have selected either the

HHS Payment Management System (PMS) or the Treasury's Standard Application for Payments (ASAP), the two systems designated by the CFO Council in its 1998 plan to consolidate payment systems.

Furthering Audit and Oversight Policy

- *Issued Compliance Supplement:* In March 2000, with assistance from an agency-led working group, OMB issued the third annual revision to the Circular A-133 Compliance Supplement. The supplement identifies compliance requirements for Federal programs and provides audit objectives and procedures for more consistent audits of Federal awards, pursuant to the Single Audit Act Amendments of 1996. The 2000 supplement updated the descriptions of 77 of the 118 programs previously included and added 23 more, bringing the total number of programs covered to 141.
- *Implemented Single Audit Electronic Submission System:* The Federal Audit Clearinghouse (FAC) system receives, distributes, and maintains a Government-wide database of audit reports prepared under OMB Circular A-133. A data collection form (SF-SAC) is used to summarize the results of the audit reports and serves as the input for the FAC database. In January 2000, the FAC implemented a system to allow auditees to electronically file their SF-SACs. This enhancement will expedite processing and distribution of audit reports to agencies.
- *Tested Reliability of FAC Database:* DOC's Office of Inspector General confirmed that the information in the FAC database is reliable.

Initiatives

Improving the Framework of Grants Policy

OMB's Government-wide grants management policies are adopted by the agencies and are intended to apply to all Federal grant programs. Congress may refer to these documents when it authorizes programs in statute. However, when requirements contained in these laws are different than OMB policy, the law supersedes. Agencies often

Table 10. Agency Grant Payment System Selections

Agency	Selection
USDA	ASAP/PMS
DOC	ASAP
Education	(pending)
DOD	DPPS ¹
DOE	ASAP
HHS	PMS
HUD	PMS
DOI	ASAP/PMS
DOJ	ASAP
DOL	PMS
State	PMS
Treasury	PMS
DOT	PMS
VA	ASAP
AID	PMS
EPA	ASAP
FEMA	PMS
GSA	(no grants)
NASA	PMS
NSF	ASAP
NRC	(no grants)
OPM	(no grants)
SBA	PMS
SSA	ASAP

¹All DOD grant payments will be consolidated into the Defense Procurement Payment System.

try to provide additional explanation of the requirements found in a program's authorizing legislation and OMB policy by adopting regulations specific to that program.

Across the Federal Government, the location of the grants policy-making function varies. While CFOs often have responsibility for overseeing grants policy, that is not always the case. The organizational structure under which the grant function is located is important in the development and implementation of grant policies applicable to the agencies' programs. Table 11 shows that of the 14 agencies that have the most significant amounts of grant-making activity, seven have CFOs that oversee the grants management function. (Agencies are noted in italics.) Of the seven agencies that annually administer

at least \$4 billion in grants, three have CFOs that oversee the grant function.

- *Workforce Investment Act*: The Workforce Investment Act of 1998 (WIA) establishes a system of one-stop job training centers where individuals can get access to a host of different Federal services in one location, effective July 1, 2000. The agencies are working to integrate delivery of the services covered by the legislation. DOL, with assistance from other agencies and OMB, has developed unified planning guidance so states can submit a single application for multiple grant programs. In addition, DOL issued guidelines for developing cost allocation plans at local one-stop centers that document and allocate costs among various Federal programs.

Table 11. Location of Grants Policy-Making Function

Agency	Office
<i>USDA</i>	CFO
<i>DOC</i>	CFO
DOD	Under Secretary—Acquisition, Technology, and Logistics
<i>ED</i>	CFO
DOE	Senior Procurement Executive
<i>HHS</i>	CFO
HUD	Deputy Secretary
<i>DOI</i>	CFO
DOJ	Assistant Attorney General—Justice Pro- grams
DOL	Senior Procurement Executive
DOT	Senior Procurement Executive
EPA	Assistant Administrator—Administration and Resources Management
<i>FEMA</i>	CFO
<i>NSF</i>	CFO

Agencies where CFOs oversee grants management are noted in italics.

- *Grants Committee*: HHS chairs the CFO Council's Grants Management Committee, and has proposed an organization plan for this group to be in place for the coming year. The Grants Management Committee will continue to offer agencies a vehicle for providing feedback to OMB on issues of concern to the Federal grants management community.
- *Organizational Study*: The CFO Council's Grants Management Committee will study the placement of the grants management policy function in agency organizations (e.g., CFO's office, procurement executive's office, or other management offices). This study will lead to a discussion with the agencies about the effectiveness of various structures, and how we can better coordinate policy decisions that affect the grants community.

Simplifying Federal Programs' Administrative Requirements

- *Entitlement Grants*: USDA and HHS will make entitlement grant programs (e.g., Medicaid and food stamp administration)

subject to the requirements of the A-102 common rule, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

- *Standard Terms and Conditions*: An inter-agency task force will review the Federal Demonstration Partnership's (FDP) recommendations for standardizing the terms and conditions agencies attach to their grant awards. FDP, an organization representing 65 universities and 11 agencies, has drafted a single set of terms and conditions applicable to Federal research programs administered by universities. A review of these program requirements may provide insights into how the administrative requirements of OMB circulars can be improved.
- *Update to Debarment and Suspension Regulations*: An interagency committee has suggested revisions to the Government-wide common rule that implements Executive Order 12549, *Debarment and Suspension*. This Executive Order establishes a Government-wide system so all agencies

follow the same procedures when taking action against a grantee. The agencies are proposing technical and substantive revisions to the common rule that will further improve grant debarment and suspension policy and make it more consistent with the Federal Acquisition Regulation, which sets out similar policy for procurement. The agencies will seek public comment before finalizing the revision.

- *Simplification Workgroups:* As part of the process required to implement Public Law 106–107, the agencies will form workgroups to review the forms and terms/conditions used in grant programs. These groups will also focus on reasons for and against pursuing a single administrative requirements document. The agencies will be encouraged to consult with non-Federal partners, using means such as HHS’ GrantsNet at *www.financenet.gov*. These groups will make recommendations to address the duplication encountered by grant recipients when they administer funds under multiple grant programs.
- *Consistent Cost Circulars:* OMB will lead the agencies in an effort to make the three cost principles’ circulars consistent, wherever possible. The cost principles are used to determine allowable and unallowable expenditures for Federal grants. OMB and the agencies have reviewed the impact of combining the cost principles’ circulars into one document. Although a single document provides some advantages, the agencies believe the three grantee communities covered by the circulars are too diverse to warrant a single cost principle document. HHS will also update the Hospital Cost Principles (45 CFR 74, Appendix E) as part of this effort.

Exploring Electronic Options

- *Federal Commons Initiative:* The Federal Commons has emerged as the most promising means of making the “common face for Federal grants” a reality. It will use standard parameters (e.g., transaction sets for proposals and awards) and flexible technology. The portal will accommodate differences among recipients’ electronic systems; it therefore will include both an

Electronic Data Interchange connection and a web-based connection. The Federal Commons will eliminate burdens on recipients by making differences between Federal agencies’ systems and processes transparent to non-Federal users. Over the course of the next year, the Federal Commons will move toward allowing electronic registration of grantees and standard posting of funding opportunities.

- *Pilot Testing:* Those agencies that provide significant amounts of grant funding to state and local governments have moved to create a pilot to collect information about the forms and requirements applicable to these awards. Those agencies that provide significant amounts of grant funding to research-based organizations have begun to pilot-test the registration of organizations and users, and the administration of organizational and user profiles.

Streamlining the Delivery of Payments

- *Pooling Cash Drawdowns:* After reviewing comments from interested parties, the CFO Council’s Grants Management Committee will decide how to proceed with the proposal to allow grantees to draw cash advances on a pooled basis.
- *Payment Systems:* Treasury and HHS will make additional enhancements to ASAP and PMS during the next three years to meet the requirements of agencies that have agreed to be cross-serviced by their systems.

Furthering Audit and Oversight Policy

- *Issue Compliance Supplement:* The agency-led working group is preparing the 2001 supplement to update the 141 programs currently included and add 10 new programs.
- *Cognizant Agency Audit Organization Guidelines:* The PCIE’s Audit Committee plans to update the guidelines the agency Inspectors General follow in monitoring Circular A–133 audits.
- *Revise SF–SAC:* An interagency working group of FAC users will review the SF–SAC that is used to summarize audit report results. This group will determine

if additional data elements are needed and look for ways to simplify the form to make it less burdensome.

- *FAC Website:* The search criteria in the FAC system are being expanded to allow searches on all of the fields in the database, allow wild card searches, and limit searches to a specific year. Also, FAC is being enhanced to allow searches to in-

clude reports which have been checked-in but not yet processed.

- *Recipients Not Filing Required Single Audit Reports:* An interagency working group will work to develop a method for the FAC to identify recipients who have not filed the required Single Audit reports, based upon information provided by the grant-making agencies. This will be done in coordination with PMS and ASAP.

MILESTONES TO ACHIEVE GOALS

Improve the Framework of Grants Policy

Tasks:

Milestones:

Complete a study of agency organizational placement of the grants policy function (CFO Council's Grants Management Committee)	May 2001
---	----------

Simplify the Requirements to Administer Federal Programs

Tasks:

Milestones:

Establish simplification workgroups to review forms (application and reporting) and terms and conditions (Agencies)	June 2000
Issue proposed revision to grant debarment and suspension common rule (Agencies)	December 2000
Cover entitlement programs under A-102 common rule (USDA and HHS)	December 2000
Issue findings on a study to combine A-102, <i>Grants and Cooperative Agreements with State and Local Governments</i> and A-110, <i>Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations</i> (OMB and agencies)	May 2001
Propose changes to cost principles circulars to ensure uniformity where possible (OMB and agencies)	May 2001
Report on findings of simplification workgroups (Agencies)	May 2001

MILESTONES TO ACHIEVE GOALS—Continued

Explore Electronic Processing Options

Tasks:	Milestones:
Implement state and local grant-making agency pilot (Agencies)	July 2000
Roll-out the Commons Project, i.e., organization profiles and funding avail- abilities (Agencies)	September 2000

Streamline the Delivery of Payments

Tasks:	Milestones:
Offer ASAP or PMS services to recipients (Agencies)	October 2000
Evaluate proposed revision to Circular A-110 on pooling of payments (CFO Council's Grants Management Committee)	December 2000
Implement grant payment systems (Agencies)	October 2002
Complete ASAP and PMS enhancements (Treasury and HHS)	December 2002

Further Audit and Oversight Policy

Tasks:	Milestones:
Upgrade search capabilities of FAC Internet home page (DOC)	August 2000
Revise SF-SAC (OMB and agencies)	October 2000
Issue updated guidelines for cognizant agency audit organizations (PCIE)	December 2000
Establish a method to identify entities not reporting Single Audit results (OMB and agencies)	April 2001
Issue an update to A-133 Compliance Supplement with 10 new programs and updates to the 141 programs currently covered (OMB)	April 2001

Related Internet sites for Chapter 5 topics:

www.whitehouse.gov/omb/grants

www.hhs.gov/progorg/grantsnet

www.jfmip.gov

www.financenet.gov/iaegc

APPENDICES

APPENDIX I. AGENCY PERFORMANCE ON FINANCIAL STATEMENTS

Table 12. Clean and Timely Audit Opinions on Agency-wide Financial Statements

Agency	Actual			
	1996	1997	1998	1999
USDA	☐	☐	☐ ✓	☐ ✓
Commerce	☐	☐	☐	■ ✓
DOD*	☐	☐ ✓	☐ ✓	☐ ✓
Education	☐	■	☐	☐ ✓
DOE	■	■ ✓	☐ ✓	■ ✓
HHS	☐	☐	☐ ✓	■ ✓
HUD	☐	☐	■	☐
DOI	☐	■	■	■
DOJ	☐	☐ ✓	☐ ✓	☐ ✓
DOL	☐ ✓	■ ✓	■ ✓	■ ✓
State	☐	■	■	■
DOT	☐	☐	☐	■
Treasury*	☐	☐	☐	☐ ✓
VA	☐ ✓	☐	☐ ✓	■
AID	☐ ✓	☐ ✓	☐ ✓	☐ ✓
EPA	☐	■ ✓	■	☐ ✓
FEMA	☐	☐	■ ✓	■ ✓
GSA	■ ✓	■ ✓	■ ✓	■ ✓
NASA	■	■ ✓	■ ✓	■ ✓
NRC	■	■ ✓	■ ✓	■ ✓
NSF	☐ ✓	☐	■ ✓	■ ✓
OPM**	☐	☐ ✓	☐ ✓	☐ ✓
SBA	■	■ ✓	■	■ ✓
SSA	■ ✓	■ ✓	■ ✓	■ ✓
Total Clean/Timely	6 / 6	11/13	12/15	15/19

■ = Clean (Unqualified) Opinion
☐ = Not Clean (Disclaimer or Qualified)
✓ = Timely

* = Multiple systems modifications preclude the agency from projecting a clean consolidated audited financial statement until after 2001.

** = For 1996 through 1999 OPM prepared financial statements for its agency components only. OPM plans to prepare agency-wide financial statements beginning in 2000.

The following Government Corporations are required to submit audited financial statements to OMB:

Community Development Financial Institutions Fund
Corporation for National and Community Service
Export-Import Bank of the United States (EX/IM)
Federal Crop Insurance Corporation
Federal Deposit Insurance Corporation
Federal Home Loan Banks
Federal Housing Administration Fund
Federal Prison Industries, Incorporated
Financing Corporation
Government National Mortgage Association
National Credit Union Administration Central Liquidity Facility
Overseas Private Investment Corporation
*Panama Canal Commission
Pension Benefit Guaranty Corporation
Resolution Funding Corporation
Rural Telephone Bank
Saint Lawrence Seaway Development Corporation
Tennessee Valley Authority

*The Commission operated the Panama Canal as a Government corporation until the Panama Canal Treaty of 1977 terminated on December 31, 1999, when the Republic of Panama assumed full responsibility for the canal.

INTERNET ADDRESSES FOR 1999 PILOT ACCOUNTABILITY REPORTS

Pilot Department or Agency	Publication Date	Internet Address
Commerce	3/1/00	http://www.doc.gov/ofm
Education	3/1/00	http://www.ed.gov/offices/OCFO
DOE	2/25/00	http://www.cfo.doe.gov
HHS	2/29/00	http://www.hhs.gov/of/reports/account
HUD	3/6/00	http://www.hud.gov/cfo/cfoacct.html
DOI	5/31/00	http://www.doi.gov/pfm
DOJ	4/5/00	http://www.usdoj.gov/05publications/
DOL	3/31/00	http://www.dol.gov/dol/ocfo/public/publications/main.htm
State	8/31/00	http://www.state.gov/www/dept/fmp
Treasury	2/20/00	http://www.treas.gov/tcfoc
VA	5/2/00	http://www.va.gov/cfo
AID	3/1/00	http://www.usaid.gov
FEMA	3/1/00	http://www.fema.gov/ofm
GSA	3/1/00	http://www.gsa.gov/staff/pa/annrpt/annrpt.htm
NASA	2/29/00	http://www.hq.nasa.gov
NRC	4/1/00	http://www.nrc.gov/NRC/planning.html
NSF	4/7/00	http://www.nsf.gov/bfa/dfm
SBA	4/5/00	http://www.financenet.gov/financenet/fed/docs/docsbrpt.htm
SSA	11/18/99	http://www.ssa.gov/finance

APPENDIX II. FINANCIAL STATEMENT PREPARATION BY COMPONENTS OF EXECUTIVE DEPARTMENTS AND AGENCIES

(Required to Prepare Audited Financial Statements as Designated by OMB)

Table 13. Clean and Timely Audit Opinions on Agency Component Financial Statements				
Agency	Actual			
	1996	1997	1998	1999
USDA				
Food and Nutrition Service	□	□	■ ✓	■ ✓
Forest Service	□	□	□ ✓	□ ✓
Rural Development	□	□	□ ✓	□ ✓
DOD				
Air Force General Fund*	□	□ ✓	□ ✓	□ ✓
Air Force Working Capital Fund*	□	□ ✓	□ ✓	□ ✓
Army General Fund*	□	□ ✓	□ ✓	□ ✓
Army Working Capital Fund*	□	□ ✓	□ ✓	□ ✓
Navy General Fund*	□	□ ✓	□ ✓	□ ✓
Navy Working Capital Fund*	□	□ ✓	□ ✓	□ ✓
DOD Military Retirement Trust Fund	■	■ ✓	■ ✓	■ ✓
Army Corps of Engineers Civil Works	□	□ ✓	□ ✓	□ ✓
HHS				
Health Care Financing Administration	□	□	□ ✓	■ ✓
DOT				
Federal Aviation Administration	□	□	□	■
Highway Trust Fund	■	□	□	■
TREASURY				
Bureau of Alcohol, Tobacco and Firearms	■	■	■	■ ✓
Internal Revenue Service*	□	■	□	□ ✓
U. S. Customs Service	■	■	■	■ ✓
OPM				
Civil Service Retirement	□	■ ✓	■ ✓	■ ✓
Federal Employees Health Benefits Program	□	□ ✓	■ ✓	■ ✓
Federal Employees Life Insurance Program	□	■ ✓	■ ✓	■ ✓
Total Clean/Timely	4 / 0	6 / 11	7 / 15	10 / 18

■ = Clean (Unqualified) Opinion
 □ = Not Clean (Disclaimer or Qualified)
 ✓ = Timely
 AA* = Multiple systems modifications preclude the agency from projecting a clean consolidated audited financial statement until after 2001.

APPENDIX III. FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT TABLES

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires that annually the head of each executive agency submit a statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives and the agency's financial management systems conform with government-wide requirements.

Tables 12 and 13 include the number of "material weaknesses," (reporting pursuant

to section two of the FMFIA), and financial system "non-conformances," (reporting pursuant to section four of the FMFIA), reported by agencies in their 1999 FMFIA or accountability reports. Section two reporting of material weaknesses refers to the overall adequacy and effectiveness of agency management controls. Section four reporting of non-compliance refers to compliance with Government-wide standards for financial systems.

Table 14. Section Two Reporting in Agency FMFIA Reports

Agency	Adequate and Effective Management Controls		Number of Material Weaknesses			
	Yes	No	Pending as of 12/31/98	Newly Reported in 1999	Corrected in 1999	Pending as of 12/31/99
USDA	*X		28	7	7	28
Commerce	*X		4	0	1	3
DOD	*X		130	38	57	111
Education	X		4	3	1	6
DOE	X		9	2	0	**10
HHS	*X		6	1	0	**6
HUD	*X		6	0	3	3
DOI	X		16	4	3	17
DOJ	X		***16	0	7	9
DOL	*X		6	0	3	3
State	*X		10	0	7	3
DOT	X		1	0	0	1
Treasury	X		28	13	8	33
VA	X		6	0	1	5
EPA	X		4	0	1	3
NASA	X		0	0	0	0
AID	*X		9	0	2	7
FEMA	X		1	0	1	0
GSA	X		6	0	1	5
NRC	X		0	0	0	0
NSF	X		0	0	0	0
OPM	*X		13	0	2	11
SBA	*X		5	2	4	3
SSA	X		1	0	0	1
Total	24	0	309	70	109	268

Note: As reported to OMB by the agencies.

*These agencies report reasonable assurance that their systems of management control comply with the objectives of FMFIA section two except as noted and qualified in their FMFIA or Accountability Reports.

**The rows for DOE and HHS do not add because both agencies consolidated two material weaknesses into one.

***The 19 pending weaknesses reported in last year's report erroneously included three weaknesses that were closed in 1998.

Table 15. Section Four Reporting in Agency FMFIA Reports

Agency	Compliance of Financial Management Systems with Government-wide Requirements		Number of Material Non-Conformances			
	Yes	No	Pending as of 12/31/98	Newly Reported in 1999	Corrected in 1999	Pending as of 12/31/99
USDA		X	11	0	3	8
Commerce		X	1	2	1	2
DOD	*X		192	10	49	153
Education	*X		2	0	0	2
DOE	X		1	1	0	2
HHS	X		0	0	0	0
HUD	*X		2	0	0	2
DOI	X		0	0	0	0
DOJ	X		1	0	0	1
DOL	*X		0	2	0	2
State		X	5	0	0	5
DOT	X		0	0	0	0
Treasury		X	32	4	20	16
VA	*X		4	0	0	4
EPA	X		0	0	0	0
NASA	X		0	0	0	0
AID	*X		1	0	0	1
FEMA	X		3	0	0	3
GSA	X		3	2	2	3
NRC	X		0	0	0	0
NSF	X		0	0	0	0
OPM	*X		2	0	2	0
SBA	*X		2	1	1	2
SSA	X		0	0	0	0
Total	20	4	262	22	78	206

Note: As reported to OMB by the agencies.

*These agencies report reasonable assurance except as noted and qualified in their FMFIA or Accountability Reports.

**APPENDIX IV. FEDERAL ACCOUNTING
STANDARDS ADVISORY BOARD (FASAB)
DOCUMENTS**

**FASAB's current Internet site is: [http://www.financenet.gov/financenet/
fed/fasab/](http://www.financenet.gov/financenet/fed/fasab/)**

Table 16. FASAB Documents

1	2	Number	Title	Date Issued	FY to Implement	GPO Number * or Other Information	Price
F	C	SFFAC 1	Objectives of Federal Financial Reporting	9/2/1993	N/A	On Financenet ..	N/A
F	C	SFFAC 2	Entity and Display	6/6/1995	N/A	041.001.00456.1	\$3.75
F	C	SFFAC 3	Management's Discussion & Analysis	April 1999	N/A	041.001.00541.2	\$5.00
F	S	SFFAS 1	Accounting for Selected Assets and Liabilities	3/30/1993	1994	On Financenet ..	N/A
F	S	SFFAS 2	Accounting for Direct Loans and Loan Guarantees	8/23/1993	1994	On Financenet ..	N/A
F	S	SFFAS 3	Accounting for Inventory and Related Property	10/27/1993	1994	On Financenet ..	N/A
F	S	SFFAS 4	Managerial Cost Accounting Concepts & Standards	7/31/1995	1998	041.001.00457.2	\$7.50
F	S	SFFAS 5	Accounting for Liabilities of the Federal Government	12/20/1995	1997	041.001.00463.7	\$7.50
F	S	SFFAS 6	Accounting for Property, Plant & Equipment (PP&E)	11/30/1995	1998	041.001.00462.9	\$6.50
F	S	SFFAS 7	Accounting for Revenue and Other Financing Sources	5/10/1996	1998	041.001.00475.1	\$18.00
F	S	SFFAS 8	Supplementary Stewardship Reporting	6/11/1996	1998	041.001.00493.9	\$7.50
F	S	SFFAS 9	Deferral of Implementation Date for SFFAS 4	10/3/1997	1998	041.001.00494.7	\$1.75
F	S	SFFAS 10	Accounting for Internal Use Software	10/9/1998	2001	041.001.00524.2	\$4.00
F	S	SFFAS 11	Amendments to Accounting for PP&E—Definitions	12/15/1998	1999	041.001.00519.6	\$2.25
F	S	SFFAS 12	Recognition of Contingent Liabilities from Litigation	2/5/1999	1998	041.001.00527.7	\$2.50
F	S	SFFAS 13	Deferral of Para.65.2—Material Rev.—Related Transactions	2/5/1999	1999	041.001.00530.7	\$2.00
F	S	SFFAS 14	Amendments to Deferred Maintenance Reporting	April 1999	1999	041.001.00531.5	\$3.00
F	S	SFFAS 15	Management's Discussion & Analysis	April 1999	1999	041.001.00542.1	\$3.00
F	S	SFFAS 16	Amendments to Accounting for PP&E—Multi-Use Heritage Assets	July 1999	2000	041.001.00548.0	\$4.25
F	S	SFFAS 17	Accounting for Social Insurance	August 1999	2000	041.001.00540.4	\$12.00
F	S	SFFAS 18	Amendments to Accounting Standards for Direct & Guaranteed Loans	5/19/2000	2001	020.000.00277.8	\$4.25
F	R	Research Report	Accounting for the Natural Resources of the Federal Government	June 2000		Available from FASAB & Financenet ..	N/A
F	ED	N/A	Credit Program Reconciliation and Technical Amendments to SFFAS 2 and SFFAS 18	May 1999		8/10/2000	N/A
F	IFV	N/A	Accounting for the Cost of Capital by Federal Entities	July 1996		Deferred Project	N/A
F	I	I-1	Reporting on Indian Trust Funds	3/12/1997		On Financenet ..	N/A
F	I	I-2	Accounting for Treasury Judgment Fund Transactions	3/12/1997		On Financenet ..	N/A
F	I	I-3	Measurement Date for Pension and Retirement Health Care Liabilities	8/29/1997		On Financenet ..	N/A
F	I	I-4	Accounting for Pension Payments in Excess of Pension Expense	12/19/1997		On Financenet ..	N/A
F	I	I-5	Recognition by Recipient Entities of Receivable Non-exchange Revenue	December 1998		On Financenet ..	N/A
F	R	Report 1	Overview of Federal Financial Accounting Concepts and Standards	12/31/1996		Available—FASAB	N/A

Table 16. FASAB Documents—Continued

1	2	Number	Title	Date Issued	FY to Implement	GPO Number * or Other Information	Price
F	Cod ...	Volume 1 ...	FASAB Volume 1, Original Statements	March 1997		On Financenet ..	N/A
A	TR ...	TR 1	Audit Legal Letter Guidance	3/1/1998		041.001.00503.0	\$1.00
A	TR ...	TR 2	Environmental Liabilities Guidance	3/15/1998		041.001.00504.8	\$2.00
A	TR ...	TR 3	Preparing and Auditing Estimates for Direct and Guar- anteed Loans	February 1999 ..		On Financenet ..	
A	TR ...	TR 4	Reporting on Non-valued Seized and Forfeited Property	07/31/99		On Financenet ..	

Key:

*To obtain copies from GPO call (202) 512-1800 or go to the Internet site www.access.gpo.gov.

Column 1: F = FASAB; A = AAPC

Column 2: C = Concept; S = Standard; ED = Exposure Draft; IFV = Invitation for Views; I = Interpretation; R = Report; Cod. = Codification; TR = Technical Release

Column 3: SFFAC = Statement of Federal Financial Accounting Concept
 SFFAS = Statement of Federal Financial Accounting Standards
 SRAS = Statement of Recommended Accounting Standards

N/A = Not Applicable.

LIST OF CHARTS AND TABLES

Page

CHARTS

Chart 1.	Federal Financial Statements: Improving in Timeliness and Quality	10
Chart 2.	Increased Use of Common Administrative Services Through Franchise Fund Pilots	24
Chart 3.	Collections by Private Collection Agencies	41
Chart 4.	Non-Tax Receivables	42

TABLES

Table 1.	Challenges to Improving Federal Financial Reporting	14
Table 2.	CFO Agency Use of Government-wide Small Purchase Bankcards	22
Table 3.	Accounts Receivable and Delinquent Debt	38
Table 4.	Government-wide Collection of Non-tax Receivables	39
Table 5.	Civil Cash Collections on Litigated Debt	39
Table 6.	Number of Civil Debts Referred to the Department of Justice	40
Table 7.	Debt Referral to Treasury for Offset	41
Table 8.	Debt Referral to Treasury for Cross-Servicing	42
Table 9.	Use of CAIVRS for Loan Inquiries	44
Table 10.	Agency Grant Payment System Selections	52
Table 11.	Location of Grants Policy-Making Function	53
Table 12.	Clean and Timely Audit Opinions on Agency-wide Financial Statements ...	59
Table 13.	Clean and Timely Audit Opinions on Agency Component Financial Statements	61
Table 14.	Section Two Reporting in Agency FMFIA Reports	63
Table 15.	Section Four Reporting in Agency FMFIA Reports	64
Table 16.	FASAB Documents	66

ABBREVIATIONS

AAFS	Access America for Students
AAPC	Accounting and Auditing Policy Committee
ACES	Access Certificates for Electronic Services
AGA	Association of Government Accountants
AICPA	American Institute of Certified Public Accountants
ASAP	Treasury's Standard Application for Payments
CCR	Central Contractor Registration
CFO	Chief Financial Officer
CIO	Chief Information Officer
CNC	Currently Not Collectible
CPIC	Capital Planning and Investment Control
DCIA	Debt Collection Improvement Act of 1996
DFAS	Defense Finance and Accounting Service
EBT	Electronic Benefits Transfer
EFT	Electronic Funds Transfer
EFTPS	Electronic Federal Tax Payment System
EPIC	Electronic Processes Initiatives Committee
EX/IM	Export-Import Bank of the United States
FAC	Federal Audit Clearinghouse
FACTS	Federal Agencies' Centralized Trial-Balance System
FASAB	Federal Accounting Standards Advisory Board
FCPWG	Federal Credit Policy Working Group
FCRA	Federal Credit Reform Act of 1990
FDIC	Federal Deposit Insurance Corporation
FDP	Federal Demonstration Partnership
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FITEC	Financial Implementation Team for Electronic Commerce
FLX	Federal Learning eXchange
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS	Treasury Financial Management Service
FTA	Federation of Tax Administrators
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GMRA	Government Management Reform Act of 1994
GOALS	Government On-Line Accounting Link System
GPEA	Government Paperwork Elimination Act of 1998
GPRA	Government Performance and Results Act of 1993
GPADS	Government Portfolio Analysis Database
IAEGC	Inter-agency Electronic Grants Committee
IG	Inspector General
IPAC	Intra-Governmental Payment and Collection System
IRS	Internal Revenue Service
ITRB	Information Technology Resources Board
JFMIP	Joint Financial Management Improvement Program
KSAs	Knowledge, Skills, and Abilities
NIST	National Institute for Standards and Technology
NPR	National Performance Review/National Partnership for Reinventing Government

OMB	Office of Management and Budget
PCAs	Private Collection Agencies
PCIE	President's Council on Integrity and Efficiency
PFA	Program Financial Advisors
PIN	Personal Identification Numbers
PKI	Public Key Infrastructure
PMI	Presidential Management Intern
PMS	HHS Payment Management System
PP&E	Property, Plant and Equipment, and Inventories
RHS	USDA Rural Housing Service
RTC	Resolution Trust Corporation
SF-SAC	Data Collection Form
SGL	Standard General Ledger
TOP	Treasury Offset Program
TROR	Treasury Report on Receivables
Y2K	Year 2000

CFO ACT AGENCIES

USDA	Department of Agriculture
DOC	Department of Commerce
DOD	Department of Defense
Education	Department of Education
DOE	Department of Energy
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
DOI	Department of the Interior
DOJ	Department of Justice
DOL	Department of Labor
State	Department of State
DOT	Department of Transportation
Treasury	Department of the Treasury
VA	Department of Veterans Affairs
AID	Agency for International Development
EPA	Environmental Protection Agency
FEMA	Federal Emergency Management Agency
GSA	General Services Administration
NASA	National Aeronautics and Space Administration
NSF	National Science Foundation
NRC	Nuclear Regulatory Commission
OPM	Office of Personnel Management
SBA	Small Business Administration
SSA	Social Security Administration

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