United States Government Accountability Office

Report to Congressional Requesters

August 2020

FEDERAL FINANCIAL MANAGEMENT

Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits

GAO-20-566

GAO Highlights

Highlights of GAO-20-566, a report to congressional requesters

August 2020

FEDERAL FINANCIAL MANAGEMENT

Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits

Why GAO Did This Study

Prior to enactment of the CFO Act, federal agencies lost billions of dollars through fraud, waste, abuse, or mismanagement. The CFO Act was enacted, in part, to address these problems—calling for comprehensive federal financial management reform. Among other things, the act established CFO positions, provided for long-range planning, and began the process of auditing federal agency financial statements. The act also called for integrating accounting and financial management systems, and systematic performance measurement and cost information.

GAO was asked to review federal financial management since the CFO Act. This report discusses (1) progress the federal government has made in achieving the purposes of the CFO Act and improving federal financial management and (2) remaining challenges for the federal government in achieving effective government-wide financial management.

GAO reviewed relevant laws, guidance, and reports; conducted interviews of current and former federal financial management officials; held a discussion group with former CFOs and a panel discussion with experts in federal financial management; and conducted surveys of CFOs, inspectors general, and independent public accountants.

View GAO-20-566. For more information, contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov or Robert F. Dacey at (202) 512-3406 or daceyr@gao.gov.

What GAO Found

Since enactment of the Chief Financial Officers Act of 1990 (CFO Act), the federal government has significantly improved its financial management, though challenges remain.

Progress Made in Federal Financial Management since the CFO Act

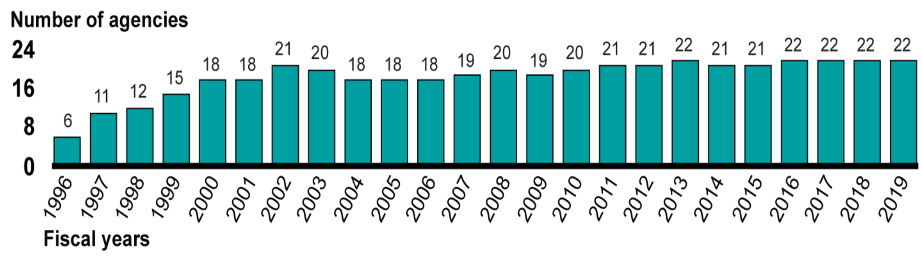
Leadership

- Centralized leadership structures were established—Deputy Director for Management and Controller positions and chief financial officers (CFO).
- Office of Management and Budget (OMB) prepared government-wide plans, issued guidance, and directed financial management activities.
- Department of the Treasury (Treasury) issued financial reporting guidance and a 10-year vision for federal financial management.
- CFO Council undertook initiatives to address government-wide financial management issues.
- Inspectors general recommended improvements in government operations and prevented and detected fraud, waste, and abuse.

Financial reporting

- Agencies' audited financial statements improved accountability (see figure).
- Since fiscal year 1997, Treasury, in coordination with OMB, annually prepared consolidated financial statements for the U.S. government.
- Federal Accounting Standards Advisory Board issued 58 standards.

Number of Unmodified ("Clean") Audit Opinions for Chief Financial Officers Act of 1990 Agencies for Fiscal Years 1996 through 2019



Source: GAO analysis based on Financial Reports of the United States Government. See figure 4 in GAO-20-566 for details. | GAO-20-566

Internal control

- CFO Act agencies significantly improved their internal controls, increasing the reliability of their financial information.
- Treasury and OMB made significant progress in improving controls related to the consolidated financial statements of the U.S. government.
- Annual audits identified the significance of improper payments and information security weaknesses.

What GAO Recommends

GAO is identifying eight matters for congressional consideration, including that Congress consider legislation to require

- CFOs at the CFO Act agencies to have the responsibilities necessary to effectively carry out federal financial management activities;
- deputy CFOs at the CFO Act agencies to have defined responsibilities consistent with the breadth of those of the agency CFO;
- preparation of government-wide and agency-level 4-year financial management plans, including actions to improve financial management systems, strengthen the federal financial management workforce, and better link performance and cost information for decision-making, as well as an annual financial management status report;
- preparation of comprehensive financial management performance-based metrics and reporting of executive agencies' performance against the metrics; and
- identification and, if necessary, development of key financial management information needed for effective financial management and decision-making as well as annual assessments and reporting by management on the effectiveness of internal control over the information and auditor testing and reporting on internal control over the information.

Treasury and OPM provided technical comments on the draft report. In its oral comments, OMB stated that it appreciated the incorporation of its views into the draft report and reemphasized its concerns relating to two matters for congressional consideration—a government-wide 4-year financial management plan and an annual status report and agencies assessing and reporting on the effectiveness of internal controls over key financial management information. GAO continues to believe that these measures would improve federal financial management.

Financial management systems

- CFO Act agencies took steps to improve financial management systems and use government-wide providers for certain agency functions (e.g., payroll).

Financial management workforce

- Office of Personnel Management periodically updated key standards.

Challenges That Remain in Federal Financial Management

Leadership

- CFOs would benefit from standardized financial management responsibilities to provide them with the necessary authorities to achieve the full potential of the CFO Act.
- Deputy CFO positions would be strengthened by defined financial management responsibilities consistent with the breadth of those of the agency CFO. With frequent CFO turnover and a potentially lengthy vacancy period, long-term planning and leadership continuity can be affected.
- Government-wide financial management plans, prepared every 4 years, would help to address long-standing, costly, and challenging concerns in a strategic, comprehensive, and cost-effective manner. Annual government-wide plans, required by the CFO Act, were last prepared by OMB for fiscal year 2009.

Financial reporting

- Improving the linking of agency performance and cost information would help policymakers and managers make fully informed decisions.
- Agencies currently have limited financial management performance-based metrics to help them assess the quality of their financial management.
- Agencies may not have key financial management information needed for decision-making, such as for grants management. Without identifying and, if necessary, developing this information, the government cannot adequately ensure accountability or manage for results.

Internal control

- Agencies may not have reasonable assurance that key financial management information is reliable. Without separately assessing and reporting on the effectiveness of internal controls over financial reporting and other key financial management information and independent audit testing, management lacks reasonable assurance of the reliability of such information.
- Opportunities exist to address government-wide improper payments, which were estimated at about $175 billion for fiscal year 2019.
- Material weaknesses continue to prevent an audit opinion on the U.S. government's consolidated financial statements.

Financial management systems

- Opportunities exist for improving financial management systems to reduce frequent failures or cost overruns and lengthy delays in deployment, and increase compliance with systems requirements.
- Some agencies rely on legacy systems that use outdated languages, are costly to maintain, and may not report reliable information.
- The widespread adoption of shared services—government-wide providers handling certain agency functions—faces challenges, thereby limiting cost savings.

Financial management workforce

- Comprehensive planning could help agencies build a federal financial management workforce that can adapt to modern needs and close skills gaps.

Contents

Figures

Abbreviations

AFR	agency financial report
AGA	Association of Government Accountants
APR	annual performance report
ATDA	Accountability of Tax Dollars Act of 2002
CFO	chief financial officer
CFO Act	Chief Financial Officers Act of 1990
CFS	government-wide consolidated financial statements
CHCO	chief human capital officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
COBOL	Common Business Oriented Language
COVID-19	Coronavirus Disease 2019
DATA Act	Digital Accountability and Transparency Act of 2014
DOD	Department of Defense
E-government	electronic government
ECIE	Executive Council on Integrity and Efficiency
ERM	enterprise risk management
FASAB	Federal Accounting Standards Advisory Board

FFATA	Federal Funding Accountability and Transparency Act of 2006
FFMIA	Federal Financial Management Improvement Act of 1996
Financial Report	Financial Report of the United States Government
FISMA 2002	Federal Information Security Management Act of 2002
FISMA 2014	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act of 1982
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
HUD	Department of Housing and Urban Development
IG	inspector general
IG Act	Inspector General Act of 1978
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IT	information technology
JFMIP	Joint Financial Management Improvement Program
OIG	office of inspector general
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAR	performance and accountability report
PCIE	President's Council on Integrity and Efficiency
PIIA	Payment Integrity Information Act of 2019
PMA	President's Management Agenda
QSMO	Quality Services Management Office
SFFAS	Statement of Federal Financial Accounting Standards
Treasury	Department of the Treasury

441 G St. N.W.
Washington, DC 20548

August 6, 2020

The Honorable Michael B. Enzi
Chairman
Committee on the Budget
United States Senate

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Kamala D. Harris
United States Senate

The Honorable Mark R. Warner
United States Senate

It has been nearly 30 years since enactment of the Chief Financial Officers Act of 1990 (CFO Act)[1]—at the time heralded as the most comprehensive legislation enacted to reform federal financial management in decades. Congress designed the CFO Act, among other things, to modernize the government's financial management leadership structures, effectively manage and safeguard taxpayer-provided resources, equip government leaders with timely and reliable information to better manage the cost of government, and professionalize the federal financial management workforce.

With the Coronavirus Disease 2019 (COVID-19) pandemic—which has required unprecedented federal action to protect public health and reduce economic impacts on individuals and businesses—now more than ever lawmakers and government leaders need access to timely and reliable financial information. The nation faces serious economic, security, and social challenges that require Congress and the administration to make difficult, near-term policy choices in setting national priorities and charting a path forward for economic recovery and growth. These choices will influence the level and composition of federal spending and how the government obtains needed resources. The reforms initiated as a result

[1]Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

of the CFO Act are essential in helping to provide the type of information needed to make such tough choices.

You asked us to review federal financial management since enactment of the CFO Act in 1990. In October 2019, while conducting our review, we testified that the federal government has made significant strides in improving federal financial management since its enactment.[2] We also offered preliminary observations on several opportunities for enhancing federal financial management. In February 2020, the Chairman of the Senate Committee on the Budget introduced bipartisan legislation, S. 3287, titled the CFO Vision Act of 2020, to strengthen financial management by updating the CFO Act.[3] We support this bipartisan legislation and believe that it would help to strengthen the federal government's financial management if enacted.

This report presents the findings of our completed review and expands on our 2019 testimony. This report discusses (1) progress the federal government has made in achieving the purposes of the CFO Act and improving federal financial management and (2) remaining challenges for the federal government in achieving effective government-wide financial management. We previously recognized five principal areas needed to fully realize the first-rate financial management anticipated by the CFO Act: (1) leadership, (2) financial reporting, (3) internal control, (4) financial management systems, and (5) the federal financial management workforce. The progress and challenges discussed in this report are organized around these five areas.

To address our objectives, we reviewed relevant legislation, federal financial management guidance, and related reports and conducted interviews with current and former federal officials with experience in financial management. We also held a discussion group with former chief financial officers (CFO) and a panel discussion with experts in federal financial management; administered an electronic questionnaire to the CFOs or acting CFOs from the 24 agencies identified in the CFO Act to gain their perspectives on the roles and responsibilities of CFOs and deputy CFOs; and conducted web-based surveys of federal CFOs,

---

[2]GAO, *Federal Financial Management: Substantial Progress Made since the CFO Act of 1990 and Preliminary Observations on Opportunities for Enhancement*, GAO-20-203T (Washington, D.C.: Oct. 30, 2019).

[3]CFO Vision Act of 2020, S. 3287, 116th Cong. (2020). The bill was reported favorably by the Committee on Homeland Security and Governmental Affairs on July 22, 2020. As of July 28, 2020, the bill is pending consideration by the Senate.

deputy CFOs, inspectors general (IG), and independent public accountants who performed federal audits to obtain views on issues related to financial management. See appendix I for further details on our scope and methodology.

We conducted this performance audit from October 2018 to August 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Purposes of the Chief Financial Officers Act of 1990

(1) Bring more effective general and financial management practices to the federal government through statutory provisions that would establish in the Office of Management and Budget a Deputy Director for Management and an Office of Federal Financial Management headed by a Controller as well as designate a chief financial officer in each executive department and in each major executive agency in the federal government.

(2) Provide for improvement, in each agency of the federal government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of government resources.

(3) Provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the government and the Congress in the financing, management, and evaluation of federal programs.

Source: Chief Financial Officers Act of 1990, § 102(b). I GAO-20-566

Prior to enactment of the CFO Act, government auditors found that federal agencies lost billions of dollars through fraud, waste, abuse, and mismanagement. Government reports painted the picture of a federal government unable to properly manage its programs, protect its assets, or provide taxpayers with the effective and economical services they expected. Reported financial management problems included unreliable financial information driven by widespread weaknesses in agencies' internal controls over financial reporting and obsolete and inefficient financial management systems throughout the government.

For example, in 1988, we reported on numerous internal control problems across agencies, such as the Department of Defense (DOD) being unable to account for hundreds of millions of dollars in advances that foreign customers paid for equipment, over $50 million in undetected fraudulent insurance claims paid by the Federal Crop Insurance Corporation, millions of dollars in interest penalties because agencies paid 25 percent of their bills late, and over $350 million in lost interest because agencies paid their bills too soon.[4] In addition, financial reporting practices did not accurately disclose the current and probable future cost of operating, permit adequate comparison of actual costs among executive branch agencies, or provide the timely information required for efficient program management.

These significant challenges highlighted the dire need for federal financial management reforms and led to enactment of the CFO Act. In the 1980s,

[4]GAO, *Federal Financial Management Reform*, GAO/T-AFMD-88-18 (Washington, D.C.: Sept. 22, 1988).

we testified on a number of occasions before Congress on the need for federal financial management reform and made specific proposals for improvements. For example, in 1985, we reported on problems affecting federal financial management and proposed a conceptual framework to guide critically needed reform efforts.[5] Legislation introduced in the 99th and 100th Congresses proposed significant reforms to federal financial management operations. In June 1987, we submitted to Congress draft legislation to improve federal financial management. The CFO Act was enacted on November 15, 1990, and included several of our proposed reforms.

The CFO Act also set in motion a series of mandated, groundbreaking reforms designed to address the government's long-standing and significant financial management problems. These reforms, among other things, were designed to provide overall direction and leadership to develop a modern financial management structure and associated systems; stop the billions of dollars lost each year from fraud, waste, abuse, and mismanagement of taxpayer-provided resources; and improve the accuracy and reliability of the government's financial reporting practices so that information on the costs of operating the government could be determined and used to manage government programs efficiently. Figure 1 summarizes key financial management reform laws that have been enacted to help improve federal financial management before and after enactment of the CFO Act.

[5]GAO, *Managing the Cost of Government: Building an Effective Financial Management Structure*, GAO/AFMD-85-35-A (Washington, D.C.: February 1985).

Figure 1: Timeline of Key Federal Financial Management Reform Laws through 2020

Prior to the 1990s

1950
Budget and Accounting Procedures Act of 1950
Assigned financial management responsibilities primarily to individual agencies, with requirements for agency systems of internal control and with GAO prescribing accounting principles and standards and reviewing and approving accounting systems

1982
Federal Managers' Financial Integrity Act of 1982
Required annual evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency, based on standards to be issued by GAO

1990s

1990
Chief Financial Officers Act of 1990 (CFO Act)
Provided a framework for federal financial management and instituted reporting requirements for certain federal agencies

1993
Government Performance and Results Act of 1993 (GPRA)
Created annual performance-related reporting requirements for agencies

1994
Government Management Reform Act of 1994 (GMRA)
Created a requirement for the annual preparation and audit of CFO Act agency and government-wide financial statements

1996
Federal Financial Management Improvement Act of 1996
Established requirements for CFO Act agency financial management systems to generate reliable, useful, and timely information

2000s

2002
Accountability of Tax Dollars Act of 2002
Expanded CFO Act and GMRA requirements for audited financial statements to cover most executive branch entities

2002
Chief Human Capital Officers Act of 2002
Established chief human capital officers (CHCO) for CFO Act agencies, created the CHCO Council, and included provisions related to direct-hire authority

2002
Improper Payments Information Act of 2002 (IPIA)
Required agency heads to report improper payment estimates for programs found susceptible, based on a risk assessment

2002
E-Government Act of 2002
Established a framework for using internet-based information technology to enhance citizen access to government information and services and an Office of Electronic Government within the Office of Management and Budget (OMB)

2002
Federal Information Security Management Act (FISMA)
Enacted as part of the broader E-Government Act of 2002, FISMA provided a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support federal operations and assets

2006
Federal Funding Accountability and Transparency Act of 2006 (FFATA)
Required the establishment of a publicly accessible and searchable website containing data on federal contracts, loans, grants, and other financial assistance awards

2010s and 2020

2010
Improper Payments Elimination and Recovery Act of 2010
Refined IPIA requirements to incorporate inspector general reviews, recovery audits, and enhanced reporting requirements

2010
GPRA Modernization Act of 2010
Updated GPRA strategic and performance plan requirements and established agency chief operating officers, agency performance improvement officers, and the Performance Improvement Council

2013
Improper Payments Elimination and Recovery Improvement Act of 2012
Amended IPIA by requiring OMB to annually identify a list of high-priority federal programs for greater oversight and review by agency inspectors general and established the Do Not Pay Initiative

2014
Digital Accountability and Transparency Act of 2014
Expanded FFATA; directed OMB and the Department of the Treasury to establish government-wide data standards; and aims to provide consistent, reliable, and searchable data

2014
Federal Information Security Modernization Act of 2014
Replaced provisions enacted by FISMA 2002 with updated language aimed at modernizing and strengthening federal agencies' information security

2020
Payment Integrity Information Act of 2019
Codified and updated existing federal improper payments laws, including enhancements for certain requirements, and established an interagency working group on payment integrity

Source: GAO analysis. I GAO-20-566

The CFO Act Led to Significant Progress in Federal Financial Management

In the nearly 30 years since enactment of the CFO Act, the federal government has made significant strides in reforming and improving its federal financial management. While the CFO Act served as the impetus and foundation for many of the improvements and identified key areas for reform in federal financial management, subsequent financial management legislation, leadership efforts, advances in technology, and efforts from the federal workforce were also contributing factors. In establishing the CFO Act, Congress noted in its findings the major areas for reform in financial management of the government (see text box).

Chief Financial Officers Act of 1990 (CFO Act) Findings

Congressional findings outlined in the CFO Act include the following:

Leadership and Workforce:
Financial management functions needed to be significantly enhanced to provide overall direction and leadership in developing a modern federal financial management structure and associated systems.

Financial Reporting:
Financial reporting practices did not accurately disclose the current and probable future cost of operating and investment decisions and did not provide the timely information required for efficient management of programs.

Internal Control:
Billions of dollars were lost each year through fraud, waste, abuse, and mismanagement, and these losses could be significantly decreased by improved management, including improved central coordination of internal controls and financial accounting.

Financial Management Systems:
Financial management requirements and practices were in need of reform as financial management systems were obsolete and inefficient and did not provide complete, consistent, reliable, and timely information.

Source: GAO analysis of the Chief Financial Officers Act of 1990, § 102(a). I GAO 20-566

The five principal areas in financial management covered by the CFO Act are leadership, financial reporting, internal control, financial management systems, and the workforce. We use icons to help identify each of the five areas discussed throughout this report.[6] For each of these areas, we provide (1) background and context for the conditions that existed prior to the CFO Act and (2) an assessment of the progress made since enactment of the CFO Act in improving federal financial management.

[6]Source for the icons is GAO.

Leadership Progress

The federal government has made substantial progress in financial management leadership since the CFO Act. One of the goals of the CFO Act was to centralize leadership structures and direction, including long-term financial management plans, to improve the government's financial management. Nearly 3 decades since enactment of the CFO Act, there has been substantial reform and improvement in the government's financial management, which can be attributed to the centralized leadership structures, the enactment and implementation of other financial management legislation, and the noteworthy efforts and actions taken by dedicated government executives and federal employees. Figure 2 highlights some of the major progress related to leadership in federal financial management that has occurred since the CFO Act.

Figure 2: Leadership Progress in Federal Financial Management through the Decades

1990 CFO Act

Prior to the 1990s	1990s	2000s	2010s
The government's leadership structure, financial processes, and financial management systems were decentralized since World War II The government experienced significant growth in its expenditures because of the Vietnam War and newly developed social programs in the 1960s and 1970s. With the new programs, the trend toward decentralization continued and complicated financial management The government lacked a government-wide plan; consistent, central guidance or scrutiny; or standards by which to compare and judge these efforts	Centralized financial management leadership structures and positions established Five-year government-wide financial management plans that included financial management priorities issued annually Priorities included: - Obtain unmodified ("clean") audit opinions on agency financial statements - Issue accounting standards - Develop CFO organizations - Improve financial management systems	Five-year government-wide financial management plans that included financial management priorities issued annually PMAs issued and scorecards measured performance and tracked results Priorities included: - Strengthen internal controls - Increase agencies with clean audit opinions - Reduce improper payments - Improve DOD's financial management - Reduce differences in accounting for transactions between federal agencies	Financial management priorities included in the PMA, government-based websites, and other documents Priorities included: - Strengthen internal controls - Increase agencies with clean audit opinions - Reduce improper payments - Improve DOD's financial management - Reduce differences in accounting for transactions between federal agencies - Improve the sharing of mission-support services between federal agencies - Improve outcomes on spending for information technology

CFO = chief financial officer
CFO Act = Chief Financial Officers Act of 1990
DOD = Department of Defense
PMA = President's Management Agenda

Source: GAO analysis. I GAO-20-566

Around the time of World War II, the pressure of mobilizing the nation for war necessitated the rapid decentralization of the government's financial processes and systems. This came at a time when the federal bureaucracy had already expanded rapidly to meet the challenges of recovering from a worldwide depression. It was not possible with pre–World War II era technology to maintain centralized control over rapidly expanding government activities during this period of national crisis. The decentralized financial management systems adopted during this crisis period became part of the custom of overall financial management in the federal government.

In the 1960s and 1970s, the federal government experienced significant growth. Federal government expenditures for the Vietnam War and new Great Society social programs, which included those addressing poverty, housing, voting rights, regional medical centers, air and water pollution, and beautification of city parks and streets programs, increased the federal budget. Along with this growth came a trend toward decentralizing the responsibility for carrying out the programs, a trend that complicated the question of accountability for program results. State and local governments, nonprofit organizations, and private contractors were called on to provide services to the people. In many cases, federal funds were merged with financing from other sources, with policy development and implementation becoming a joint responsibility that complicated federal financial management.

The government's decentralized approach was not working effectively. For example, prior to the CFO Act, we and agency IGs reported for years on agencies' problems with wasteful spending and poor management resulting in losses that totaled billions of dollars.[7] Problems were not limited to a few agencies or a few programs; rather, all of the major agencies had serious problems. We testified in 1990 that the scarcity of central direction, the lack of leadership, and the absence of a clear plan allowed problems to persist.[8]

Moreover, prior to the 1990s, hundreds of accounting and financial system improvement projects, costing hundreds of millions of dollars each year, had been undertaken throughout the federal government without (1) any government-wide plan; (2) consistent, central guidance or scrutiny; or (3) standards by which to compare and judge these efforts. Federal agencies had spent a lot of money over the years on ad hoc financial management improvements that had collectively not achieved their

[7]GAO, *CFO Act of 1990: Driving the Transformation of Federal Financial Management*, GAO-06-242T (Washington, D.C.: Nov. 17, 2005).

[8]GAO, *Financial Management Reform*, GAO/T-AFMD-90-31 (Washington, D.C.: Sept. 17, 1990).

targets. Without an overall plan and central leadership to guide those efforts, projects continued to suffer delays or fail altogether.

The CFO Act contained provisions to significantly enhance the financial management leadership of the federal government. Among other provisions, the act created a centralized structure for the federal government's financial management functions and systems and provided the Office of Management and Budget (OMB) with broad authority and leadership responsibilities. The CFO Act also called for an annual government-wide 5-year financial management plan, supported by agency-level plans.

Since the CFO Act, the federal government has made notable progress with leadership efforts, which have resulted in groundbreaking reforms in federal financial management. These efforts are largely the result of (1) legislation that defined leadership roles and responsibilities, and provided resources, and (2) the actions taken by OMB, the Department of the Treasury (Treasury), the CFO Council, agency CFOs, agency IGs, and GAO to improve federal financial management over the 30 years since enactment of the CFO Act. Table 1 highlights leadership progress in federal financial management since the CFO Act.

Table 1: Leadership Progress since the Chief Financial Officers Act of 1990

Leadership 	• Centralized organizational leadership structures and positions established. • The Office of Management and Budget prepared government-wide plans, directed activities, and issued guidance. • The Department of the Treasury prepared government-wide guidance and financial statements and issued a vision for federal financial management. • The Chief Financial Officers (CFO) Council undertook various financial management initiatives. • Agency CFOs provided leadership in federal financial management. • Inspectors general contributed to improvements in financial management. • GAO identified and advocated for financial management reform and issued standards and guidance.

Source: GAO analysis. I GAO-20-566

Centralized Organizational Leadership Structures and Positions Established

Strong centralized leadership is essential to solving the government's long-standing financial management problems. The CFO Act enhanced financial management leadership by giving OMB broad new authority and overall responsibility for directing federal financial management, modernizing the government's financial management systems, and strengthening financial reporting. The CFO Act, as amended, also established a CFO position in each of the 24 CFO Act agencies.[9]

The CFO Act created a new position in OMB, the Deputy Director for Management, who is the government's chief official responsible for financial management. While the CFO Act emphasized improved financial management, it also charged OMB's Deputy Director for Management with overseeing many of the federal government's general management functions. In addition, the CFO Act established a new Office of Federal Financial Management (OFFM) in OMB to carry out government-wide financial management initiatives and responsibilities. To head this office, the CFO Act established the position of Controller, an individual who is to possess demonstrated ability and practical experience in accounting, financial management, and financial systems. This individual has responsibility for handling the day-to-day operations of OFFM to ensure that financial operations are being properly carried out government-wide.

Executive-level leadership is critical for building the foundation of control and accountability needed to support an agency's financial management, including financial reporting and performance management—both of which are key to the CFO Act. The act established a CFO position for each major agency, referred to as CFO Act agencies, which are shown in table 2.

[9]The list of CFO Act agencies is codified, as amended, at 31 U.S.C. § 901(b), and consists of the 15 executive departments and certain executive agencies. Initially, 23 agencies were designated as subject to the CFO Act. Upon its establishment as an independent agency, the Social Security Administration was added in 1994. Social Security Independence and Program Improvements Act of 1994, Pub. L. No. 103-296, § 108(j)(1), 108 Stat. 1464, 1488 (Aug. 15, 1994). The Federal Emergency Management Agency, one of the original CFO Act agencies, was transferred to the Department of Homeland Security (DHS) in 2003 and was no longer considered a CFO Act agency. Homeland Security Act of 2002, Pub. L. No. 107-296, § 503, 116 Stat. 2135, 2213 (Nov. 2, 2002). The Department of Homeland Security Financial Accountability Act of 2004 added DHS to the list of CFO Act agencies thus bringing the number of CFO Act agencies again to 24 beginning in fiscal year 2005. Pub. L. No. 108-330, § 3(a), 118 Stat. 1275, 1276 (Oct. 16, 2004). A separate provision establishing a CFO position within the Executive Office of the President (EOP) was added to the CFO Act in 1999. Treasury and General Government Appropriations Act, 2000, Pub. L. No. 106-58, title VI, § 638, 113 Stat. 430, 475 (Sept. 29, 1999), *codified at* 31 U.S.C. § 901(c). However, the President has authority to determine the scope of authority and functions of the EOP CFO, and, for the purposes of this report, we do not consider EOP to be a CFO Act agency.

Table 2: List of Chief Financial Officers Act of 1990 (CFO Act) Agencies, as Amended

• Agency for International Development	• Department of State
• Department of Agriculture	• Department of Transportation
• Department of Commerce	• Department of the Treasury
• Department of Defense	• Department of Veterans Affairs
• Department of Education	• Environmental Protection Agency
• Department of Energy	• General Services Administration
• Department of Health and Human Services	• National Aeronautics and Space Administration
• Department of Homeland Security	• National Science Foundation
• Department of Housing and Urban Development	• Nuclear Regulatory Commission
• Department of the Interior	• Office of Personnel Management
• Department of Justice	• Small Business Administration
• Department of Labor	• Social Security Administration

Source: 31 U.S.C. § 901(b). I GAO-20-566

An agency CFO is to be a key figure in an agency's top management team. In CFO Act agencies, the CFO is either (1) appointed by the president, with Senate confirmation, or (2) appointed by the agency head. Each CFO is assisted by a deputy CFO who is generally a career civil servant. Two-thirds of CFO positions are presidentially appointed and require Senate confirmation.[10] Both the CFO and the deputy CFO are to possess demonstrated abilities in accounting, budget execution, financial and management analysis, and systems development and practical experience in financial management practices in large governmental or business entities.

The CFO's responsibilities include (1) developing and maintaining integrated accounting and financial management systems; (2) directing, managing, and providing policy guidance and oversight of all agency financial management personnel, activities, and operations; and (3) overseeing the recruitment, selection, and training of personnel to carry out agency financial management functions. In addition, each CFO for the

[10]Agencies with CFO positions that under the CFO Act, are presidentially appointed with Senate confirmation include the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, the Interior, Labor, State, Transportation, the Treasury, and Veterans Affairs; the Environmental Protection Agency; and the National Aeronautics and Space Administration. The CFO Act also lists the Department of Justice among agencies with a presidentially appointed, Senate-confirmed CFO, but a more specific provision of law supersedes this, directing the Assistant Attorney General for Administration—who is appointed by the Attorney General, with the approval of the President—to serve as the CFO for the department. 28 U.S.C. § 507.

24 CFO Act agencies serves on the CFO Council, which regularly meets to advise and coordinate the activities of its members on such matters as consolidation and modernization of financial systems. The CFO Act created the council and specified that it be chaired by OMB's Deputy Director for Management. Other members are OMB's Controller and Treasury's Fiscal Assistant Secretary.

The leadership structures envisioned by the CFO Act were put in place in the early 1990s under the leadership of OMB and with efforts undertaken by one of the CFO Council's working groups—the Council Operations Group. The OMB Deputy Director for Management and Controller positions were first filled shortly after enactment of the CFO Act. Over the years since the CFO Act, generally, both of these government-wide financial management positions have been filled. However, since January 2017, there has not been a Controller serving in this critically important position.

For the agency CFOs, in 1991, OMB issued guidance for preparing the agency reorganization plans to transfer the functions and personnel required by the CFO Act to agency CFOs.[11] This guidance detailed the authorities, functions, and responsibilities that an agency CFO is to have for compliance with the act. By 1992, according to OMB, the Council Operations Group focused on improving the effectiveness of individual CFO offices by ensuring that (1) well-qualified individuals were appointed as agency CFOs and (2) better communications between financial managers and program managers and CFO offices and component financial management functions occurred. Through the years, the CFO Council has taken steps to help recruit, retain, and train financial management personnel.

OMB Prepared Government-Wide Plans, Directed Activities, and Issued Guidance

In the early 1990s, with government-wide and agency leadership structures in place, a structured government-wide approach to planning and developing activities for addressing the government's massive financial management problems was critical. To that end, OMB provided leadership by communicating government-wide priorities and assessing agency progress; directing activities—many of which were led by the CFO Council—to resolve problems and modernize financial management; and

[11] The CFO Act required the head of each agency to submit to OMB a proposal for reorganizing the agency for the purposes of the act, including (1) a description of all functions, powers, duties, personnel, property, or records that the agency CFO is proposed to have authority over and (2) a detailed outline of the administrative structure of the agency CFO's office.

issuing government-wide guidance to strengthen and standardize agencies' financial management processes and practices. OMB has provided information on the President's priorities and plans for improving federal financial management through a variety of documents and websites, including

- government-wide annual 5-year financial management plans,
- the President's Management Agenda (PMA),
- a section in the annual government-wide consolidated financial statements, and
- websites such as Performance.gov and CFO.gov.

The CFO Act requires OMB to submit to Congress, annually, a government-wide 5-year plan for improving financial management. The CFO Act also requires each agency CFO to prepare and annually revise an agency plan to implement the government-wide 5-year plan. The annual 5-year government-wide plan is to be a vision of how financial management reform is to be carried out—a blueprint for change with a set of clear expectations. Each 5-year plan submitted by OMB is to include information such as

- a description of the existing financial management structure and any changes needed to establish an integrated financial management system;
- a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems;
- proposals to eliminate duplicative and other unnecessary systems;
- projects to bring existing systems into compliance with applicable standards and requirements;
- milestones for equipment acquisitions and other actions necessary to implement the 5-year plan;
- financial management personnel needs and actions to ensure that those needs are met;
- a plan for ensuring the annual audit of financial statements of executive agencies pursuant to the act;
- cost estimates for implementing the government-wide 5-year plan; and

- for all but the initial 5-year plan, a report on executive branch implementation of the plan during the preceding fiscal year.

From 1992 through 1994, the annual government-wide 5-year plans, among other things, identified the prioritization of areas for reform, discussed the plans for reform, and assessed progress. For example, the areas of prioritization section in the 1993 5-year plan stated that “Ideally, the Federal Government would first establish accounting standards and principles, then reengineer business operations, perform feasibility studies for financial systems, develop requirements, implement systems, and finally audit the financial information for reliability and the operations for performance evaluation. Yet the importance of improving the quality of financial information in the near term means that these efforts must go forward concurrently.” In addition, the government-wide 5-year plans also assessed the efforts and progress the government made in areas for reform (see text box below).

Excerpts on Progress from the Office of Management and Budget's (OMB) 1993 5-Year Government-Wide Financial Management Plan

Accounting Standards:
"In 1992, the Federal Accounting Standards Advisory Board made significant progress toward developing a consistent conceptual approach to accounting standards by defining the objectives of financial reporting for the federal government. These financial reporting objectives must be finalized, and the process for developing accounting standards must be accelerated."

Financial Management Organization:
"Very significant progress has been made in establishing the financial management organizational structures required by the Chief Financial Officers Act of 1990. Government-wide efforts in this area must now concentrate on effectiveness rather than structure. Toward that end, the Chief Financial Officers Council Operations Group made good progress in 1992."

Internal Controls:
"OMB intends to focus in the future on convincing agency managers that management controls (i.e., internal controls) are a tool for effective program operations. This will require changes in OMB policies, improved interaction between inspectors general and agency managers, and considerable OMB outreach and education."

Audited Financial Statements:
"OMB's plans for audited financial reporting are ambitious. Significant progress was made in 1992 in improving the quality of federal agency financial information. Guidance on the form and content of audited financial statements was modified to improve their usefulness; and accountants and auditors received training on the requirements for preparing financial statements."

Milestones:
"Over the period of this 5-year plan, OMB plans to continue to simplify the administrative requirements for federal assistance programs, and reduce the overhead costs associated with these programs. In 1993, OMB will proceed with significant revisions to policies regarding standard administrative requirements, cost principles for accounting for federal funds, and audit requirements."

Source: GAO presentation of OMB Information. | GAO-20-566

The 1995 through 1999 annual government-wide 5-year plans also described the priorities for improving financial management, including those related to

- obtaining unmodified, or “clean,” opinions on financial statements and issuing accounting standards;
- improving financial management systems;
- implementing the Government Performance and Results Act of 1993 (GPRA);[12]
- developing human resources and CFO organizations;
- ensuring management accountability and control; and
- improving administration of federal assistance programs.

The 2000 through 2009 annual government-wide 5-year plans OMB issued included priorities related to

- strengthening internal controls,
- achieving standardization and efficiencies in financial management,
- fully implementing the Federal Financial Management Improvement Act of 1996 (FFMIA),[13]
- meeting financial reporting targets for timeliness and increasing the number of agencies with clean audit opinions,
- improving DOD financial management performance,
- reducing erroneous payments,
- improving grants management,
- improving the government’s fiscal sustainability reporting,
- reducing differences in accounting for transactions between federal agencies (intragovernmental transactions),
- improving payment accuracy and recovery auditing, and

[12]Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

[13]Pub. L. No. 104-208, div. A., § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996). FFMIA is discussed further in the section of this report on financial management systems.

- strengthening control over federal charge cards.

In addition, in 2001, OMB issued the PMA, which it referred to as an aggressive strategy for improving the management of the federal government. The PMA focused on five areas of management weakness across the government.[14] One government-wide target was to improve financial performance by ensuring that federal financial management systems produce accurate, timely, and useful information to support operating, budget, and policy decisions and to manage and reduce the extent of erroneous payments in federal programs. According to OMB, since 2001, the PMA has been revised and updated by each successive administration to provide the strategic vision necessary to drive financial transformation.

Also in 2001, OMB began using the Executive Branch Management Scorecard to ensure accountability for performance and track results toward achieving the goals of the PMA. The scorecard employed a simple "traffic light" grading system. Based upon a comprehensive set of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has even one of a number of serious flaws. The scorecard tracked 23 of the 24 CFO Act agencies.[15] According to OMB, one of the initiatives related to "Improved Financial Performance" had standards that consisted of

- meeting federal financial management systems requirements and applicable federal accounting and transaction standards, as reported by the agency head;
- having accurate and timely financial information;
- integrating financial and performance management systems supporting day-to-day operations; and
- having a clean and timely audit opinion on the annual financial statements and no auditor-reported material weaknesses in internal control.

[14]See https://georgewbush-whitehouse.archives.gov/omb/budintegration/pma_index.html (accessed May 5, 2020).

[15]The scorecard excluded the Nuclear Regulatory Commission.

OMB stated that all four standards needed to be met to help to ensure progress in the President's management initiatives. The standards were reviewed by the Principals of the Joint Financial Management Improvement Program (JFMIP), which include the Secretary of the Treasury, the Comptroller General, and the Directors of OMB and the Office of Personnel Management (OPM).[16]

The PMA resulted in initiatives being undertaken to improve federal financial management. For example, in 2002, the PMA's emphasis on performance and accountability caused the CFO Council to restructure its committees to address some of the problems the agenda identified. The CFO Council worked with other interagency councils to resolve crosscutting issues and further the President's initiatives. For example, the CFO Council formed a joint working group with the IGs through the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) to reduce erroneous payments to beneficiaries.[17]

OMB continued through the 2010s to communicate the president's priorities for addressing challenges using the PMA, other documents, and websites. Within the PMA, cross-agency priority goals are tools that leadership uses to accelerate progress on a limited number of presidential priority areas where implementation requires active collaboration among agencies. The goals are a subset of presidential priorities and are complemented by other cross-agency coordination and goal-setting efforts. According to OMB, within the context of the PMA, it is working with the CFO Council to establish cross-agency priorities and strategies for implementing them. The priorities and strategies are updated annually and monitored throughout the year by the CFO Council. OMB also stated that agencies have used both the PMA and the CFO

[16]JFMIP is a joint undertaking of Treasury, GAO, OMB, and OPM, working in cooperation with each other and other agencies to improve financial management practices in the federal government.

[17]PCIE, established in 1981, included the IGs appointed by the President. ECIE, established in 1992, included the other federal civilian statutory IGs, who were generally appointed by their respective agency heads. Both councils were chaired by OMB's Deputy Director for Management. Their mission was to continually identify, review, and discuss areas of weakness and vulnerability in federal programs and operations to fraud, waste, and abuse and to develop plans for coordinated, government-wide activities that address these problems and promote economy and efficiency in federal programs and operations. The Inspector General Reform Act of 2008, Pub. L. No. 110-409, § 7, 122 Stat. 4302, 4305 (Oct. 14, 2008), disestablished both PCIE and ECIE and instead established the new statutory Council of the Inspectors General on Integrity and Efficiency.

Council’s cross-agency priorities as a road map to guide their financial management improvement efforts. Table 3 provides examples of cross-agency priority goals from the 2018 PMA that directly affected the financial management community.

Table 3: Examples of Cross-Agency Priority Goals from the 2018 President’s Management Agenda

Leadership 	• **Developing a Workforce for the 21st Century** – To align and strategically manage the workforce to achieve the federal government’s mission efficiently and effectively. • **Sharing Quality Services** – To deliver technology and process improvements that will improve citizen services, such as faster hiring and expedited payments. • **Shifting from Low-Value to High-Value Work** – To eliminate low-value, unnecessary, and outdated policies and develop processes to assess and reduce burden on agencies through tools such as integrated information technology (IT) and automation software. • **Results-Oriented Accountability for Grants** – To rebalance compliance efforts, standardize grant reporting data, and improve data collection. • **Getting Payments Right** – To reduce the amount of cash lost to the taxpayer through incorrect payments and clarify and streamline reporting and compliance requirements. • **Improving Outcomes through Federal IT Spending Transparency** – To improve business, financial, and acquisition outcomes through automation of authoritative data sources.

Source: GAO presentation of OMB information. | GAO-20-566

Beginning with fiscal year 2009, the annual government-wide consolidated financial statements, which Treasury prepares, in coordination with OMB, have included a section in the Management’s Discussion and Analysis where OMB summarizes several accomplishments and priorities for improving federal financial management for the prior, current, and next fiscal years.[18] According to OMB, this was done to meet the intent of the GPRA Modernization Act of 2010 and streamline the burdensome CFO Act requirements for a 5-year plan. However, the section in the Management’s Discussion and Analysis is a high-level summary of several of the priorities and accomplishments and does not include important areas required by the CFO Act, such as a strategy for developing and integrating individual agency accounting and other financial management systems to ensure adequacy, consistency,

[18]The Federal Accounting Standards Advisory Board’s Statement of Federal Financial Accounting Standards 15, *Management’s Discussions and Analysis*, states that the Management’s Discussion and Analysis, which is included in a report that presents an entity’s financial statements, should provide a clear and concise description of the reporting entity and its mission, activities, program and financial performance, systems, controls, legal compliance, financial position, and financial condition.

and timeliness of financial information, or identify financial management personnel needs and actions to ensure that those needs are met.

OMB has used Performance.gov and CFO.gov—the website of the CFO Council—to communicate financial management priorities and goals and to assess progress. Performance.gov is a central website that serves as the public window to federal goals and performance in key areas that reflect administration policy objectives and management priorities.[19] According to OMB, it is designed to make finding and consuming performance information easier for the public, Congress, delivery partners, agency employees, and other stakeholders. The CFO Council's website states that it is the hub for financial management in the government. It contains information that includes the PMA, progress made in financial management, and selected federal financial management reports.

In the 2010s, the priorities and activities for improving financial management included those related to

- strengthening internal controls;
- achieving standardization and efficiencies in financial management;
- fully implementing FFMIA;
- encouraging timely financial reporting and increasing the number of agencies with clean audit opinions;
- improving DOD financial management performance;
- reducing erroneous payments and improving payment accuracy;
- improving grants management;
- improving the sharing of mission-support services between federal agencies;
- reducing differences in accounting for transactions between federal agencies (intragovernmental transactions);
- improving outcomes through federal IT spending; and

[19] The Performance.gov website, developed as a joint effort between OMB and the General Services Administration, contains several key management priorities and initiatives, such as the PMA and cross-agency priority goals, and outlines progress under way to streamline the government and improve performance.

- eliminating low-value, unnecessary, and outdated policies and developing processes to assess and reduce burden on agencies.

One of the most prominent ways that OMB has demonstrated its leadership role in federal financial management has been through the guidance it issues to executive branch agencies. To help administer financial management improvements, OMB developed, issued, and updated substantial guidance through circulars, bulletins, and memorandums. Circulars are used when the nature of the subject matter is of continuing effect, such as the process to develop the President's budget, management's responsibilities for internal controls, and financial reporting requirements. Bulletins are used when the subject matter requires single or onetime action by the departments or establishments or is of a transitory nature, such as audit requirements for federal financial statements. Memorandums are used to communicate financial management information efficiently, including guidance, updates, actions needed, and other relevant matters.

Treasury Prepared Government-Wide Guidance and Financial Statements and Issued a Vision for Federal Financial Management

Treasury is the central agency for managing the government's finances by collecting taxes, duties, and other amounts owed to the United States; disbursing payments to the public on behalf of federal agencies; borrowing the funds needed to operate the federal government; and managing the resulting federal debt. Over the years, Treasury and OMB have coordinated on important initiatives for improving federal financial management. Through these coordinated efforts, OMB establishes policy, and Treasury works with OMB to develop guidance for implementing aspects of the policy. OMB stated that it has authority to develop and establish financial management policies and that once it has done so Treasury is responsible for implementing and executing the processes that uphold the policies. Several experts we interviewed stated that OMB's and Treasury's roles and responsibilities were distinctive, although some of the experts we interviewed stated there could be more clarification of Treasury's role in federal financial management policy making and how it works in partnership with OMB. For its part, Treasury has contributed to improving financial management in a number of ways, including the following:

- **Government-wide financial reporting guidance and tools.** Treasury developed and periodically updates government-wide guidance and tools to support financial reporting, such as the *Treasury Financial Manual* and the *U.S. Standard General Ledger*. The *Treasury Financial Manual* is Treasury's official publication of policies, procedures, and instructions concerning financial management within the government. It promotes the government's financial integrity and operational efficiency. Treasury worked with subject matter experts to incorporate into the manual, as appropriate, changes in legislation, procedures, and policies. In addition, the *U.S. Standard General Ledger*, a supplement to the manual, provides a uniform chart of accounts and technical guidance for standardizing federal agency accounting.

- **Financial management initiatives.** Treasury undertook financial management initiatives through its Office of Financial Innovation and Transformation, which was established in 2010. The office identifies and facilitates the implementation of innovative solutions to help agencies become more efficient and transparent. The financial management initiatives assist CFOs in improving federal financial management, helping them to identify what worked well and where capabilities were lacking so they can target initiatives appropriately. Treasury also issued annual messages to agency CFOs to set the direction and goals of federal financial management.
- **Vision for federal financial management.** In fiscal year 2018, Treasury, in coordination with OMB, issued a 10-year vision for federal financial management, which provides details on (1) establishing a new role for CFOs, moving from transaction processors to strategic partners; (2) transforming federal collections; (3) optimizing federal disbursements; (4) strengthening financial reporting; and (5) expanding financial management services to agencies.[20] Treasury updated its vision in fiscal year 2019. Part of the vision for strengthening financial reporting includes streamlining the federal financial reporting model. One goal was met in 2019 with Treasury and OMB working together to include information needed for the government-wide consolidated financial statements in the agencies' audited financial statements, thereby eliminating the need for 40 agencies to prepare and audit separate reports with the government-wide information. Treasury continues to explore ways to make annual federal financial reporting more efficient while still meeting the needs of the public and Congress.
- **Government-wide financial statements.** Since fiscal year 1997, Treasury, in coordination with OMB, has annually prepared the *Financial Report of the United States Government (Financial Report)*. The goal of the *Financial Report* is to provide a comprehensive overview of the federal government's finances. The *Financial Report*

[20]Department of the Treasury, Office of the Fiscal Assistant Secretary, *The Future of Federal Financial Management* (April 2018).

includes the government-wide consolidated financial statements, which provide the public and Congress with information on the government's assets, liabilities, revenue, and costs as well as long-term fiscal challenges facing the government.

- **Citizen's Guide on the government's financial health.** In fiscal year 2008, Treasury, in coordination with OMB and GAO, released *The Government's Financial Health: A Citizen's Guide to the 2007 Financial Report of the United States Government (Citizen's Guide)*. The guide provides a user-friendly overview of the short- and long-term financial outlook for the federal government, including the fiscal challenges it faces, such as the unsustainable growth in entitlement programs. The fiscal year 2008 guide summarized events such as the collapse of the housing market and the federal government's efforts to calm the resulting crisis. Treasury, in coordination with OMB, has continued to annually prepare the *Citizen's Guide*, which beginning with fiscal year 2017 is now referred to as the Executive Summary.
- **Reporting on agency spending.** Treasury and OMB collaborated to implement the reporting requirements in the Digital Accountability and Transparency Act of 2014 (DATA Act).[21] The DATA Act directed OMB and Treasury to establish data standards for the reporting and tracking of agency spending at multiple points in the spending life cycle. Their joint efforts on the DATA Act led to additional guidance and improved the technical architecture that federal agencies use in reporting spending data. These improvements have made federal spending data more transparent to the public.

CFO Council Undertook Various Financial Management Initiatives

Through the decades since the CFO Act was enacted, the CFO Council undertook numerous initiatives to contribute to improving financial management. For example, the CFO Council advised and coordinated activities and initiatives of its member agencies on such matters as consolidating and modernizing financial systems, improving the quality of financial data and information standards, strengthening internal controls, and incorporating concepts related to enterprise risk management (ERM).[22]

Some of the initiatives that the CFO Council undertook to address issues on a government-wide basis follow.

[21]Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014).

[22]ERM is a way to assist agencies with managing risk across the organization.

- In 1996, the CFO Council issued a report titled *A Strategy of Leadership and Engagement*, which detailed the financial management systems environment, identified barriers, and outlined features of a government-wide strategy to address these barriers.
- In 2004, the CFO Council and PCIE reviewed the Sarbanes-Oxley Act of 2002, which contained new internal control requirements for publicly traded companies, to determine whether those requirements could be applied to the federal government, and recommended that OMB strengthen its existing guidance for assessing the effectiveness of internal controls over financial reporting.[23] In December 2004, OMB updated its Circular No. A-123 with changes intended to strengthen the requirements for conducting management's assessment of internal control over financial reporting. We supported OMB's revisions and reported that the revisions recognized that effective internal control is critical to improving federal agencies' effectiveness and accountability.[24]
- In 2018, the CFO Council and Treasury's Bureau of the Fiscal Service developed the *Program Integrity: Antifraud Playbook* for the financial management workforce community. The playbook provides guidance, leading practices, and helpful resources for agencies to establish or enhance their antifraud programs.

The CFO Council has communicated its initiatives through Controller Alerts. The CFO Council published these alerts on its website to highlight emerging issues that may require agency attention or action and inform the CFO community of key OMB focus areas. For example, in fiscal year 2015, the CFO Council issued a Controller Alert noting actions needed by federal agencies to improve the timeliness of grant closeouts.

Agency CFOs Provided Leadership in Federal Financial Management

Agency CFOs provided executive-level oversight and direction for agency financial operations. In our 2019 survey of CFOs and deputy CFOs at the CFO Act agencies, 17 of the 24 respondents stated that CFOs contributed significantly to overseeing all financial management activities

[23]Sarbanes-Oxley Act of 2002, Pub. L. No. 107–204, 116 Stat. 745 (July 30, 2002).

[24]GAO, *Financial Management: Effective Internal Control Is Key to Accountability,* GAO-05-321T (Washington, D.C.: Feb. 16, 2005).

relating to programs and operations for their agencies.[25] Five of the 24 respondents stated that the CFOs contributed moderately to overseeing, for their agencies, all financial management activities relating to programs and operations. In addition, the 2017 Association of Government Accountants' (AGA) survey stated that the CFO can play a central role in ensuring that agency leaders have the insights and analytics needed to make their agencies perform better and more efficiently.[26] Further, the financial management experts we interviewed stated that the role of the CFO has moved from transaction processing and administrative duties to providing value to agency leadership. According to our analysis of the AGA surveys, CFOs are no longer primarily concerned with basic financial activities, such as external reporting and obtaining clean audit opinions. They now focus on value-added efforts, such as providing better data to managers and reducing improper payments.

CFOs have been involved in improving financial management capabilities, which helped lead to improved professional financial management personnel who have undergone new training and educational opportunities. Respondents to our 2019 CFO and deputy CFO survey noted that in their current roles, they have contributed significantly to the following improvements in financial management:

- advising executive leadership on financial management matters (19 of 24 respondents),
- advising the direction for agency financial operations and professional financial management personnel (13 of 24 respondents),
- taking steps to develop and maintain financial management systems (17 of 24 respondents),
- reducing duplicative financial management systems (15 of 24 respondents),
- resolving audit findings (16 of 24 respondents),

[25]We surveyed 47 individuals from the CFO offices of the CFO Act agencies and included individuals holding the position of CFO, acting CFO, deputy CFO, or equivalent at these agencies. Of the 47 individuals we surveyed, 24 individuals responded, which resulted in a 51 percent response rate. Results of the survey only represent the views of those individuals who responded and may not be representative of all individuals from the CFO offices. See app. I for additional information about the survey.

[26]Association of Government Accountants, Corporate Partner Advisory Group, *Annual CFO Survey: Navigating Disruption* (January 2018).

- supporting audits of the agency's financial statements (22 of 24 respondents),
- helping to ensure the quality of financial information (17 of 24 respondents), and
- preparing the agency's financial statements and other financial reports (17 of 24 respondents).

IGs Contributed to Improvements in Financial Management

The IGs of the CFO Act agencies provided leadership by identifying findings and recommending improvements to agency financial management through their performance and financial statement audits. Established by the Inspector General Act of 1978 (IG Act), IGs are charged with preventing and detecting fraud and abuse in their agencies' programs and operations; conducting audits and investigations; and recommending policies to promote economy, efficiency, and effectiveness.[27] The IG Act fortified the position of IG with provisions protecting independence, provided powers of investigation, and mandated reporting to the agency head and Congress.

Inspector General Community Made Significant Improvements to Economy and Efficiency of Programs Government-Wide

"In fiscal year 2017, the work of the Office of the Inspectors General community resulted in significant improvements to the economy and efficiency of programs government-wide, with potential savings totaling approximately $54.6 billion," according to the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) fiscal year 2017 annual report to the President and Congress.

Source: CIGIE. I GAO-20-566

In the years since enactment of the IG Act, Congress and the President enacted a number of laws amending, expanding, and building upon it. This body of legislation has given IGs new responsibilities and greater opportunities to play an increasing role in government oversight. In 2003, we reported that the IGs had made a significant difference in federal performance and accountability since 1978 as indicated by their reports of billions of dollars in savings to the public and thousands of recommendations and civil and criminal referrals.[28] IGs have earned a solid reputation for preventing and detecting fraud, waste, and abuse and recommending improvements in government operations.

The Council of the Inspectors General on Integrity and Efficiency (CIGIE) and its predecessors—PCIE and ECIE—provided leadership, which contributed to improvements in federal financial management.[29] CIGIE is an independent entity within the executive branch. The IG Reform Act of 2008 amended the IG Act to establish CIGIE, and today it stands as the

---

[27]Inspector General Act of 1978, Pub. L. No. 95-452, 92 Stat. 1101 (Oct. 1, 1978), codified as amended at 5 U.S.C. app.

[28]GAO, *Inspectors General: Enhancing Federal Accountability*, GAO-04-117T (Washington, D.C.: Oct. 8, 2003).

[29]Prior to the establishment of CIGIE, the IGs operated under the auspices of two councils, PCIE and ECIE.

unified council of all civilian statutory IGs with the mission to address integrity, economy, and effectiveness issues that transcend individual government agencies and increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in establishing a well-trained and highly skilled workforce in the offices of inspector general (OIG). Prior to CIGIE, PCIE and ECIE were charged with developing plans for coordinated government-wide activities that address fraud, waste, and abuse in government programs and operations, among other responsibilities.

CIGIE and its predecessors have published annual reports to the President, which include top management challenges common across agencies since fiscal year 1998. These challenges focus on high-risk activities and performance issues that affect agency operations or strategic goals. In addition, in April 2018, CIGIE issued its first-ever report that consolidated and provided insight into the most frequently reported management and performance challenges that OIGs identified.[30] These financial management challenges include a broad range of areas, from program planning, budgeting, and execution to accounting, audit, and evaluation.

CIGIE also provided federal financial management leadership through its collaboration with working groups. For example, CIGIE formed an ERM working group to contribute to the promotion and implementation of ERM principles in the OIGs, in accordance with OMB guidance, and provided a forum for risk management professionals to coordinate on challenges, solicit OIG community input, and improve interagency communications. Since June 2018, the ERM working group has issued quarterly newsletters discussing ERM-related matters.

GAO Identified and Advocated for Financial Management Reform and Issued Standards and Guidance

As an independent, nonpartisan agency in the legislative branch, we examine how taxpayer dollars are spent and provide Congress and federal agencies with objective, reliable information that can be used to improve government programs and save taxpayers billions of dollars. One of our goals is to help improve and transform the government's financial management and operations to meet existing and emerging critical accountability challenges and ensure stewardship of financial resources. To improve federal financial management, we have worked with Congress and the executive branch by providing reports, testimonies, and

[30]Council of the Inspectors General on Integrity and Efficiency, *Top Management and Performance Challenges Facing Multiple Federal Agencies* (April 2018).

other assistance to support legislative efforts relating to the following laws that are discussed in more detail throughout this report.

- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Federal Funding Accountability and Transparency Act of 2006
- GPRA Modernization Act of 2010
- Improper Payments Elimination and Recovery Act of 2010
- Improper Payments Elimination and Recovery Improvement Act of 2012
- Digital Accountability and Transparency Act of 2014
- Fraud Reduction and Data Analytics Act of 2015
- Payment Integrity Information Act of 2019

In 1990, we began reporting on government operations that we identified as "high risk." Historically, high-risk areas have been so designated because of traditional vulnerabilities related to their greater susceptibility to fraud, waste, abuse, or mismanagement. As our high-risk program has evolved, we have increasingly used the high-risk designation to draw attention to areas associated with broad-based transformations needed to achieve greater economy, efficiency, effectiveness, accountability, and sustainability of selected key government programs.[31] Over the years, some of the high-risk areas have related to financial management concerns, such as the lack of internal controls. Since 1990, generally coinciding with the start of each new Congress, we have reported on the status of progress to address high-risk areas and update our High Risk

[31]See https://www.gao.gov/highrisk/overview (accessed June 19, 2020).

List by adding or removing areas.[32] This effort has brought much-needed focus to problems impeding effective government and costing billions of dollars each year. To help improve high-risk areas, we made hundreds of recommendations, and the administration and agencies have addressed, or are addressing, many of them. We have also maintained the FraudNet hotline to support accountability across the federal government. FraudNet allows for the reporting of fraud, waste, abuse, or mismanagement of federal funds and refers allegations of fraud to federal, state, or local agencies or departments, as appropriate.

We conduct performance audits, annual financial audits of certain federal agencies' financial statements, and the annual financial audit of the U.S. government's consolidated financial statements. Through these performance and financial audits, we make recommendations to improve government operations. In fiscal year 2019, our work yielded a record $214.7 billion in financial benefits for Congress and the nation, which was a return of about $338 on every dollar appropriated to fund our work. In addition, we produced more than 1,400 other benefits that contributed to legislation and improved programs across government. Congress uses our work to help identify solutions to emerging problems, achieve cost savings, and enhance efficiencies in federal agencies and programs.

We report on the status of recommendations from our performance and financial audits in a database that is open to the public.[33] This database also identifies those recommendations we consider to be priority recommendations—those that we believe warrant priority attention—to heads of key departments and agencies. Since June 2015, we have sent five rounds of letters to selected agencies, including 23 of the 24 CFO Act agencies, highlighting priority open recommendations and urging the

[32]The key elements needed to make progress in high-risk areas are top-level attention by the administration and agency leaders grounded in the five criteria for removal from the High-Risk List, as well as any needed congressional action. The five criteria are (1) Leadership - demonstrated strong commitment and top leadership support; (2) Capacity - agency has the capacity (i.e., people and resources) to resolve the risk(s); (3) Action plan - a corrective action plan exists that defines the root cause and solutions and provides for substantially completing corrective measures, including steps necessary to implement solutions we recommended; (4) Monitoring - a program has been instituted to monitor and independently validate the effectiveness and sustainability of corrective measures; and (5) Demonstrated Progress - ability to demonstrate progress in implementing corrective measures and resolving the high-risk area.

[33]See https://www.gao.gov/reports-testimonies/recommendations-database/ (accessed May 26, 2020).

agencies to continue efforts to address the underlying issues.[34] The response to these letters has been positive from both agencies and Congress.

We also provide standards for internal control and government audits, which are used by managers and auditors throughout the federal government and in other organizations, such as state governments. We first issued *Standards for Internal Control in the Federal Government*—also known as the Green Book—in 1983. The Green Book sets the standards for an effective internal control system for federal agencies. We issued auditing standards first as *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* in 1972, and later under the title *Government Auditing Standards* in 1988, although both were commonly known as the Yellow Book. *Government Auditing Standards* provides a framework for conducting government audits with competence, integrity, objectivity, and independence.[35] We periodically revise these standards, most recently in 2014 for the Green Book and 2018 for the Yellow Book. In addition, we issue guidance, including the *Financial Audit Manual*—issued in collaboration with CIGIE—which presents a methodology to perform financial statement audits of federal entities in accordance with professional standards, and the *Federal Information System Controls Audit Manual*, which presents a methodology for performing information system control audits of federal and other governmental entities in accordance with professional standards.

[34]We have not identified any priority recommendations for the National Science Foundation.

[35]GAO, *Government Auditing Standards: 2018 Revision*, GAO-18-568G (Washington, D.C.: July 2018), and *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

Financial Reporting Progress

The CFO Act was the first of a series of laws that improved accountability, transparency, and financial reporting by requiring federal agencies to report annual statements on their financial position (assets, liabilities) and results of operations (revenues, costs) in a form consistent with accounting standards. However, the improvement in financial reporting did not happen overnight. It took decades of coordinated efforts among the executive branch, legislative branch, and various standard-setting bodies. Figure 3 highlights some of the major progress related to financial reporting that has occurred since the CFO Act, including key legislation enacted.

Figure 3: Federal Financial Reporting Progress through the Decades

Prior to the 1990s	1990s	2000s	2010s
	1990 CFO Act; 1994 GMRA	2002 ATDA; 2006 FFATA	2014 DATA Act
Unreliable financial information and little reliable operational and cost data existed in federal agencies Federal agencies were not required to prepare audited financial statements Federal agencies did not have a standardized reporting format to present agency operation and performance information	FASAB established and began developing federal accounting standards The federal government began to prepare CFO Act agency and government-wide audited financial statements as required by GMRA For fiscal year 1996, six CFO Act agencies received an unmodified ("clean") audit opinion on their financial statements	FASAB introduced sustainability reporting on the federal government's fiscal outlook Number of CFO Act agencies receiving clean audit opinions increased For fiscal year 2005, all CFO Act agencies issued audited financial statements within 45 days of fiscal year-end Most other executive branch agencies required by ATDA to prepare audited financial statements OMB launched USAspending.gov to track and report federal spending as required by FFATA	FASAB continued developing standards, bringing the total issued to 58 Number of CFO Act agencies receiving clean audit opinions stabilized to around 22 USAspending.gov updated under the DATA Act to more effectively track federal spending

ATDA = Accountability of Tax Dollars Act of 2002
CFO Act = Chief Financial Officers Act of 1990
DATA Act = Digital Accountability and Transparency Act of 2014
FASAB = Federal Accounting Standards Advisory Board
FFATA = Federal Funding Accountability and Transparency Act of 2006
GMRA = Government Management Reform Act of 1994
OMB = Office of Management and Budget

Source: GAO analysis. I GAO-20-566

Prior to the CFO Act, federal agencies did not have a standardized reporting format to present agency operations and performance information. Federal agencies' financial reporting practices did not accurately disclose the current and probable future cost of operations, permit adequate comparison of actual costs among executive branch agencies, or provide the timely information required for efficient program management.

Specifically, financial reports before the CFO Act focused on obligations and outlays, which tracked when an item was ordered and when the bill was paid.[36] This type of accounting, known as budgetary or cash accounting, records receipts when cash is received and outlays when cash is disbursed. Although crucial for tracking agencies' use of their appropriated funds, budgetary accounting alone did not provide a consistent and reliable measure of the costs of carrying out government programs. In 1985, we presented a conceptual framework that contained a number of concepts that are key in establishing a sound financial management foundation.[37] One of the concepts is the use of accrual-based accounting to provide policymakers and management with consistent information. Accrual-based accounting recognizes revenue in the period when it is earned and recognizes costs in the period incurred, without regard to when cash is received or disbursed. Accrual-based accounting provides a better matching of costs to the production of goods and services.

To provide for the production of complete, reliable, consistent, and timely financial information for policymakers to use in the financing, management, and evaluation of federal programs, the CFO Act called for integrated agency accounting and financial management systems, including financial reporting and internal controls, that provide for

- complete, reliable, consistent, and timely information that is uniformly prepared and responds to the financial information needs of agency management;
- the development and reporting of cost information;
- the integration of accounting and budgeting information; and
- the systematic measurement of performance.

[36]An "obligation" is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States.

[37]GAO/AFMD-85-35-A.

History of Preparation and Audit of Financial Statements

The federal government long supported the idea of preparing and auditing financial statements. But prior to the CFO Act and subsequent legislation, federal agencies were not routinely required to prepare and submit audited financial statements to Congress. In 1933, Congress required audited financial statements for issuers of securities. In 1945, Congress required financial statements and audits of federal government corporations under the Government Corporation Control Act. In 1984, Congress enacted the Single Audit Act, which required financial statement audits of state and local governments receiving federal financial assistance.

Source: GAO. I GAO-20-566

The CFO Act required CFO Act agencies to prepare annual financial statements covering revolving funds, trust funds, and other agency activities that performed substantially commercial functions.[38] It also initiated a pilot program in which some agencies were required to prepare audited financial statements covering the full scope of agency operations for fiscal years 1990, 1991, and 1992. The Government Management Reform Act of 1994 (GMRA) followed up on the CFO Act's pilot program by requiring annual audited agency-level financial statements, for all CFO Act agencies, and required the preparation and independent audit of government-wide consolidated financial statements.[39] The Accountability of Tax Dollars Act of 2002 (ATDA) required most other executive branch agencies to also prepare annual audited financial statements.[40]

However, waste and inefficiency in federal programs continued to undermine the confidence of the American people in the government in the early 1990s. Agencies faced challenges in their efforts to improve program efficiency and effectiveness, and spending decisions and program oversight were seriously hindered by insufficient attention to program performance and results. To address these issues, GPRA required agencies to develop strategic plans, set performance goals, and report annually on actual performance compared to goals.[41]

The CFO Act, as expanded by GMRA, ATDA, and GPRA, provided the legal foundation for federal agencies to develop accurate and reliable financial information and performance data and to use these data to improve program efficiency and effectiveness. Having accurate and reliable financial and performance information is becoming increasingly important as the federal government continues to operate as one of the world's largest and most complex entities, with about $4.4 trillion in

[38]A revolving fund is a fund established to finance a cycle of businesslike operations through amounts that the fund receives, charging for the sale of products or services and using the proceeds to finance its spending. A trust fund is an account established by law that links collections dedicated to a specific purpose with the expenditure of those collections.

[39]Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994).

[40]Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002).

[41]Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993). The provisions enacted by GPRA were substantially amended by the GPRA Modernization Act of 2010, Pub. L. No 111-352, 124 Stat. 3866 (Jan. 4, 2011).

outlays funding a broad array of programs and operations in fiscal year 2019.

The federal government continues to make substantial progress toward improving accountability, transparency, and financial reporting to achieve the purposes of the CFO Act. Table 4 highlights financial reporting progress in federal financial management since the CFO Act.

Table 4: Financial Reporting Progress since the Chief Financial Officers Act of 1990 (CFO Act)

Financial reporting	• Requirements to prepare and audit financial statements improved agencies' accountability. • The Federal Accounting Standards Advisory Board issued accounting standards to improve federal financial reporting. • Agencies improved the quality of financial reporting. • The Office of Management and Budget (OMB) and agencies improved the timeliness of financial reporting. • CFO Act agencies increased transparency by making performance and financial information available on websites. • The Department of the Treasury (Treasury) and OMB annually prepare the *Financial Report of the U.S. Government*. • OMB and Treasury provided publicly accessible federal spending data.

Source: GAO analysis. | GAO-20-566

Requirements to Prepare and Audit Financial Statements Improved Agencies' Accountability

Preparing and auditing annual financial statements is essential to improving the usefulness, consistency, and reliability of financial information. In 1995, we reported that the goal for federal agencies under the CFO Act was to be in a position to prepare auditable financial statements as a normal by-product of an integrated system that pulls together credible financial, program, performance, and budget data into reports that are useful to executive branch decision makers and Congress in its oversight role (see text box below). In addition, the requirement to produce audited financial statements instills in agencies the discipline needed to improve the quality of day-to-day financial information and helps managers deal with the range of issues they face in overseeing finances.

Linking Financial Statements to Performance Information

In accordance with federal accounting standards, the Management's Discussion and Analysis is supplementary information required to be presented with the agency's financial statements and to address performance goals, objectives, and results. Office of Management and Budget guidance states that the Management's Discussion and Analysis is to include a brief description of key performance goals and results for the year and provide a concise assessment of the entity's overall progress toward major program goals, linking goals to cost categories. It further states that the performance and financial discussion should help the reader assess the relative efficiency and effectiveness of programs.

Sources: GAO and Federal Accounting Standards Advisory Board. | GAO-20-566

Substantial benefits have been achieved as a result of agencies' preparation and audit of financial statements, including

- useful and necessary insight into government operations, including the agencies' financial conditions;
- increased federal agency accountability to Congress and citizens, including independent assurance about the reliability of reported financial information;
- greater confidence to stakeholders (governance officials, taxpayers, consumers, or regulated entities) that federal funds are being properly accounted for and assets are properly safeguarded;
- an assessment of the reliability and effectiveness of systems and related internal controls, including identifying control deficiencies that could lead to fraud, waste, or abuse;
- a focus on information security;
- early warnings of emerging financial management issues; and
- identification of noncompliance with laws and regulations, which can present challenges to agency operations.

Eighteen of the 23 CFO and deputy CFO respondents to our survey stated that preparation and audit of financial statements are greatly or moderately beneficial to federal agencies,[42] noting that the financial statement audit process helped identify and eliminate material weaknesses in internal control, strengthened internal control processes, and led to more discipline and integrity in federal accounting.[43]

The Federal Accounting Standards Advisory Board Issued Accounting Standards to Improve Federal Financial Reporting

In 1990, OMB, Treasury, and GAO jointly established the Federal Accounting Standards Advisory Board (FASAB) to develop and promulgate accounting standards and principles for financial reporting in the federal government. Establishing a set of federal accounting standards was key to meeting the CFO Act's objective to provide complete, reliable, consistent, and timely financial information. The consistent application of accounting standards helps ensure comparability of financial data throughout the government and helps promote uniformity in recording and reporting financial activities.

Since its inception, FASAB developed accounting standards specifically tailored for the federal government, in part because of the unique characteristics and environment of the federal government. For example, it developed standards for reporting heritage assets, such as museum collections and monuments, whose values may be indeterminable. In September 1993, FASAB issued Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, which provided a consistent conceptual approach to developing accounting standards by defining the objectives of financial reporting for the federal government. Clearly defining these objectives guided FASAB in ensuring that subsequent accounting standards helped the federal government demonstrate its accountability and helped internal users of financial information improve the government's management. In 1999, FASAB was recognized by the American Institute of Certified Public Accountants as the standard setter for generally accepted accounting principles for federal government entities.

[42]Twenty-four individuals completed the survey; however, one survey respondent did not provide a response for the question on preparation and audit of financial statements.

[43]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

FASAB concepts and standards are the basis for OMB's guidance to agencies on the form and content of their agency-wide financial statements. FASAB promotes transparency by issuing exposure drafts of standards for public comment to obtain the views of internal and external stakeholders, which are then considered in developing the final standards. FASAB holds bimonthly meetings, which are open to the public for observation, and meeting agendas and minutes are publicly available on its website.

As of July 24, 2020, FASAB has issued 58 accounting standards, nine accounting concepts, nine interpretations, 19 technical releases, and 11 technical bulletins (see text box below).[44] In 1995, to support reliable and useful information on the full cost of federal programs, their activities, and output, FASAB issued Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*. The standard required federal agencies to accumulate and report the costs of their activities regularly for management information purposes. It also required federal agencies to report the full costs of outputs in general purpose financial reports and to record, accumulate, and allocate costs on an accrual basis, which is different from the obligation or cash basis generally used in budgetary accounting.[45]

[44]Interpretations clarify original meaning, add definitions, and provide other guidance for existing SFFAS. Technical releases are implementation guidance provided by the Accounting and Auditing Policy Committee and issued through FASAB. The Accounting and Auditing Policy Committee is a permanent committee established by FASAB to assist in improving financial reporting by identifying, discussing, and recommending solutions to accounting issues. Technical bulletins provide guidance for applying statements and interpretations and resolving issues not directly addressed by them.

[45]The full cost of an output is the sum of (1) the costs of resources that directly or indirectly contribute to the output and (2) the costs of identifiable supporting services provided by the entity and other entities.

Notable Federal Accounting Standards Advisory Board (FASAB) Standards

FASAB issued standards that provide greater transparency and accountability over the federal government's operations, financial condition, and outlook, including sustainability reporting standards:

Statement of Federal Financial Accounting Standards (SFFAS) 36, *Comprehensive Long-Term Projections for the U.S. Government*, issued in 2009, requires the Statement of Long-Term Fiscal Projections as part of the government-wide consolidated financial statements. The Statement of Long-Term Fiscal Projections is intended to assist readers in assessing the financial condition of the federal government and how the federal government's financial condition has changed (improved or deteriorated) during the year and may change in the future.

SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, issued in 2003, and SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, issued in 2004, require the Statement of Social Insurance at the agency-level and as part of the government-wide consolidated financial statements. The Statement of Social Insurance provides estimates of the status of the most significant social insurance programs, almost entirely Social Security and Medicare. Specifically, the statement illustrates the relationship between the estimated receipts and expenditures of those programs.

Sources: GAO and FASAB. | GAO-20-566

FASAB also continues to increase the value and usefulness of financial and budgetary information in financial reports. In 2017, FASAB worked with agencies to introduce SFFAS 53, *Budget and Accrual Reconciliation*, intended to help decision makers understand how information on the use of budgetary resources relates to the net cost of operations during the reporting period.

As of March 2020, FASAB has initiated a number of projects aimed at continuing to improve the usefulness of financial reports, including a review of the financial reporting model, Management's Discussion and Analysis, and note disclosures.

Agencies Improved the Quality of Financial Reporting

Agencies made vast improvements in the quality of their audited financial statements since the CFO Act was enacted, as illustrated by audit results. An audit provides an objective independent examination of the financial statements. A financial statement audit is conducted to provide an opinion on whether an entity's financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles (see text box below).

Financial Statement Audit Opinions

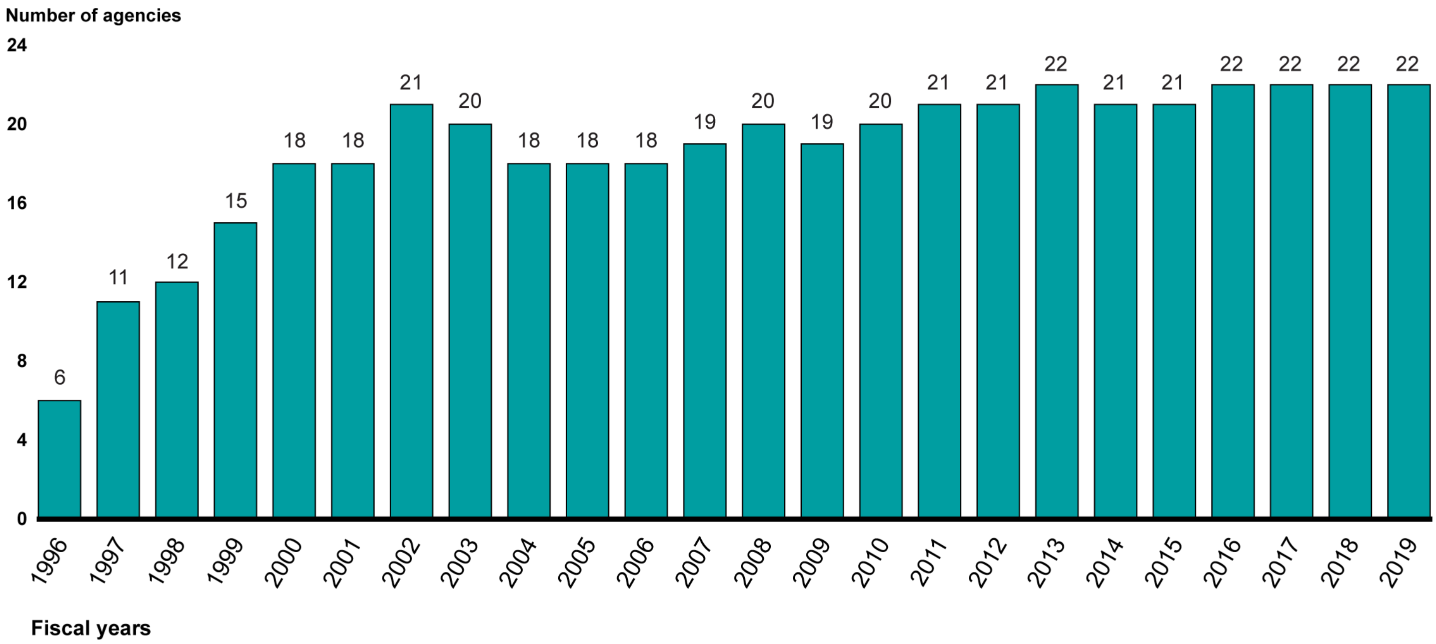
In a financial statement audit, the auditor may issue one of four opinion types:

1. **Unmodified opinion.** The financial statements are presented fairly, in all material respects.
2. **Qualified opinion.** The auditor is able to express an opinion on the financial statements except for specific areas where the auditor was unable to obtain sufficient and appropriate evidence or where there are material misstatements that are not pervasive.
3. **Adverse opinion.** The auditor, having obtained sufficient and appropriate evidence, concludes that misstatements are both material and pervasive to the financial statements.
4. **Disclaimer of opinion.** The auditor is unable to obtain sufficient and appropriate evidence to provide a basis for an audit opinion and accordingly does not express an opinion on the financial statements.

Source: American Institute of Certified Public Accountants. I GAO-20-566

For fiscal year 1996, the first year that all CFO Act agencies were required to prepare audited financial statements, six of the 24 CFO Act agencies received an unmodified ("clean") audit opinion on their respective entities' financial statements. Over time, the number of clean audit opinions has steadily increased, reaching a record number of 22 agencies for fiscal year 2013. While the number of agencies receiving a clean audit opinion has fluctuated, it has stabilized at 22 since fiscal year 2016. Figure 4 provides the number of clean audit opinions obtained by CFO Act agencies beginning with 1996.

Figure 4: Number of Unmodified ("Clean") Audit Opinions for Chief Financial Officers Act of 1990 Agencies for Fiscal Years 1996 through 2019



Source: GAO analysis based on Financial Reports of the United States Government. | GAO-20-566

Notes: The number of clean audit opinions cited in this figure include the (1) Department of Health and Human Services, which received a clean audit opinion on all financial statements except the Statements of Social Insurance for fiscal years 2010 to 2019 and the Statements of Changes in Social Insurance Amount for fiscal years 2011 to 2019; (2) Department of Agriculture, which received a clean audit opinion on its balance sheet only, for fiscal years 2016 and 2017; and (3) Department of Labor, which received a clean audit opinion on all financial statements except the Statement of Changes in Social Insurance Amounts for fiscal year 2017 and Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts for fiscal year 2016. The Statement of Social Insurance illustrates the relationship between the estimated receipts and expenditures of social insurance programs (almost entirely Social Security and Medicare) over a 75-year period. The Statement of Changes in Social Insurance Amounts presents information on the changes in social insurance programs between valuation periods.

Twenty-three Chief Financial Officers Act of 1990 (CFO Act) agencies were required to prepare audited financial statements for fiscal years 2003 and 2004. The Federal Emergency Management Agency, one of the original CFO Act agencies, was transferred to the Department of Homeland Security (DHS) in 2003 and was no longer considered a CFO Act agency. The Department of Homeland Security Financial Accountability Act of 2004 added DHS to the list of CFO Act agencies, thus bringing the number of CFO Act agencies again to 24 beginning in fiscal year 2005.

Although agencies have worked hard to achieve clean audit opinions, two CFO Act agencies continue to struggle. DOD continues to face long-standing financial management problems. After years of working toward financial statement audit readiness, DOD underwent full financial statement audits for fiscal years 2018 and 2019, which resulted in disclaimers of opinion. Through these audits, DOD leadership identified a number of operational benefits, including that the audit process saves money by improving inventory management, identifying vulnerabilities, and providing better data for decision-making. The Department of Housing and Urban Development (HUD), after several years of receiving disclaimers of opinion on its financial statements, took corrective actions to address deficiencies identified during its audits, which enabled it to obtain a qualified audit opinion on its fiscal year 2019 financial statements.

OMB and Agencies Improved the Timeliness of Financial Reporting

Agencies have significantly improved the timeliness of their financial reporting since enactment of the CFO Act. Timeliness is a key factor that enhances the usefulness of financial information for both providing transparency to the public and informing decision-making. Under GMRA and ATDA, every CFO Act agency and most other executive agencies must annually prepare and submit audited financial statements no later than March 1, or 5 months after the end of the federal fiscal year. However, OMB accelerated this due date for audited financial statements. For fiscal year 2005, all CFO Act agencies completed their audited financial statements by November 15, approximately 45 days after the close of the fiscal year, compared to the 60-to-90-day requirement for public companies filing with the Securities and Exchange Commission.[46] Since fiscal year 2005, at least 20 of the 24 CFO Act agencies have met the time frame set by OMB each year. The accelerated time frame for audited financial statements helps ensure that financial information is timely available to OMB, Treasury, Congress, and the public for making decisions related to allocating federal resources, authorizing and modifying programs, and evaluating program performance.

CFO Act Agencies Increased Transparency by Making Performance and Financial Information Available on Websites

In accordance with OMB guidance, agencies are required to make their annual performance and financial reports, including audited financial statements, available on their websites.[47] As of May 2020, the majority (20 of 24) of CFO Act agencies have made their fiscal year 2019 reports available online. Agencies submit either a combined report containing

[46]Per Securities and Exchange Commission Form 10-K, Annual Report Pursuant to Section 13 or 15d of the Securities Exchange Act of 1934, the filing requirements vary depending on the categorization of the public company.

[47]OMB Circular No. A-136, *Financial Reporting Requirements*, requires agencies to include their agency financial reports or performance and accountability reports on their websites. OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, requires agencies to include their annual performance reports on their websites.

both performance and financial reporting requirements or separate reports.[48]

- The performance and accountability report (PAR) is the combined report consisting of the annual performance report (APR) required by GPRA, as amended; annual financial statements; and other reports, such as agencies' assurances on internal control, accountability reports by agency heads, and IGs' assessments of agencies' most serious management and performance challenges.
- For separate reporting, the agency submits its APR separately from the financial statements and other reports, which are included in an agency financial report (AFR).

APRs provide information on the agency's progress toward achieving the goals and objectives described in the agency's strategic plan and annual performance plan, including progress on the agency priority goals. AFRs and the financial portions of the PARs provide information on the agency's financial condition that includes financial statements and the independent auditor's report. Together, these reports help provide transparency on the agency's operations and financial position and help agencies and policymakers in assessing performance.

Treasury and OMB Annually Prepare the *Financial Report of the U.S. Government*

Since fiscal year 1997, Treasury, in coordination with OMB, has annually prepared the *Financial Report*, which includes the audited government-wide consolidated financial statements (CFS). This government-wide financial report provides Congress and the American public with a complete picture of where the government stands financially. The *Financial Reports* are available on Treasury's website.[49] The CFS provide an annual, overarching view of the financial results of the operations, condition, and position of the federal government, including the federal government's fiscal sustainability (see text box below). In particular, the CFS highlight trends in government revenue and costs, the level of federal debt, as well as the federal government's current unsustainable

[48]Under the Reports Consolidation Act of 2000, with the concurrence of the OMB Director, agencies are permitted to submit combined reports in implementing statutory requirements for financial, performance management, and other reporting where the inclusion of the report will enhance the usefulness of the reported information. 31 U.S.C. § 3516.

[49]See Department of the Treasury and Office of Management and Budget, *Financial Report of the United States Government*, accessed May 4, 2020, https://fiscal.treasury.gov/reports-statements/financial-report/.

fiscal path.[50] The CFS provide significant information to Congress for considering policy changes across the entire range of federal activities that affect revenue, spending, and federal debt.

The Consolidated Financial Statements of the U.S. Government

The consolidated financial statements of the U.S. government include the accrual-based financial statements and the sustainability financial statements. The accrual-based financial statements present historical information on what the federal government owns (assets) and owes (liabilities) at the end of the year, what the federal government collected in taxes (revenues) and the costs associated with the federal government's operations (net costs) during the year, and how accrual-based net operating costs of the federal government reconcile to the budget deficit and changes in its cash balance during the year. The sustainability financial statements include the Statement of Long-Term Fiscal Projections, covering all federal government programs, and the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts, covering social insurance programs. The sustainability financial statements are designed to illustrate the relationship between projected receipts and expenditures if current policy is continued.

Source: GAO analysis. I GAO-20-566

Over the past several years, Treasury and OMB have made significant efforts to improve the reporting and disclosure of amounts and information in the CFS. Treasury implemented the Government-wide Treasury Account Symbol Adjusted Trial Balance System in fiscal year 2014, which, among other things, provided more complete financial data from federal entities. Treasury has also made significant improvements to guidance for collecting data from federal entities; guidance to assist federal entities in accounting for transactions with other federal entities (intragovernmental activity and balances); and tools, such as quarterly scorecards, to aid agencies in resolving differences in intragovernmental

[50]When debt grows faster than gross domestic product, it means the current federal fiscal path is unsustainable. Both GAO and the Congressional Budget Office also prepare long-term federal fiscal simulations, which show federal debt held by the public rising as a share of gross domestic product in the long term. For more information on GAO's simulations, see GAO, *America's Fiscal Future*, accessed on May 4, 2020, https://www.gao.gov/americas_fiscal_future. For more information on the Congressional Budget Office's simulations, see Congressional Budget Office, *The 2019 Long-Term Budget Outlook* (Washington, D.C.: June 25, 2019).

activity and balances. OMB added requirements for agencies related to the *Financial Report* in its Circular No. A-136, *Financial Reporting Requirements*, such as requiring agencies to reconcile intragovernmental activity and balances and to provide Treasury with the data needed to prepare *the Financial Report*. In addition, the General Fund of the U.S. Government (General Fund) was established as a component entity and began obtaining separate reporting of its transactions, which are primarily intragovernmental.[51] As a result of these and other related efforts, according to Treasury, differences in intragovernmental activity and balances between federal entities have decreased by trillions of dollars since fiscal year 2014, down to under $100 billion as of fiscal year-end 2019. This decrease in intragovernmental differences is a result of collaborative efforts of Treasury, OMB, and agencies.

OMB and Treasury Provided Publicly Accessible Federal Spending Data

Congress passed the Federal Funding Accountability and Transparency Act of 2006 (FFATA) to increase the transparency of and accountability for contracts, loans, grants, and other awards provided by federal agencies each year.[52] Among other things, the act required OMB to establish, no later than January 1, 2008, a publicly accessible website containing data on federal awards.[53] The act specified a number of required data fields, including the recipient's name, funding agency, amount of award, and a descriptive title for the award. OMB, in coordination with the General Services Administration, launched the first version of USAspending.gov in December 2007. Treasury subsequently assumed responsibility of USAspending.gov when the DATA Act was enacted in 2014.

The DATA Act expanded on FFATA by establishing new requirements intended to enable linkage between spending data and federal program activities and to allow policymakers and the public to more effectively track federal spending, including the following:

[51]The General Fund is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

[52]Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006).

[53]FFATA defined "federal awards" as federal financial assistance and expenditures that include grants, subgrants, loans, awards, cooperative agreements, other forms of financial assistance, contracts, subcontracts, purchase orders, task orders, and delivery orders.

- **Reporting additional data.** Agencies are required to report additional financial data from different points in the spending life cycle.
- **Setting government-wide standards.** OMB and Treasury are responsible for establishing government-wide financial data standards for any federal funds made available to or expended by federal agencies. These standards define and describe the data elements that agencies must report.
- **Reporting consistently.** Agencies reporting financial information are required to comply with the standards established by OMB and Treasury so that information can be compared across the government.
- **Improving data access.** The data must be made available in machine-readable and open formats, to be downloaded in bulk and—to the extent practicable—for automated processing.

In order to fully achieve transparency and accountability, the spending data must be reliable. Agency senior accountable officials are required to certify each quarter, among other things, that their data submissions under the DATA Act are valid and reliable. In addition, the DATA Act included provisions requiring a series of oversight reports by agencies' OIGs and GAO. It requires agencies' OIGs to issue reports on their assessments of the quality of the agencies' spending data submissions and compliance with the DATA Act.

OMB, Treasury, and federal agencies have made significant strides in addressing many of the policy, technical, and reporting challenges presented by the DATA Act's requirements and improved the transparency of agency spending information, making the information more accessible to the public. OMB, in coordination with Treasury, issued implementation guidance, including OMB Memorandum M-15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable*, and established 57 standardized data element definitions for federal agencies to report spending information. In May 2017, Treasury updated USAspending.gov to incorporate changes required under the DATA Act. USAspending.gov now provides open and unrestricted spending data that are also available in machine-readable format.

We recently found improvements in the overall quality of the data on USAspending.gov.[54] However, challenges remain with the completeness and accuracy of key data elements that agencies submit. To continue progressing and to fully realize the DATA Act's goal of helping to improve data accuracy and transparency, more needs to be done to address continued challenges with the completeness and accuracy of key data elements. For example, as of May 2020, OMB and Treasury have not fully addressed our recommendations to (1) monitor agency submissions and ensure that agencies are accountable for the completeness and accuracy of their data submissions and (2) implement a systematic approach to facilitate the disclosure of known data limitations on USAspending.gov.

While continued progress is needed, USAspending.gov does provide a number of interactive tools, including the following:

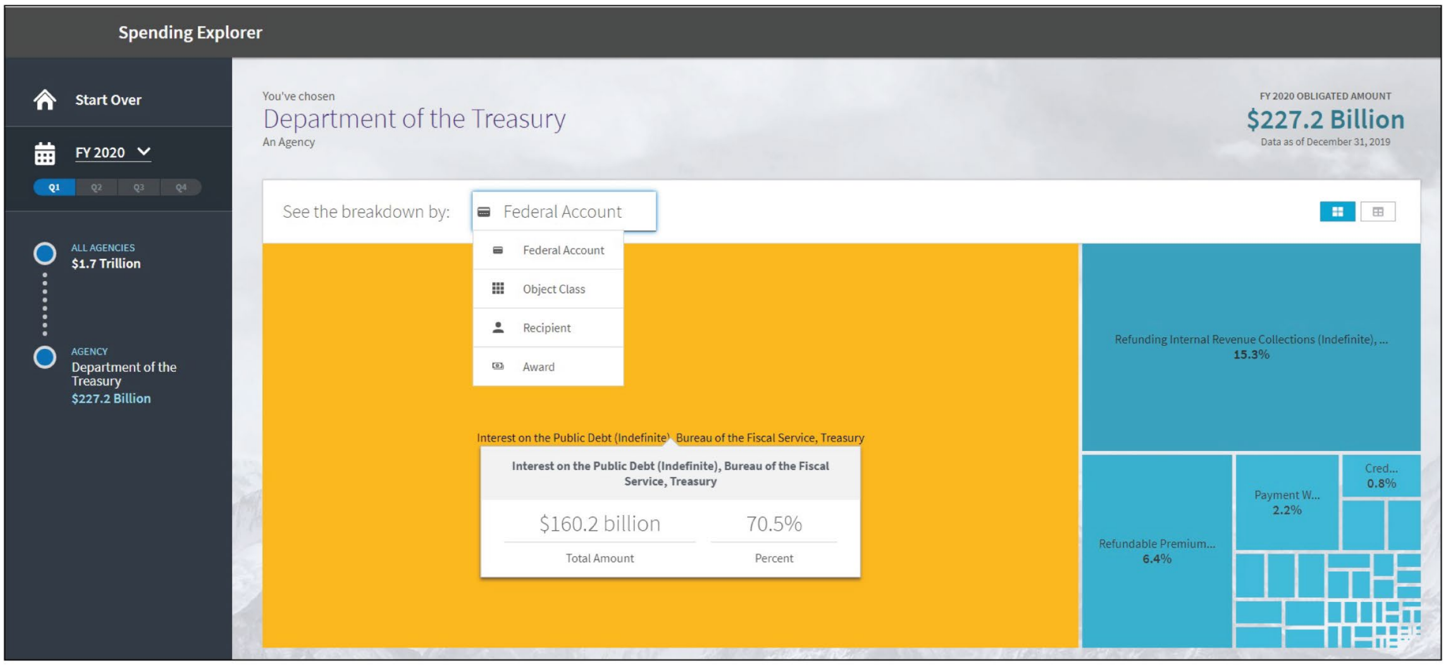
- ***Your Guide to America's Finances.*** This guide, developed by Treasury, is a digital guide aimed at increasing public awareness of the federal government's finances in a simple, straightforward, and engaging format. The guide explains the concepts of revenue, spending, deficit, and debt and provides a snapshot of these data. Each section of the guide is broken out by key concepts and their relationship to the larger financial picture of the U.S. government. Data provided include the source of funds, where the funds were spent, trends over time, and how the United States compares to other countries.
- **Spending Explorer.** This section of USAspending.gov provides a graphical interface that allows users to navigate spending data by budget function, agency, and object class.[55] It gives users the option to drill down from these three high-level categories to specific program activities, federal accounts, recipients, or awards. It displays the total amount obligated for the selected category and a breakdown of the amounts in dollars and as a percentage of the total. The site allows

[54]GAO, *DATA Act: Quality of Data Submissions Has Improved but Further Action Is Needed to Disclose Known Data Limitations*, GAO-20-75 (Washington, D.C.: Nov. 8, 2019).

[55]The budget function classification system is a way of grouping budgetary resources so that all budget authority and outlays of on-budget and off-budget federal entities and tax expenditures can be presented according to the national needs being addressed, such as agriculture or national defense. The object class is a uniform classification identifying the obligations of the federal government by the types of goods or services purchased (such as personnel compensation, supplies and materials, and equipment) without regard to the agency involved or the purpose of the programs for which they are used.

users to explore data in a machine-readable format and download reports tailored to their interests. Figure 5 provides an example of information provided by Spending Explorer.

Figure 5: Example of Spending Explorer on USAspending.gov (as of May 2020)

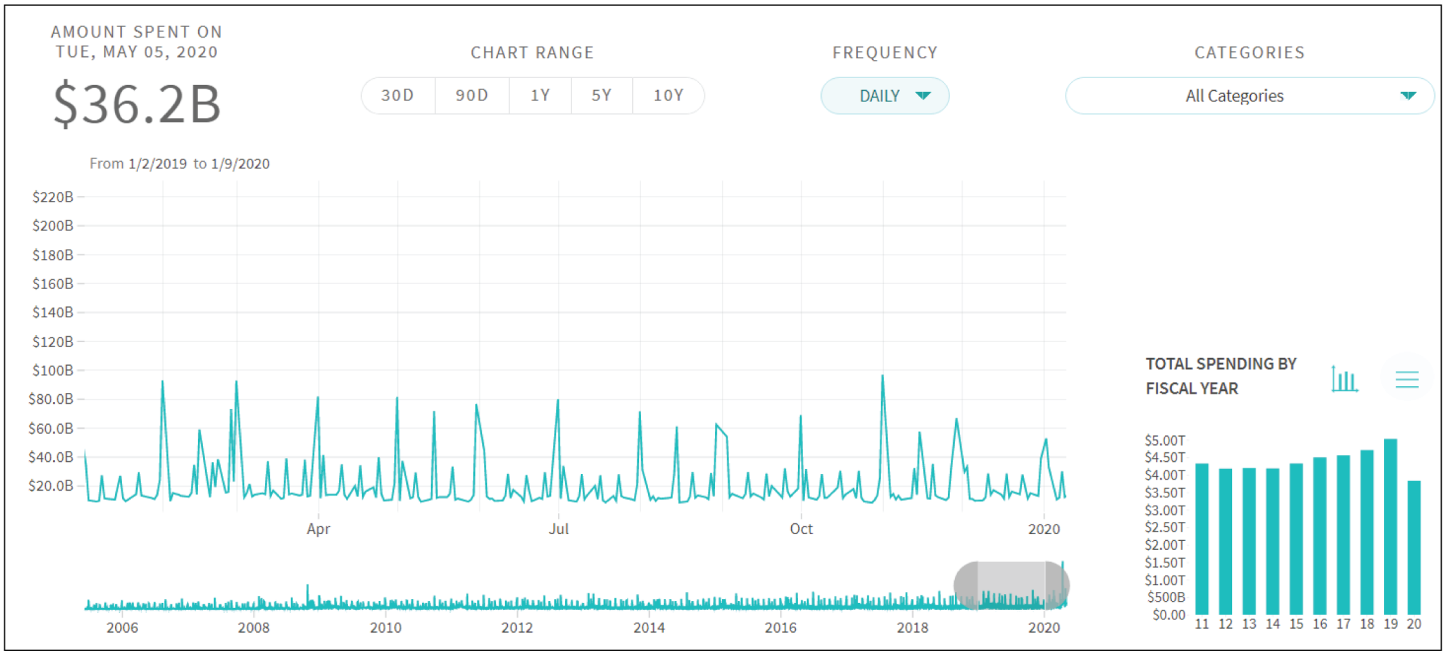


Source: USAspending.gov (https://www.usaspending.gov/#/explorer/agency), accessed May 7, 2020. I GAO-20-566

- **Data Lab.** The Data Lab is a separate website linked to USAspending.gov and provides users visual interpretations of federal spending data, including use cases, data visualizations, analyses of federal spending, and trends.[56] As shown in figure 6, the Data Lab provides users with interactive tools to visualize federal finances, such as trends in daily federal spending.

[56]The website also contains cases that demonstrate the uses of federal spending data, such as analysis on homelessness in the United States. See https://datalab.usaspending.gov/homelessness-analysis/index.html (accessed May 18, 2020) for additional information. The Data Lab also includes a visual analysis of federal spending and trends. See https://datalab.usaspending.gov/americas-finance-guide/spending/trends/ (accessed May 18, 2020) for additional information.

Figure 6: Example of Data Visualization of Federal Government Spending from the Data Lab (as of May 2020)



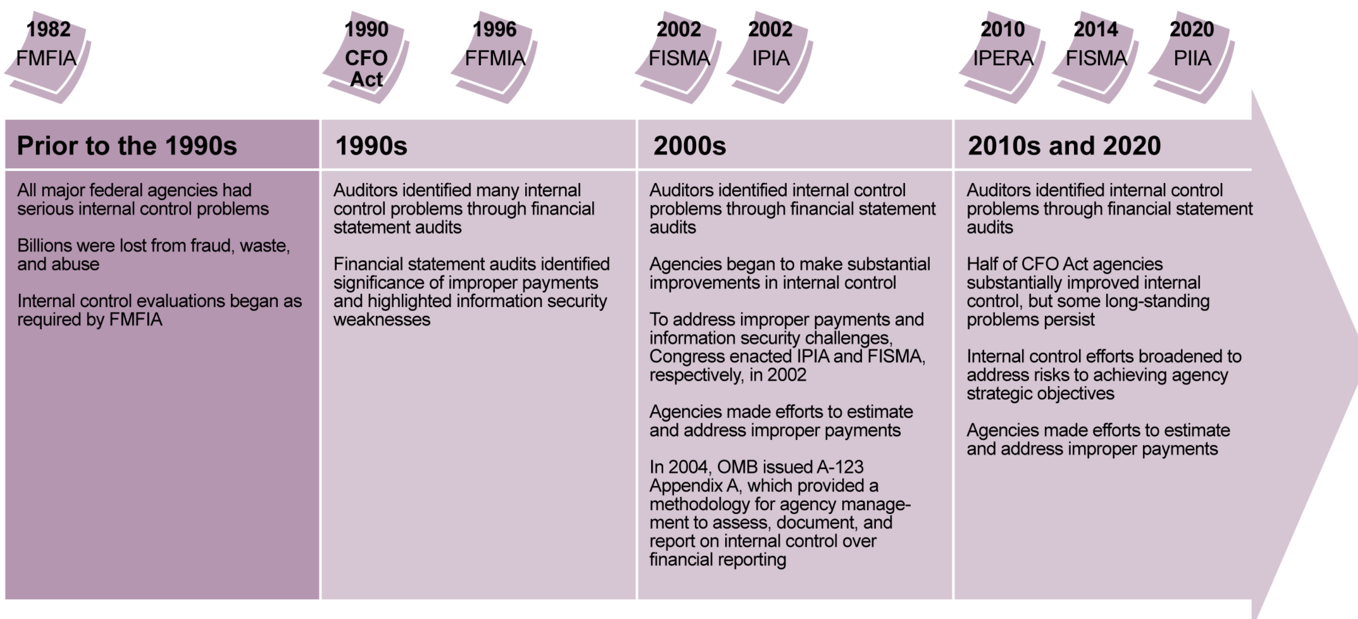
Source: Treasury's Data Lab (https://datalab.usaspending.gov/dts), accessed May 7, 2020. I GAO-20-566

In addition to making these tools available to the public, Treasury also educates the public about the use of the spending data on USAspending.gov and the Data Lab through how-to guides and outreach activities.

Internal Control Progress

Prior to the CFO Act, the federal government faced serious internal control problems and the loss of billions of dollars through waste, fraud, and abuse in federal agencies. Major system breakdowns served to reinforce the public's perception that the federal government was poorly managed, with little or no control over its activities. The CFO Act marked the beginning of a new era in federal financial management and accountability and was at the forefront of efforts to gain financial control over government operations. Figure 7 highlights some of the major progress related to internal control that has occurred since the CFO Act, including key legislation enacted.

Figure 7: Internal Control Progress through the Decades



A-123 Appendix A = OMB Circular No. A-123, Appendix A, *Internal Controls over Financial Reporting*
CFO Act = Chief Financial Officers Act of 1990
FFMIA = Federal Financial Management Improvement Act of 1996
FISMA (2002) = Federal Information Security Management Act of 2002
FISMA (2014) = Federal Information Security Modernization Act of 2014
FMFIA = Federal Managers' Financial Integrity Act of 1982
IPERA = Improper Payments Elimination and Recovery Act of 2010
IPIA = Improper Payments Information Act of 2002
OMB = Office of Management and Budget
PIIA = Payment Integrity Information Act of 2019 (enacted 2020)

Source: GAO analysis. I GAO-20-566

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of an entity. Effective internal control provides reasonable assurance that an organization achieves (1) effective and efficient operations, (2) reliable reporting for internal and external use (including financial reporting), and (3) compliance with applicable laws and regulations.

Internal control over financial reporting is a key part of CFO Act implementation. The objectives of internal control over financial reporting are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. The term reasonable assurance is important because no matter how well-designed and operated, internal control cannot provide absolute assurance that agency objectives will be met.

Congress has long recognized the importance of internal control, beginning with the Budget and Accounting Procedures Act of 1950, which placed primary responsibility for establishing and maintaining internal control on the management of each executive branch agency.[57] Faced with a number of highly publicized internal control breakdowns, in 1982 Congress passed the Federal Managers' Financial Integrity Act of 1982 (FMFIA).[58] FMFIA required agency heads to maintain internal controls providing reasonable assurance that obligations and costs are in compliance with applicable law; that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and that revenues and expenditures are properly recorded and accounted for. Agency heads were also required to assess their system of internal controls annually and report on the status of their efforts. In addition, the act required the Comptroller General to issue internal control standards for use by executive agencies and OMB to issue guidelines for agencies

---

[57]ch. 946, § 113, 64 Stat. 832, 836 (Sept. 12, 1950), *codified as amended at* 31 U.S.C. § 3512(b).

[58]Pub. L. No. 97-255, § 2, 96 Stat. 814 (Sept. 8, 1982), *codified at* 31 U.S.C. § 3512(c), (d).

to follow in assessing their internal controls against the Comptroller General's standards.

We have monitored and reported on FMFIA implementation efforts across the government. In 1989, we found that the government did not have the internal control and accounting systems necessary to effectively operate many of its programs and safeguard its assets, and many of the weaknesses were long-standing.

During the 1990s, Congress sought to improve internal control by passing several pieces of legislation. The CFO Act called for agency financial management systems to comply with the Comptroller General's internal control standards for the federal government. Additionally, GPRA required agencies to clarify missions, set strategic and performance goals, and measure performance toward those goals. Achieving such goals would require agency managers to implement an effective system of internal controls. The financial statement audits required under the CFO Act and GMRA helped identify internal control weaknesses across the federal government.

The federal government has made substantial progress toward improving internal control and preventing fraud, waste, and abuse. Table 5 highlights internal control progress in federal financial management since the CFO Act.

Table 5: Internal Control Progress since the Chief Financial Officers Act of 1990

Internal control	• The Office of Management and Budget periodically revised internal control guidance to strengthen agency internal controls. • The Chief Financial Officers Council developed tools to help agencies strengthen internal control. • Agencies improved internal controls and reduced the number of material weaknesses. • Progress made in estimating and addressing improper payments. • Financial statement audits surfaced widespread information security weaknesses. • Enterprise risk management implementation became a government-wide focus.

Source: GAO analysis. | GAO-20-566

OMB Periodically Revised Internal Control Guidance to Strengthen Agency Internal Controls

OMB has developed and modernized its guidance to help agencies evaluate and improve their internal controls. OMB first issued Circular No. A-123, *Internal Control Systems*, in 1981 in anticipation of FMFIA becoming law and issued *Internal Control Guidelines* in 1982. Under FMFIA, the OMB Director was required to establish these guidelines in consultation with the Comptroller General. To further strengthen agency internal controls, OMB revised Circular No. A-123 in 1986, and again in 1995, which replaced the *Internal Control Guidelines*, when it determined that the work to support the government's internal control environment was too process intensive and required excessive paper trails to meet the requirements for managers to assess, monitor, and report on the status of internal controls. OMB's 1995 revision to Circular No. A-123 integrated policy issuances on internal control into a single document and provided a framework for integrating agencies' internal control assessments with other reviews being performed.

External events through the years also provided OMB with opportunities to modernize its internal control guidance. For example, the enactment of the Sarbanes-Oxley Act of 2002, which contained new internal control requirements for publicly traded companies, served as an impetus for the federal government to reevaluate its policies relating to internal control over financial reporting and management's related responsibilities. To further strengthen agencies' internal controls over financial reporting, in 2004, OMB revised Circular No. A-123, *Management's Responsibility for Internal Control*, to emphasize the need for agencies to integrate and coordinate internal control assessments with other internal control–related activities. The revised circular

- provided guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal control;
- required federal managers at the executive level to focus on internal control, demonstrating an emphasis on identifying and addressing internal control weaknesses; and
- required a separate assurance statement from management on the effectiveness of internal control over financial reporting.

In 2004, OMB also issued Circular No. A-123 Appendix A, *Internal Controls over Financial Reporting*, which provided a methodology for agency management to assess, document, and report on internal control over financial reporting. OMB Circular No. A-123 Appendix A required CFO Act agency management to assess the adequacy of internal control over financial reporting annually and provide a report on identified material weaknesses and corrective actions.

OMB also issued and periodically updated its bulletin on *Audit Requirements for Federal Financial Statements* beginning in fiscal year

1998. The purpose of the bulletin was to establish requirements for audits of federal financial statements, which included audit requirements related to internal control. Beginning with the fiscal year 2007 update, the bulletin included requirements that—for those controls that the auditor determines are properly designed and implemented—the auditor will perform sufficient tests of those controls to conclude whether they are operating effectively and to support a low level of assessed control risk.

CFO Council Developed Tools to Help Agencies Strengthen Internal Control

The CFO Council played a critical role in helping to strengthen internal control in the federal government. Beginning in the early 1990s, the CFO Council established the Council Operations Group, composed principally of deputy CFOs, which formed several committees that identified and committed to undertaking financial management improvement projects.

Over the years, a significant focus of the CFO Council's working groups and committees have been helping agencies to address government-wide financial management problems, including those related to internal controls. For example, in the early 2000s, the CFO Council helped agencies better address improper payments after agencies encountered substantial difficulties in developing improper payment estimates required under the PMA.[59] Improper payments are payments that should not have been made or were made in incorrect amounts; they can result from weaknesses in internal control. The Erroneous Payment Committee was created in 2002 as a joint effort between the CFO Council and PCIE. PCIE was included because of the IG community's experience in identifying improper payments. The Erroneous Payment Committee convened to discuss and develop best practices and other methods to reduce or eliminate, where possible, improper payments made by or on behalf of the federal government.

The CFO Council has also issued tools designed to provide guidance related to internal control for government departments and agencies. For example, in July 2005, the CFO Council issued an implementation guide for OMB Circular No. A-123 Appendix A to provide additional guidance to federal managers on assessing the effectiveness of agency internal control over financial reporting. Additionally, the CFO Council and the

[59]The PMA, first issued in 2001, required certain agency programs to include estimates of "erroneous payments" in their fiscal year 2003 budget submissions. As discussed below, the Improper Payments Information Act of 2002 (IPIA) subsequently enacted broader improper payment estimation requirements. Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002). This report uses "improper payments" to refer to both initiatives.

Performance Improvement Council issued the *Enterprise Risk Management Playbook* in 2016, which integrates internal control with ERM, to help agencies meet the new ERM requirements found in the updated OMB Circular No. A-123.[60] Further, through collaboration with Treasury, the CFO Council issued *The Antifraud Playbook* in 2018 to help advance the goal of safeguarding public resources. It was designed to provide practical guidance, leading practices, and helpful resources for agencies to establish or enhance their antifraud programs and meet the requirements of the Fraud Reduction and Data Analytics Act of 2015[61] and OMB Circular No. A-123.

Agencies Improved Internal Controls and Reduced the Number of Material Weaknesses

CFO Act agencies have vastly improved their internal controls and reduced material weaknesses. Since the 1980s, FMFIA requires agency management to identify material weaknesses in internal controls relating to agency programs and operations. OMB reported that as of fiscal year 1993, CFO Act agencies had corrected nearly 3,000 material weaknesses that agency management identified under FMFIA, leaving 482 uncorrected material weaknesses to be addressed. Nearly 25 years later, in fiscal year 2017, according to a CFO Council report, agency management reported 82 material weaknesses—a significant reduction from 1993.

The process of preparing for financial statement audits helped agencies to identify material weaknesses, and audits found fewer material weaknesses, according to several CFO, IG, and independent public accountant respondents to one of the open-ended questions on our 2019

[60]The Performance Improvement Council, established in 2007, is chaired by OMB's Deputy Director for Management and includes performance improvement officers and associated staff from federal agencies. The council meets regularly and convenes a number of government-wide working groups to foster dialogue and best practice sharing among agencies.

[61]Pub. L. No. 114-186, 130 Stat. 546 (June 30, 2016). This act was repealed by the Payment Integrity Information Act of 2019, Pub. L. No. 116-117, 134 Stat. 113 (Mar. 2, 2020), which instead enacted substantially similar provisions into the U.S. Code, at 31 U.S.C. §§ 3357-3358.

survey.[62] Generally accepted government accounting standards require that auditors conducting financial statement audits identify and report on material weaknesses and significant deficiencies[63] in internal control over financial reporting.[64]

The number of material weaknesses in internal control over financial reporting reported as part of financial statement audits has decreased over the years, and the number of CFO Act agencies that had no auditor-identified material weaknesses significantly improved. For the 24 CFO Act agencies, auditor-identified material weaknesses in internal control over financial reporting moderately decreased from 48 for fiscal year 2005 to 41 for fiscal year 2019. Excluding DOD, which after many years of working toward financial statement audit readiness underwent full financial statement audits in fiscal years 2018 and 2019,[65] the progress is more evident, with auditor-identified material weaknesses in internal control over financial reporting significantly decreasing from 37 for fiscal year 2005 to 16 for fiscal year 2019. In addition, as shown in figure 8, the number of CFO Act agencies that had no auditor-identified material weaknesses significantly improved from seven agencies for fiscal year 2005 to 13 for fiscal year 2019. Such progress illustrates that an

[62]We surveyed 47 individuals from the CFO offices of the CFO Act agencies and included individuals holding the position of CFO, acting CFO, deputy CFO, or equivalent at these agencies. We surveyed 53 individuals from the IG offices holding the position of IG, acting IG, deputy IG, or counsel to the IG and 24 independent public accountants who have performed federal financial statement audits. Results of the survey represent the views of those individuals who responded and may not be representative of all individuals from the CFO offices, IG offices, or independent public accountant firms. See app. I for additional information about the survey.

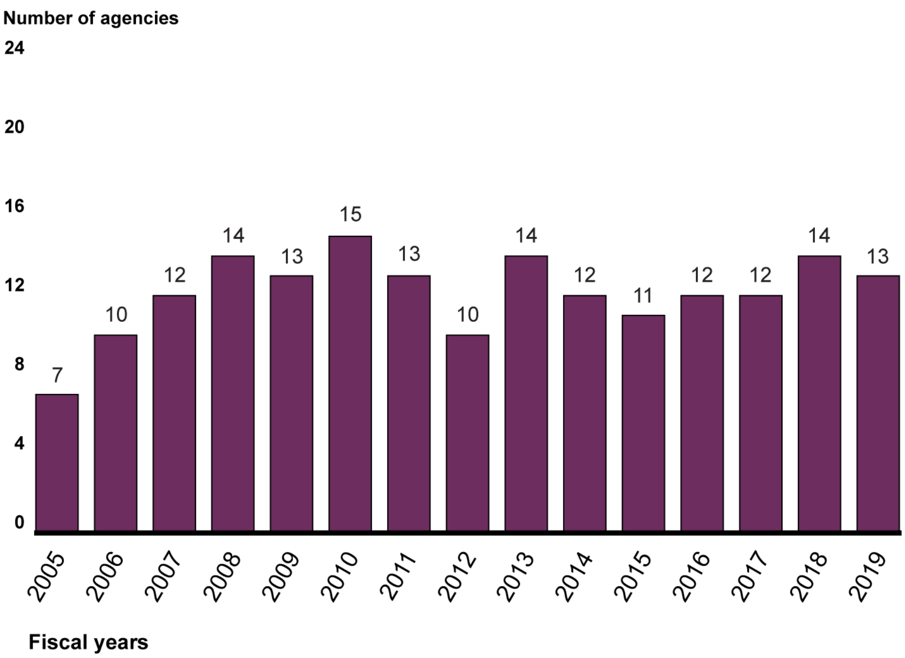
[63]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

[64]Generally accepted government accounting standards also require auditors conducting financial statement audits to report on fraud and noncompliance with provisions of laws, regulations, contracts, or grant agreements and to evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a significant effect on the subject matter.

[65]The National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, div. A, § 1008(d), 115 Stat. 1012, 1206 (Dec. 28, 2001), required the Secretary of Defense to annually report on whether a financial statement issued by DOD or a DOD component was reliable and limited the audit of such statements to procedures consistent with these assertions on reliability. Effective fiscal year 2018, this limitation was repealed. National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002, 131 Stat. 1283, 1537-1540 (Dec. 12, 2017).

increasing number of CFO Act agencies have strengthened their internal controls since fiscal year 2005.

Figure 8: Chief Financial Officers Act Agencies with No Auditor-Identified Material Weaknesses, Fiscal Years 2005 through 2019



Source: GAO analysis based on Financial Reports of the United States Government. | GAO-20-566

Of those agencies that had no auditor-identified material weaknesses, most had no auditor-identified material weaknesses in consecutive years with little to no variation from fiscal year 2005 to fiscal year 2019. For example, the National Science Foundation has not had any auditor-identified material weaknesses, and eight other agencies have reported fewer than five auditor-identified material weaknesses in total from fiscal years 2005 to 2019. Moreover, auditors identified and agencies corrected thousands of internal control problems over the past 3 decades.

In addition, Treasury and OMB have addressed many of the internal control problems relating to the processes used to prepare the CFS. GMRA designates GAO as the auditor for the CFS, and we have made 259 recommendations to Treasury and OMB related to deficiencies identified in their processes for preparing the CFS. In fiscal year 2015, Treasury and OMB began developing more detailed corrective action plans and compiled these into a remediation plan focused on resolving three material weaknesses related to the processes used to prepare the CFS. Treasury and OMB have continually updated the remediation plan to refine the corrective actions, including highlighting key milestones and identifying outcome measures to help track and maintain progress. Treasury and OMB, with agency support, have made significant efforts in improving CFS processes and implementing corrective actions that address our recommendations. As of the end of our fiscal year 2019 audit, 12 prior year recommendations remain open. Nevertheless, some internal control problems are long-standing, complex, and not quickly resolved, such as accounting for transactions between federal agencies.

Progress Made in Estimating and Addressing Improper Payments

Agencies have made progress in estimating the amount of their improper payments and implementing corrective actions to reduce them.[66] Annual financial statement audits uncovered the significance of improper payments by federal agencies and prompted Congress to pass legislation to strengthen controls over improper payments. The Improper Payments Information Act of 2002 (IPIA) required executive branch agencies, in accordance with guidance issued by OMB, to take the following actions:

- review all programs and activities and identify those that may be susceptible to significant improper payments,
- develop improper payment estimates for those programs and activities identified as being susceptible to significant improper payments,
- analyze the root causes of improper payments and develop corrective actions to reduce them, and
- report on the results of addressing the foregoing requirements.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) refined IPIA and added additional requirements in areas like recovery auditing, IG oversight, and prepayment review to aid in

[66]"Improper payment" is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including both overpayments and underpayments). 31 U.S.C. § 3351(4). Further, when an agency's review is unable to discern, because of lacking or insufficient documentation, whether a payment was proper, the estimate must treat the payment as improper. 31 U.S.C. § 3552(c)(2). This definition was enacted into the U.S. Code by the Payment Integrity Information Act of 2019, but it is consistent with prior law under IPIA, as amended, and OMB guidance previously required agencies to treat payments with insufficient or lacking documentation as improper.

agency efforts to reduce improper payments.[67] In March 2020, the Payment Integrity Information Act of 2019 (PIIA) was enacted, which repealed IPIA, IPERA, and IPERIA but instead enacted substantially similar provisions in a new subchapter of the U.S. Code.[68] Under PIIA, the core structure of executive branch agency assessment, estimation, analysis, and reporting of improper payments remains consistent with the statutory framework in effect during fiscal year 2019.[69]

Agencies made progress in estimating the amount of their improper payments and implementing corrective actions to reduce them. Some examples of this progress are noted below.

- **Department of the Treasury.** In fiscal year 2019, Treasury began reporting improper payment estimates for two programs that were newly identified as susceptible to significant improper payments—the American Opportunity Tax Credit and the Additional Child Tax Credit.
- **Department of Health and Human Services.** For fiscal years 2015 through 2018, the Department of Health and Human Services did not conduct the eligibility measurement of its improper payment estimate for the Medicaid program. However, in fiscal year 2019, it resumed the eligibility component and reported an updated national eligibility improper payment estimate.[70] Additionally, in its fiscal year 2019 AFR, the department stated that its estimated improper payment amount for Medicare Fee-for-Service (Parts A and B) decreased by about $2.7 billion from the prior year because of a reduction in improper payments for home health; Medicare Fee-for-Service Part B; and

[67]IPERA, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), and IPERIA, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013).

[68]31 U.S.C. §§ 3351-3358.

[69]PIIA, however, did enact some enhancements to improper payments law, including more detailed requirements for agency risk assessments and improper payment estimates, a requirement that OMB report an annual government-wide estimate, and a process for clearer and more consistent reporting on programs and activities that do not comply with improper payments criteria. PIIA also established an interagency working group on payment integrity.

[70]The Department of Health and Human Services estimates the Medicaid improper payment rate through its Payment Error Rate Measurement program. The program uses a 17-state, 3-year rotation for estimating Medicaid improper payments. The national Medicaid improper payment rate includes findings from the most recent three cycle measurements so that all 50 states and the District of Columbia are reflected in one rate.

Durable Medical Equipment, Prosthetics, Orthotics, and Supplies claims.

Agency CFOs have also helped agencies to reduce their improper payments, according to respondents to our survey. In 2019, we surveyed CFOs, deputy CFOs, IGs, and independent public accountants who performed federal audits of CFO Act agencies. Twenty-one of 24 CFO and deputy CFO respondents and 20 of 24 IG and independent public accountant respondents indicated that the agency CFO office has contributed either significantly or moderately to reducing improper payments.

Although agencies have made progress in their efforts to reduce improper payments, we have reported improper payments as a material deficiency or weakness since the fiscal year 1997 initial audit of the CFS. For fiscal year 2019, 79 programs across 17 agencies reported estimated improper payments totaling about $175 billion. Since fiscal year 2003—when certain agencies were required to begin reporting estimated improper payments under IPIA—cumulative improper payment estimates have totaled almost $1.7 trillion.

Although more work needs to be done to address government-wide improper payments, the federal government has taken steps to reduce improper payments and improve payment integrity among agencies government-wide. For example, in March 2018, the PMA outlined a long-term vision for modernizing federal operations and improving the ability of agencies to achieve outcomes. To address the issues outlined in the PMA, the administration established a number of cross-agency priority goals, including a Getting Payments Right initiative.[71] Additionally, we regularly issue recommendations to help specific agencies reduce improper payments. Our recommendations cover a wide range of payment integrity issues, including (1) reporting improper payment estimates for risk-susceptible programs, (2) developing reliable improper payment estimates, (3) strengthening internal controls to reduce improper payments, and (4) improving transparency and oversight of agency payment integrity initiatives.

[71]OMB's current objectives for the Getting Payments Right goal are to (1) build trust in government by better understanding the nature of improper payments and their relationship to payment integrity and (2) demonstrate stewardship of taxpayer dollars by focusing on getting government payments right the first time they are made and preventing monetary loss.

Financial Statement Audits Surfaced Widespread Information Security Weaknesses

The annual financial statement audits, which include assessments of information systems controls relevant to internal controls over financial reporting, surfaced widespread information security weaknesses. We have found information security to be a high-risk area across the government since 1997. Many of the federal information security weaknesses that led to the designation of information security as a government-wide high-risk area were identified as a direct result of the annual financial statement audits initiated under the CFO Act. Although the financial statement audits pertain primarily to financial management systems, they generally include a review of computer-based controls that affect a significant portion of an agency's broader operations.[72] To address information security challenges in the federal government, including those highlighted by financial statement audits, Congress passed the Federal Information Security Management Act of 2002[73] and subsequently updated its provisions with the Federal Information Security Modernization Act of 2014.[74] These laws required agencies to develop, document, and implement a program of internal controls to provide security for information and information systems that supports the operations and assets of the agency.

In 1995, we reported that many of the federal information security weaknesses identified in prior years were a direct result of the annual financial statement audits initiated under the CFO Act.[75] For example, we reported that

- the Internal Revenue Service continued to lack sufficient safeguards to prevent or detect unauthorized browsing of confidential taxpayer records;
- student loan data that the Department of Education maintained could have been modified for fraudulent purposes because users had the ability to override controls designed to prevent such actions;

[72]GAO, *Information Management and Technology*, GAO/HR-97-9 (Washington, D.C.: February 1997).

[73]Pub. L. No. 107-347, title III, 116 Stat. 2899, 2946 (Dec. 17, 2002).

[74]Pub. L. No. 113-283 (Dec. 18, 2014), *codified at* 44 U.S.C. §§ 3551-3558.

[75]GAO, *Financial Management: Continued Momentum Essential to Achieve CFO Act Goals*, GAO/T-AIMD-96-10 (Washington, D.C.: Dec. 14, 1995).

- the Federal Housing Administration had continuing weaknesses in financial management systems, including those that processed sensitive cash receipt and disbursement transactions;
- the U.S. Customs Service had thousands of system users with inappropriate access to critically sensitive programs and data files; and
- the Department of the Navy had significant weaknesses involving access to financial data and the adequacy of computer center plans for recovery if service was interrupted.

Our analyses of information security at major federal agencies have shown that federal systems are not being adequately protected from threats, even though these systems process, store, and transmit enormous amounts of sensitive data and are indispensable to many federal agency operations. In September 1996, we reported that serious weaknesses had been found at 10 of the 15 largest federal agencies, and we concluded that poor information security was a widespread federal problem with potentially devastating consequences.[76] In 1998 and in 2001, we analyzed financial statement audit results for 24 of the largest federal agencies and found that all 24 agencies had significant information security weaknesses.[77]

Nearly 20 years later, as we reported for fiscal year 2019, little has changed and 18 CFO Act agencies designated information security as either a material weakness or significant deficiency in internal control over financial reporting for their agencies.[78] Specifically, control deficiencies at the CFO Act agencies were identified across all control areas: (1) security management; (2) access to computer data, equipment, and facilities; (3) changes to and configuration of information system resources; (4)

[76]GAO, *Information Security: Opportunities for Improved OMB Oversight of Agency Practices*, GAO/AIMD-96-110 (Washington, D.C.: Sept. 24, 1996).

[77]GAO, *Computer Security: Weaknesses Continue to Place Critical Federal Operations and Assets at Risk*, GAO-01-600T (Washington, D.C.: Apr. 5, 2001).

[78]GAO, *Financial Audit: Fiscal Years 2019 and 2018 Consolidated Financial Statements of the U.S. Government*, GAO-20-315R (Washington, D.C.: Feb. 27, 2020).

segregation of incompatible duties; and (5) contingency planning.[79] The information security weaknesses identified by financial statement audits increased the risk of unauthorized access to, modification of, or disclosure of sensitive data and programs and disruption of critical operations.

Enterprise Risk Management Implementation Became a Government-Wide Focus

Following several widely reported internal control failures in publicly held companies in the early 2000s, OMB has used ERM in the federal government as a strategy to manage risk. According to the Committee of Sponsoring Organizations of the Treadway Commission, ERM was highlighted when investors, company personnel, and other stakeholders suffered tremendous losses from a series of high-profile business scandals and failures in the early 2000s.[80] Consequently, the committee issued *Enterprise Risk Management – Integrated Framework* in 2004 to discuss ERM principles and concepts, suggest a common ERM language, and provide clear direction and guidance for ERM. We developed a risk management framework in 2005 to inform agency officials of the basic components of a risk management system. We developed the framework after we found that there was no universally agreed-upon set of requirements or processes for risk management based on our review of numerous frameworks from industry, government, and academic sources, including the Committee of Sponsoring Organizations of the Treadway Commission's ERM framework.[81] In 2016, to assist agencies in better assessing challenges and opportunities from

[79]GAO's *Federal Information System Controls Audit Manual* defines the five control areas as follows: (1) security management, which provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls; (2) access controls, which limit or detect access to computer resources (data, programs, equipment, and facilities) thereby protecting them against unauthorized modification, loss, and disclosure; (3) configuration management, which prevents unauthorized changes to information system resources and provides reasonable assurance that systems are configured and operating securely and as intended; (4) segregation of duties, which includes policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations; and (5) contingency planning, so that when unexpected events occur, critical operations continue without disruption or are promptly resumed and critical and sensitive data are protected.

[80]The Committee of Sponsoring Organizations of the Treadway Commission is a joint initiative of private sector organizations dedicated to providing leadership through the development of frameworks and guidance on ERM, internal control, and fraud deterrence.

[81]GAO, *Risk Management: Further Refinements Needed to Assess Risks and Prioritize Protective Measures at Ports and Other Critical Infrastructure*, GAO-06-91 (Washington, D.C.: Dec. 15, 2005).

an enterprise-wide view, we updated our risk management framework to more fully include recent experience and guidance, as well as specific enterprise-wide elements.[82]

In 2016, OMB broadened the government's focus on internal controls to also include ERM in its Circular No. A-123.[83] According to OMB, it revised Circular No. A-123 to ensure that agencies manage risks that they may face when trying to achieve their strategic objectives, as well as risks that may arise through agency activities and operations. OMB stated that ERM's integrated governance structure would improve mission delivery, reduce costs, and focus corrective actions toward key risks. We previously reported, even before OMB required agencies to adopt ERM, that several agencies, after facing significant risks to their missions, were implementing ERM to address risk-based issues and improve their ability to respond to future risks.[84] For example, the Office of Federal Student Aid in the Department of Education adopted ERM in 2004 to help address long-standing risks, including poor financial management and internal controls, which led us to place the Office of Federal Student Aid on our High Risk List from1990 through 2005.[85] As we found in 2016, several agencies used good practices to implement ERM.[86] For example, the Department of Commerce defined roles and responsibilities across the agency to build a risk management culture and guide its ERM process. HUD uses risk dashboards to monitor risks.[87]

In 2019, OMB stated that it has made great progress in administratively implementing ERM with agencies and expects to make further improvements over time. Further, applying ERM, which encompasses concepts of internal control, enabled agencies to effectively apply scarce resources to higher-risk areas. In addition, 20 of 24 CFO and deputy CFO

[82]GAO, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risks*, GAO-17-63 (Washington, D.C.: Dec. 1, 2016).

[83]ERM is a forward-looking management approach that allows an agency to assess threats and opportunities that could affect the achievement of its goals.

[84]GAO-17-63.

[85]In 2005, the Office of Federal Student Aid was removed from our High Risk List, not just as a result of its adopting ERM, but also through a combination of leadership commitment, capacity to resolve the risk, the development of a corrective action plan, monitoring of the corrective measures, and demonstrated progress in resolving the high-risk area.

[86]GAO-17-63.

[87]GAO-17-63.

respondents to our survey indicated that the agency's CFO office has contributed either significantly or moderately in performing risk management activities, and most agencies have a risk management strategy developed. Additionally, a 2012 AGA survey to federal CFOs gave a variety of examples where risk management information could be useful, including those mentioned below (see text box below).

Usefulness of Risk Management Information

"Activities where risk management information could be useful include: process/control documentation, grants management, improper payments, revenue estimation, internal controls, and technology investments," according to the Association of Government Accountants' (AGA) 2012 Annual CFO Survey.

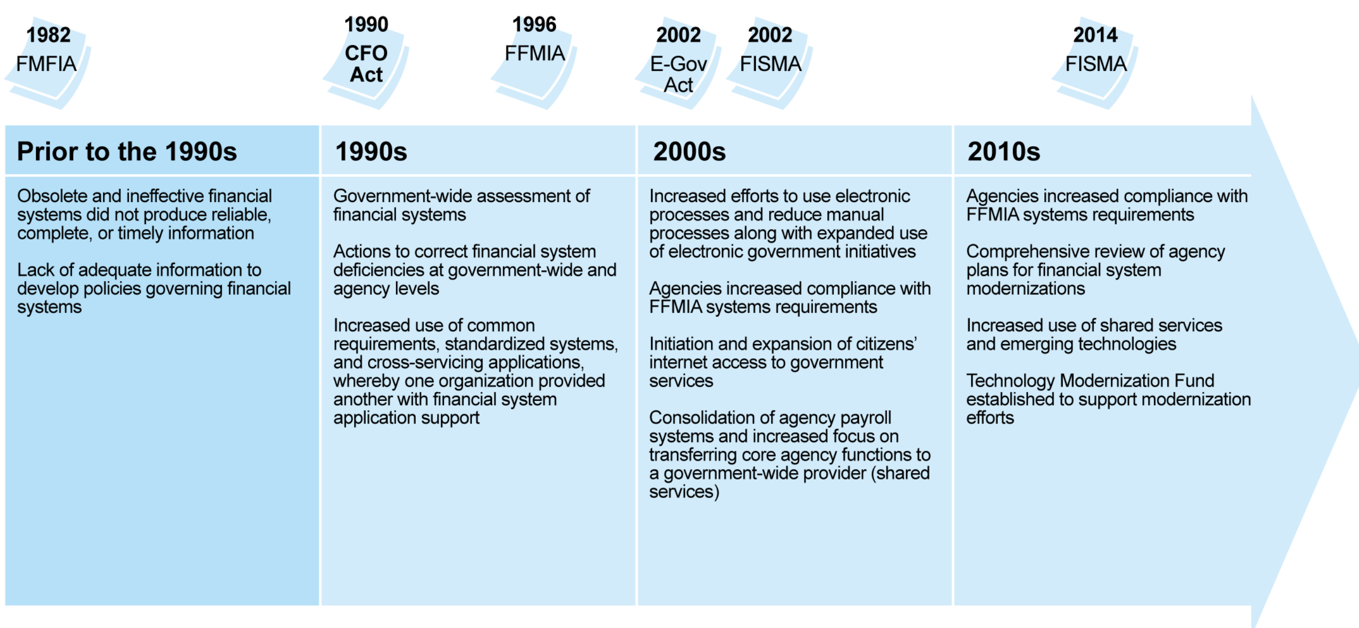
Source: AGA. I GAO-20-566

The July 2016 revision of OMB Circular No. A-123 also requires agencies to develop and maintain risk profiles, which provide an analysis of the risks arising from agency activities and operations that an agency faces in achieving its strategic objectives. Such risk profiles are used to identify appropriate agency options for addressing significant risks. Based on an analysis we conducted in 2018, we determined that 14 of the CFO Act agencies had evidence that a risk profile for the agency was being developed or had already been developed. In a 2019 follow-up, all 24 CFO Act agencies had a risk profile that was either already developed or in the process being developed.

Financial Management Systems Progress

In 1987, we reported that a major cause of the federal government's financial problems was the poor condition of its financial management systems.[88] At the time of the CFO Act, Congress found that these systems were obsolete; inefficient; and did not provide complete, consistent, reliable, and timely information to users. Since enactment of the CFO Act, federal agencies and leadership have made significant efforts to improve their financial management systems. Figure 9 highlights some of the major progress related to financial management systems that has occurred since the CFO Act, including key legislation enacted.

Figure 9: Financial Management Systems Progress through the Decades



CFO Act = Chief Financial Officers Act of 1990
E-Gov Act = E-Government Act of 2002
FFMIA = Federal Financial Management Improvement Act of 1996
FISMA (2002) = Federal Information Security Management Act of 2002
FISMA (2014) = Federal Information Security Modernization Act of 2014
FMFIA = Federal Managers' Financial Integrity Act of 1982

Source: GAO analysis. I GAO-20-566

[88]GAO, *Financial Management: Additional Actions Needed to Improve Federal Financial Management Systems*, GAO/AFMD-90-14 (Washington, D.C.: Apr. 27, 1990).

Effective financial management systems are the cornerstone of good internal control and are critical to ensuring accountability. Prior to the CFO Act, many of the government's financial systems were old, with their basic structure having been designed during World War II. Despite improvement efforts over many years, the systems were second rate. Agencies recognized the need to modernize, redesign, or enhance their financial management and accounting systems to correct deficiencies identified as a result of reviews done under FMFIA or through other means, such as audits. However, conventional efforts to improve financial management systems lacked a long-term government-wide approach necessary to ensure that consistent data are available across agency and department lines. Ad hoc agency-by-agency improvement efforts, despite costing billions of dollars, had not resulted in adequate financial systems.[89] In addition, one of the most serious deficiencies reported by OMB in 1992 was that the government lacked the foundational information—such as the number, condition, and useful life of its financial systems—that was essential for establishing government-wide policies for its systems.

Financial Management Systems

The Federal Financial Management Improvement Act of 1996 (FFMIA) defines financial management systems to include financial systems and the financial portions of mixed systems—systems with both financial and nonfinancial functions—necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

Source: FFMIA. I GAO-20-566

The CFO Act called for the improvement of financial management systems in CFO Act agencies to achieve the systematic measurement of performance; the development of cost information; and the integration of program, budget, and financial information for management reporting. To upgrade agency financial management systems, the act called for agency CFOs to approve and manage agency financial management systems' design or enhancement projects. The CFO Act requires agency CFOs to prepare and annually revise agency plans to implement OMB's 5-year financial management plan. Each 5-year plan OMB submits is to include information such as the following:

- a description of the existing financial management structure and any changes needed to establish an integrated financial management system;
- a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems; and
- proposals to eliminate duplicate and other unnecessary systems and projects to bring existing systems into compliance with applicable standards and requirements.

[89]GAO/AFMD-90-14.

Building on the foundation laid by the CFO Act, FFMIA was enacted in 1996 and requires CFO Act agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, the *U.S. Standard General Ledger*, and federal accounting standards. It further requires the heads of CFO Act agencies and the auditors of their financial statements to report annually on whether agency financial management systems complied with these three requirements.

The federal government has dedicated significant efforts and resources to improve and modernize its financial management systems. Table 6 highlights progress in financial management systems to improve federal financial management since the CFO Act.

Table 6: Financial Management Systems Progress since the Chief Financial Officers Act of 1990 (CFO Act)

Financial management systems 	• Government-wide policy and guidance were established for standardizing and modernizing financial management systems. • CFO Act agencies have implemented initiatives to improve financial management systems. • Use of shared services has resulted in some cost savings and cost avoidance. • CFO Act agencies used advances in technology to improve operations.

Source: GAO analysis. | GAO-20-566

Government-Wide Policy and Guidance Were Established for Standardizing and Modernizing Financial Management Systems

Prior to the CFO Act, one of the most serious deficiencies in federal financial management related to the government's lack of essential information about its financial management systems as a basis for establishing government-wide policies. OMB took steps to address this deficiency by collecting data on CFO Act agencies' financial systems and applications in the early 1990s. Using these data as a foundation, government-wide policy and guidance to standardize and modernize financial management systems were established.

The CFO Act identified significant concerns and challenges with the government's financial management systems, and shortly after its enactment, OMB and CFO Act agencies developed initiatives for improvements. As a first step, in 1992, OMB created a database (inventory) with comprehensive information from agencies on the status of their financial management systems. The inventory contained specific information on agency financial management systems and software applications, such as the number of systems and applications, the age of the systems, and if or when the systems needed to be upgraded or replaced. OMB collected data on 878 operational financial management systems, consisting of 1,306 applications that tracked financial events, provided financial information significant to the financial management of the agency, or provided information for the preparation of financial statements. The inventory also included information on 82 financial management systems, consisting of 168 applications that were under development. For the first time, OMB had the information necessary to begin objective assessments of financial management systems government-wide.

OMB also collected data related to how CFO Act agencies planned to improve the overall quality of their financial management systems. To address many of the deficiencies in financial management systems, agencies planned for new systems or for upgrades to existing systems. Agencies indicated that many of their efforts to implement new systems would also examine work processes, which were critical if such efforts were to substantially improve the effectiveness and efficiency of the government. Table 7 depicts the percentage, as of 1992, of financial management applications in the CFO Act agencies planned to be replaced or upgraded, as reported by OMB.

Table 7: Percentage of Financial Management Applications in the Chief Financial Officers Act (CFO Act) Agencies Planned to be Replaced or Upgraded as of 1992

Type of improvement	Percentage of financial management applications in the CFO Act Agencies
Replacement system	24
System upgrade	25
No change	23
Unknown[a]	28
Total	**100**

Source: GAO presentation of Office of Management and Budget (OMB) information. | GAO-20-566

[a]According to OMB, the Departments of Defense and Transportation did not provide information, but it was likely that many of their financial systems would be replaced or upgraded.

As a result of its data collection efforts on the government's financial management systems, policy and guidance to standardize and modernize government-wide and agency financial management systems were established. In 1993, OMB issued comprehensive functional guidance for financial management systems through its Circular No. A-127, *Financial Management Systems*, which prescribed the policies and standards for executive departments and agencies to follow when developing, operating, evaluating, and reporting on their systems. The objective of this guidance was to establish government-wide financial systems and compatible agency systems, with standardized information and electronic data exchange between the systems, to meet the requirements of good financial management. This guidance also established detailed system requirements for integrated financial management systems and required agencies to record their financial events throughout financial management systems applying the requirements of the *U.S. Standard General Ledger* at the transaction level. OMB Circular No. A-127 also required the use of commercial, off-the-shelf software.

OMB revised Circular No. A-127 periodically over the years, issuing updates in 1999, 2004, and 2009.[90] In 2013, OMB rescinded Circular No. A-127 and replaced it with OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*. The goal of Circular No. A-123, Appendix D, was to transform OMB's compliance framework to reduce the cost, risk, and complexity of financial system modernization. OMB Circular No. A-123, Appendix D defined new requirements for determining compliance with FFMIA.

In addition, over several years, the Joint Financial Management Improvement Program (JFMIP) developed requirements and guidance to assist agencies in complying with FFMIA through a series of federal financial management systems requirements documents. JFMIP guidance included the *Framework for Federal Financial Management Systems* and the *Financial Management Systems Overview for Agency Leaders*, which were intended to promote an understanding of key financial management systems concepts and requirements as they related to system integration. In 1993, JFMIP updated its *Core Financial Systems Requirements*, which provided a comprehensive set of functional standards to evaluate federal financial management systems. In 1995, JFMIP published *its Inventory System Requirements*, which called for CFO Act agencies to provide an annual updated inventory of their financial management systems. However, these JFMIP requirements and guidance documents are no longer in effect as the government redefined financial management system requirements. The current guidance for financial management systems is OMB Circular No. A-123, Appendix D, which solidified Treasury's role to develop federal financial management systems requirements and publish them in the *Treasury Financial Manual*.

[90]See https://obamawhitehouse.archives.gov/omb/circulars_a127/ (accessed May 18, 2020).

OMB also made it a priority to improve financial management systems using standardized information, electronic data exchange, and commercially provided software and transaction processing services. From 1995 through 1997, the CFO Council, JFMIP, OMB, Treasury, and GAO worked together to develop a strategic plan for upgrading and modernizing financial management systems. The plan included the following four strategic positions:

- use more commercial, off-the-shelf software;
- expand the scope and number of accounting utilities;[91]
- capture more transactions electronically; and
- increase the automation and availability of information needed for decision-making.

In the early 2000s, as technology advanced, OMB developed additional guidance to improve and promote the use of technology in the government. The E-Government Act of 2002 was enacted, among other things, to promote better use of the internet and other information technologies and to improve government services for citizens, internal government operations, and opportunities for citizen participation in government.[92] The act specifically required the establishment of the Office of Electronic Government within OMB to oversee implementation of the act's provisions and mandates. OMB established the Office of E-Government and in 2002 published guidance—*E-Government Strategy*—to federal agencies on implementing the act.[93]

As technology advanced and federal agencies' finances became increasingly complex, concerns about the quality of information and cost of modernizing financial management systems caused OMB to rethink its vision. In 2006, OMB issued guidance stating that most agencies seeking to upgrade to the next major release of their core financial management systems—or to modernize to different core financial management systems—must move to a "shared services" model. Under the shared services model, agencies would transfer their core financial system

[91]Accounting utilities are agency administrative units that either by themselves or with the private sector provide financial services to other agencies.

[92]Pub. L. No. 107-347, 116 Stat. 2899 (Dec. 17, 2002).

[93]Office of Management and Budget, *E-Government Strategy* (Washington, D.C.: February 2002).

functions—such as accounting, payments, and reporting—to a government-wide shared services center.

In 2018, the PMA laid out a long-term vision for modernizing IT in the federal government. In 2019, the government's strategy continued to emphasize the desire to embrace modern technology solutions through the adoption of cost-effective new and innovative technologies and the widespread access to shared solutions to enhance the effectiveness and efficiency of government services, which we discuss later this report.

CFO Act Agencies Have Implemented Initiatives to Improve Financial Management Systems

CFO Act agencies have made significant efforts to improve the overall quality of their financial management systems since enactment of the CFO Act. Some of the agencies' efforts included implementing new systems and applications, improving compliance with FFMIA, reengineering work processes to address deficiencies in financial management systems, and planning for new systems or major upgrades to current systems.

In 1994, OMB reported that CFO Act agencies had implemented, since 1992, 86 new systems comprising 100 applications, and that 25 percent of these new systems were core financial systems. Core financial systems, as defined by JFMIP, included systems that manage the general ledger, funding, payments, receivables, and certain basic cost functions.[94] The core financial systems receive data from other financial and feeder systems, such as acquisition, grant, and personnel systems, as well as from direct user input, and provide data for financial performance measurement and analysis and for financial statement preparation. In addition, as of September 30, 2002, 20 CFO Act agencies reported that they generally have in place a single core financial system for the agency and its subcomponents, including nine of the 20 CFO Act agencies having fully implemented a new core financial system in the past 10 years and six of the 20 CFO Act agencies continuing to use a mix of legacy and new systems.

In 1993, OMB reported that CFO Act agencies had made progress in implementing off-the-shelf software for core financial systems. Off-the-shelf products and services were commercial software programs from approved vendors. OMB also reported that the increased number of agencies seeking prepackaged off-the-shelf software resulted in

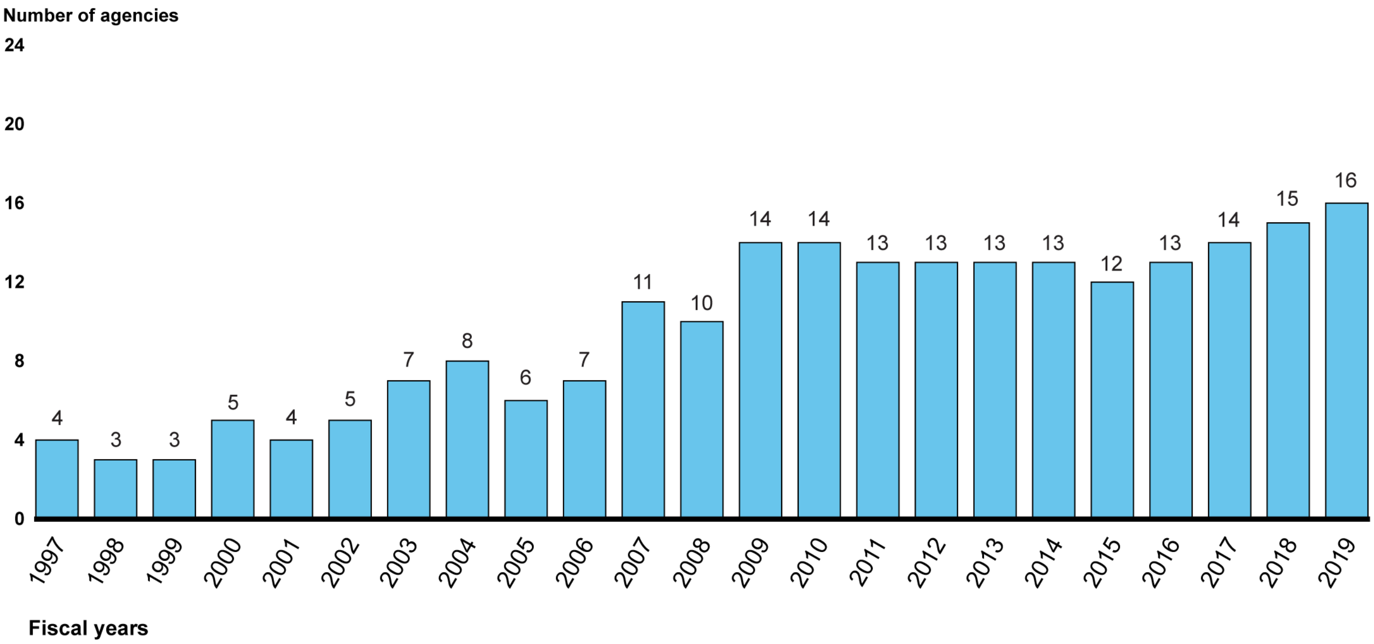
[94]Joint Financial Management Improvement Program, *Core Financial Systems Requirements*, SR-02-01 (Washington, D.C.: November 2001).

decreased costs and installation time frames for agency core financial systems. By 2003, CFO Act agencies used a variety of core financial system software, with 10 agencies using only commercial, off-the-shelf software packages. By 2006, OMB reported that most CFO Act agencies had purchased commercial, off-the-shelf financial management systems and completed implementation.

During the 2000s, agencies started to use more electronic processes and reduce manual ones. OMB worked with agencies to improve the timeliness of their audited financial statements to meet OMB's accelerated report issuance due date by, among other things, reengineering reporting processes and expanding the use of web-based technologies. Agencies also made progress in complying with guidance for financial management systems, including FFMIA requirements. For example, in 1993 only 30 percent of the operational systems in the federal government were in substantial compliance with the U.S. Standard General Ledger reporting requirements, compared with 79 percent that were in compliance in 2019.

According to OMB, the success in improving the number of agencies compliant with FFMIA can be attributed to the agencies implementing baseline assessments of all key processes and controls. The assessments were successful in the early detection of control deficiencies related to financial management systems. As a result, agencies could resolve systemic issues with greater efficiency and improve FFMIA compliance. For fiscal year 2019, financial statement auditors reported that 16 of 24 CFO Act agencies' financial management systems substantially complied with FFMIA, up from four agencies in fiscal year 1997. Figure 10 illustrates the number of CFO Act agencies compliant with FFMIA from 1997 through 2019.

Figure 10: Number of Chief Financial Officers Act of 1990 Agencies Compliant with Federal Financial Management Improvement Act of 1996 (FFMIA) from 1997 through 2019



Source: GAO analysis of agency financial statement audit reports for auditor-reported agency FFMIA compliance requirements. | GAO-20-566

OMB also made efforts to monitor agencies' financial systems initiatives to reduce the risks of failure in implementing financial systems improvements. For example, OMB conducted hands-on reviews of financial system plans at selected agencies. The reviews indicated that agency financial planning processes were improving and that generally these agencies were addressing appropriate financial system issues. In many cases, agencies had developed exemplary practices in certain areas, but OMB found that such practices were not universally used and that no individual agency used exemplary practices in all areas.

Use of Shared Services Has Resulted in Some Cost Savings and Cost Avoidance

Federal agencies have made efforts to reduce the number of duplicative systems and applications in use, reduce cost, and improve standardization and efficiency of financial management systems through the use of cross-servicing applications and migration to shared services. In 2019, OMB stated that the federal government spends more than $25 billion annually for core mission support services, such as human resources and financial management, which are common across agencies.

In 2019, we found that the federal government had undertaken efforts that have saved money and increased efficiency through shared services solutions.[95] As discussed in our report, key congressional actions included new laws to create uniform standards for financial reporting; promote agency use of information technology to deliver core mission support services; and establish funding mechanisms for agencies to modernize information systems, which include financial management systems. Presidential administrations have made it a priority to promote the use of shared services for human resources and financial management activities for many years. As shown in figure 11, since the CFO Act the federal government has taken several actions aimed at increasing the use of shared services.

[95]GAO, *Streamlining Government: OMB and GSA Could Strengthen Their Approach to Implementing a New Shared Service Plan*, GAO-19-94 (Washington, D.C.: Mar. 7, 2019).

Figure 11: Timeline of Key Congressional and Executive Actions to Promote Shared Services

Source: GAO analysis. | GAO-20-566

In the 1990s, OMB took initiatives to improve opportunities for cross-servicing—the precursor to shared services.[96] OMB reported that it focused on the areas where cross-servicing was most effective. For example, smaller agencies that could have their accounting system needs provided by larger agencies and routine administrative applications for larger agencies, such as payroll. By 1998, OMB reported that 14 of the 24 CFO Act agencies used cross-servicing, outsourcing, or both to obtain financial management systems support. For instance, the General Services Administration's corporate credit card contract used commercial bank processing systems to capture small purchases, travel, and fleet transactions.[97] OMB reported that cross-servicing financial systems could reduce redundant overhead structures and increase the use of standards and common processes.

In the early 2000s, the federal government began to set direction for agencies to migrate their systems to shared services. We reported that in 2001 OPM oversaw one of the first efforts to create a shared services marketplace, which focused on payroll.[98] Many agencies' payroll systems were nearing the end of their estimated life cycles, creating an opportunity to modernize those systems. OPM worked with OMB to identify potential payroll providers and selected four of the then 22 federal payroll providers to serve as federal shared service providers for 116 executive branch agencies.[99] Such efforts have resulted in cost savings, cost avoidance, and greater consistency among agencies in how they interpreted and applied payroll rules. For example, in 2016, OPM estimated that from fiscal years 2002 through 2015, shared services for human resources,

[96]Cross-servicing is the process whereby one organization provides another organization with the system support structure for one or more financial management system applications.

[97]Office of Management and Budget, *Federal Financial Management Status Report and 5-Year Plan* (1998).

[98]GAO-19-94.

[99]The federal shared service providers were (1) Department of Defense, Defense Finance and Accounting Service; (2) Department of Agriculture, National Finance Center; (3) Department of the Interior, Interior Business Center; and (4) General Services Administration, National Payroll Center. Additionally, the Department of State was permitted to continue independent payroll operations to support overseas civilian employees. For more information on the e-payroll project, see GAO, *Federal Human Resources Data: OPM Should Improve the Availability and Reliability of Payroll Data to Support Accountability and Workforce Analytics*, GAO-17-127 (Washington, D.C.: Oct. 7, 2016).

including payroll, resulted in more than $1 billion in government-wide cost savings and cost avoidance.[100]

In 2005, OMB reported that its vision for shared service was to improve the cost, quality, and performance of financial management systems by leveraging shared service solutions to foster efficiencies in federal financial operations. The Financial Management Line of Business initiative focused efforts on consolidating agency financial systems into government-wide shared service providers. The initiative also established the Centers of Excellence concept to provide clarity on how to evaluate the performance and cost of shared service alternatives.[101] In 2005, OMB instituted a policy that agencies seeking to modernize their financial system must migrate to a Center of Excellence.[102] Over the next decade, OMB continued its initiatives to reduce costs by providing competitive alternatives for agencies to operate financial management systems through shared services and standardize government-wide business processes.

There are other examples of the federal government's actions to increase the use of shared services. For example in 2013, DOD initiated efforts to move from the Defense Finance and Accounting Service's systems for disbursing payments to Treasury's disbursing system. Treasury projects that by the end of 2022, the amount of Treasury-disbursed DOD payments will be approximately $483 billion. According to Treasury, switching to its disbursing system saves agencies money and allows them to better focus on their missions. Treasury also reported that DOD is succeeding in providing more accurate and precise information for its financial statements under Treasury's disbursing system.

To increase the use of shared services in the federal government, in 2014 and again in 2018, OMB established a cross-agency priority goal that calls for improving the use, quality, and availability of administrative

[100]According to OPM, the cost estimate is based on data from the OMB IT Dashboard and related Human Resources Line of Business information. OPM reported that this analysis is based on limited information and used for selected activities, such as determining the feasibility of new projects and evaluating concepts. We reviewed OPM's methodology and found it appropriate for this general estimate.

[101]A Center of Excellence is a shared service solution where a single entity provides financial management services for multiple organizations.

[102]Office of Management and Budget, *Transmittal Memorandum, Update on the Financial Management Line of Business and the Financial Systems Integration Office* (Washington, D.C.: Dec. 16, 2005).

shared services. In 2019, OMB issued Memorandum M-19-16 on shared services, which among other things described the process and desired outcomes for shared services and established a governance and accountability model for achieving them using Quality Service Management Offices (QSMO). In 2019, Treasury received predesignation as the QSMO for financial management government-wide. Treasury provided an implementation plan to OMB in the fall of 2019, which among other things articulated the role of the QSMO as a broker for agencies to access commercial and federal shared service providers. Treasury's implementation plan also outlined standardizing processes, system requirements, and system interfaces for federal agencies. Implementing these plans would allow legacy technology in federal agencies to be decommissioned and reduce the need for manual processes in financial management practices. According to OMB, the use of a QSMO will offer flexibility and standards-based solutions for agencies to access commercial and federal shared service providers. In June 2020, OMB formally designated Treasury as the QSMO for financial management government-wide.

Almost all respondents to our survey of CFOs and deputy CFOs in 2019 (22 of 24) indicated that they currently use or plan to use shared services. Most of those respondents (16 of 24) believed that use of shared services could help reduce costs. Treasury reported, in 2019, that by using shared services, agencies would not have to purchase and maintain costly, individualized financial management systems.

Treasury estimates that the use of shared financial management systems could generate over $600 million of cost avoidance by 2023.[103] An example of a financial management shared service reducing cost is the Invoice Processing Platform, which is Treasury's centralized invoicing service for federal government agencies. This platform is a secure web-based service that automates government invoicing from purchase orders through payment notifications, at no charge to federal agencies or their commercial suppliers. In 2019, Treasury reported that processing an electronic invoice is at least 50 percent cheaper than processing a paper invoice and the government processes 12 million paper invoices each year. In 2019, the platform processed nearly 525,000 electronic invoices for the federal government. In addition to government savings, the

[103]Department of the Treasury, *Progress Statement 2019: The Future of Federal Financial Management* (Jan 20, 2020).

commercial supplier also benefits as electronic invoicing means faster payments, more accurate data, better cash management, improved customer relations, and a paperless office.[104] Adoption of shared services is discussed in more detail later in this report.

CFO Act Agencies Used Advances in Technology to Improve Operations

Over the years since the CFO Act, advances in technology have provided and continue to provide opportunities to meet the changing needs of government. Some of these efforts have included the expansion to an electronic government (E-government) and use of cloud-based computing.[105] In addition, a range of advances in technology, such as data visualization techniques, artificial intelligence, and robotic process automation, have possible applications in the federal government.

The 2002 PMA stated that the federal government could secure greater services at lower cost through E-government and meet high public demand for E-government services, which would result in a major improvement in the federal government's value to its people. In 2002, OMB required agencies to use a single e-procurement portal to provide access to notices of solicitations over $25,000. This represented the first step in capitalizing on electronic business processes and making e-procurement available through the internet. By 2003, OMB reported that almost every CFO Act agency was conducting business using various aspects of the electronic environment, such as the internet, intranets, and local and wide-area networks. According to OMB, the electronic environment changed the way the public, industry, and state and local governments interacted with the federal government. To meet public and private demands, agencies offered online services as well as electronic forms and transaction capabilities.

The technology efforts made over the last 30 years have prepared the government to continue its operations amid the current novel COVID-19 pandemic. In response to this unprecedented global crisis, Congress and the administration have taken a series of actions to protect the health and well-being of Americans. OMB issued guidance for the government to respond aggressively and promptly by adapting operations and services to minimize face-to-face interactions while aligning resources to ensure

[104]Department of the Treasury, *Progress Statement 2019*.

[105]As defined by the National Institute of Standards and Technology, cloud computing is a means for enabling on-demand access to shared pools of configurable computing resources (e.g., networks, servers, storage applications, and services) that can be rapidly provisioned and released.

that agencies continue to serve the American people and operate in the most efficient manner possible.[106] OMB encouraged agencies to rely on financial systems and technology to the greatest extent possible. OMB issued Memorandum M-20-19, *Harnessing Technology to Support Mission Continuity*, which directed agencies to use technology to support mission continuity. OMB reported that by embracing technology to support business processes, the government will be better positioned to maintain the safety and well-being of the federal workforce and the American public while supporting the continued delivery of vital mission services. Efforts to improve federal financial management systems over the last 30 years, coupled with the evolution of technology, have enhanced the ability of the federal government to continue to carry out its operations and serve the American public.

[106]Office of Management and Budget, *Federal Agency Operational Alignment to Slow the Spread of Coronavirus COVID-19*, OMB Memorandum M-20-16 (Mar. 17, 2020).

Federal Financial Management Workforce Progress

To meet the requirements of the CFO Act, the federal financial management community worked together to improve the training of the financial management workforce, dramatically improving the quality of staff. Figure 12 highlights some of the major progress related to the federal financial management workforce that has occurred since the CFO Act, including key legislation enacted.

Figure 12: Federal Financial Management Workforce Progress through the Decades

1990 CFO Act

2002 CHCO Act

Prior to the 1990s	1990s	2000s	2010s
No central leadership structure for the federal financial management workforce	Federal agencies established training and development for financial management staff and auditors CFO Council and OPM began to update qualification and classification standards for financial management positions	Strategic human capital management added to GAO's High Risk List in 2001 OPM issued updated qualification and classification standards for financial management positions in 2000 CHCO positions in each CFO Act agency and the CHCO Council established to advise and assist federal agencies in their human capital efforts as established by the CHCO Act	Federal agencies began to identify and address critical workforce skills gaps OPM began working with federal agencies to develop and implement human capital operating plans and to address skills gaps In 2018, OPM issued the *Federal Workforce Priorities Report* to communicate key government-wide human capital priorities OPM issued revised qualification and classification standards for financial management positions in 2019 CFO Council working group established in 2019 to address current workforce needs and develop a strategic workforce plan

CFO = chief financial officer
CFO Act = Chief Financial Officers Act of 1990
CHCO = chief human capital officer
CHCO Act = Chief Human Capital Officers Act of 2002
OPM = Office of Personnel Management

Source: GAO analysis. I GAO-20-566

Federal employees, including those in federal financial management positions, underpin nearly all the operations of the federal government, and the success of federal programs relies on continual investments in human capital to keep pace with emerging technologies and developments in federal financial management. However, a leadership structure for the federal financial management workforce was not established until the enactment of the CFO Act. The CFO Act called for the agency CFO to direct, manage, and provide policy guidance and oversight of its financial management personnel, activities, and operations, including the recruitment, selection, and training of personnel to carry out agency financial management functions. The CFO Act also consolidated the accounting, budgeting, and other financial management activities under the agency CFO. Continued investments in human capital were essential to ensure that federal agencies efficiently implemented the requirements of the CFO Act. There was also a need for qualified financial management personnel.

GAO, the Office of Management and Budget (OMB), and Congress Recognized the Need for Qualified Financial Management Personnel

The House Committee on Government Operations noted in its full committee report accompanying the Chief Financial Officers Act of 1990 (CFO Act) that investments must be made in training to ensure that financial management staff increase their professional skills to keep pace with emerging technologies and developments in financial management. In 1992, we reported that well-qualified financial management personnel were critical to carrying out the CFO Act's requirements. In the same year, OMB reported that well over half of the agencies' chief financial officers believed that staff capabilities needed to be strengthened in the areas of financial systems, financial operations, and financial policy.

Source: GAO. I GAO-20-566

Note: Information is from GAO/OCG-93-4TR and GAO-T-AIMD 94-149.

To help achieve the CFO Act's purposes, in the early 1990s, agencies undertook comprehensive and robust efforts to establish training for financial management staff. Agencies offered training on the form, content, and audit of financial statements for CFO staff and others, such as OIG staff. OMB reported that from 1992 through 1994, federal agencies provided a wide variety of training and continuing professional development for the CFO community, including training on financial statements for more than 800 CFO staff and others. At the same time, Treasury, PCIE, and the Inspector General Auditor Training Institute sponsored a variety of training programs, including a training program on auditing agency financial statements, which 325 auditors attended. In addition, from the enactment of the CFO Act until 1994, we trained 1,000 OIG staff and others in performing financial statement audits. Further, shortly after the enactment of the CFO Act, OPM merged its financial management training functions with those of Treasury. This centralized many of the basic training courses offered to agency budget analysts, accountants, and financial managers.

Table 8 highlights progress in the federal financial management workforce since the CFO Act.

Table 8: Federal Financial Management Workforce Progress since the Chief Financial Officers Act of 1990

Financial management workforce	• The Chief Financial Officers (CFO) Council and Office of Personnel Management (OPM) periodically reviewed qualification and classification standards. • Chief human capital officer (CHCO) positions and the CHCO Council were established to advise and assist agency leaders on workforce issues. • The CFO Council established a working group to address workforce needs outlined in the President's Management Agenda. • OPM and the CHCO Council partnered to identify and address critical skills gaps. • OPM assisted agencies in developing and implementing their Human Capital Operating Plans. • OPM developed the *Federal Workforce Priorities Report*, which established government-wide human capital priorities.

Source: GAO analysis. | GAO-20-566

The CFO Council and OPM Periodically Reviewed Qualification and Classification Standards

To ensure that the federal government has skilled personnel and to support the vision of the CFO Act, OPM, the CFO Council, and key stakeholders—including federal agencies, the Chief Human Capital Officer (CHCO) Council, and the IG community—worked together to clearly define the core competencies of position requirements for the federal financial management workforce. In 1998, the CFO Council started to work with OPM to examine and update the qualification and classification standards for financial management occupations, which had not been updated since 1969.[107] Subsequently, OPM issued a draft revision of the qualification and classification standards for accountants. The revised standards changed the method for qualifying personnel by focusing less on quantitative measures of candidate qualifications—such as the number of accounting credit hours or years of experience—and more on qualitative measures, such as demonstrated competencies. In 2000, OPM further expanded the scope of the qualification review and finalized the job family standards for the accounting, auditing, and budget groups.

Ongoing changes in technology, accounting standards, financial systems, and law continue to place evolving demands on the financial management workforce. Since 2000, OPM continued to work with federal agencies and key stakeholders in the federal financial management community—including the CFO Council, CHCO Council, and IG

[107] Qualification standards are a description of the minimum requirements necessary to perform the work of a particular occupation successfully and safely. These minimum requirements may include specific job-related work experience, education, medical or physical standards, training, security, or licensure. The classification standards, also known as job family standards, include definitions, titling instructions, and grading criteria for a series of professional and administrative positions in the federal government.

community—to assess federal financial management work and keep up with evolving demands. For example, in 2015, OPM started to conduct occupational studies and continued to work with others to assess the changing nature of federal financial management work and determine whether revisions to classification and qualification standards were needed. In particular, OPM worked closely with the IG community and federal agencies to review the qualification standards related to performance audit work government-wide. As a result of these efforts, in November 2019, OPM updated the *Job Family Standard for Professional and Administrative Work in the Accounting, Auditing, and Budget Group*. These robust updates targeted emerging work in federal government. For example, OPM updated occupational information for performance auditors and included additional guidance on the specialization of forensics accounting. The revised auditor qualification standards resulted in more flexibility for agencies and facilitated a broader auditor applicant pool. OPM continues to work with the CFO Council's Shape the Workforce working group to identify financial management skills needed for the future.

CHCO Positions and the CHCO Council Were Established to Advise and Assist Agency Leaders on Workforce Issues

The Chief Human Capital Officers Act of 2002, enacted as part of the Homeland Security Act of 2002, required each of the heads of the 24 CFO Act agencies to appoint or designate a CHCO and established a CHCO Council.[108] Agency CHCOs were tasked with, among others things, setting workforce development strategies, aligning human resource policies and programs with organization missions, and developing and advocating a culture of continual learning to attract and retain employees with superior abilities. These tasks included efforts related to the financial management workforce.

Congressional Leadership Was Vital to the Federal Financial Management Workforce

Congress's leadership was instrumental in developing the federal financial management workforce. House and Senate oversight hearings on federal human capital management challenges were important for ensuring that the Office of Personnel Management and agencies continued to make progress in acquiring, developing, and retaining employees with the skills needed to carry out the government's vital work.

Source: GAO. I GAO-20-566

In each agency, the CHCO advises and assists its agency head on all human capital and human resource management issues, including selecting, developing, training, and managing a high-quality, productive workforce. The CHCO Council, chaired by the OPM Director and vice-chaired by the OMB Deputy Director for Management, and consisting of all CHCOs of executive departments as well as any other members designated by OPM, was established to coordinate and collaborate on developing and implementing federal human capital policies. The CHCO Council also advises and coordinates with member agencies on such matters as the modernization of human resources systems, the quality of

[108]Pub. L. No. 107-296, title XIII, 116 Stat. 2135 (Nov. 25, 2002).

human resources information, and legislation affecting human resources operations and organizations.

Since their establishment, the agency CHCOs and the CHCO Council have undertaken a number of notable efforts to improve the federal financial management workforce. In 2009, OPM and the CHCO Council, working closely with the CFO Council, conducted a government-wide study to identify critical competencies for five financial management occupations: financial administration and program, financial management, accounting, auditing, and budget analysis. OPM made these critical competencies available and encouraged agencies to use them in their hiring of financial management employees. OPM also encouraged agencies to use the critical competencies across all human resource efforts, including workforce planning, training and development, and performance management, for a comprehensive approach to building and sustaining a first-class financial management workforce.

The CFO Council Established a Working Group to Address Workforce Needs Outlined in the President's Management Agenda

In March 2019, we reported that the federal government is moving forward with broad efforts to understand how key trends, such as technology advances and evolving mission requirements, will affect the future of federal work and the workforce, address government-wide human capital challenges, and improve government efficiency.[109] For example, the 2018 PMA laid out a long-term vision for modernizing the federal government in key areas, including the federal workforce, that will improve the ability of agencies to deliver mission outcomes. Specifically, the PMA's cross-agency priority goal on the 21st century workforce aims to (1) improve employee performance management and engagement, (2) train staff to develop new skills and redeploy human capital resources, and (3) enable simple and strategic hiring practices.[110]

The CFO Council formed its Shape the Workforce working group in 2019 to align the CFO Council's efforts with PMA's goal on the 21st century workforce. The CFO Council's Fiscal Management Transformation Executive Steering Committee, composed of OMB and Treasury representatives, was tasked with overseeing the working group. As of March 2020, the working group had 12 members and was led by deputy

[109]GAO, *Federal Workforce: Key Talent Management Strategies for Agencies to Better Meet Their Missions*, GAO-19-181 (Washington, D.C.: Mar. 28, 2019).

[110]The PMA identified a number of cross-agency priority goals to target areas where multiple agencies must collaborate to effect change and report progress in a manner the public can easily track.

CFOs from the Department of Commerce, the General Services Administration, and the National Science Foundation.

Chief Financial Officers (CFO) Council's Shape the Workforce Working Group Initiatives

Since its inception, the CFO Council workforce working group has undertaken a number of initiatives, including (1) a financial management strategic workforce plan, (2) a shared federal training and career development platform, and (3) a pilot job announcement for federal accounting work.

Source: CFO Council. I GAO 20-566

The CFO Council working group has been working with OPM through a strategic planning process to assess (1) the outlook for the federal financial management community in 5 to 10 years, (2) the key challenges and drivers for changes in federal financial management work due to technology, and (3) the skill sets and competencies needed for federal financial management professionals both now and in the future. The working group will use the results of the planning process to develop a strategic workforce plan for CFO Act agencies' use. Further, as part of developing this strategic plan, the working group stated that it will assess the need for a shared professional training and development platform that will help federal workers meet the skills and competencies needed for the future. In January 2020, the group started working with OPM to develop and finalize a pilot job announcement for federal accounting positions that will enable agencies to advertise and recruit for accounting positions across multiple CFO Act agencies. The purpose of this initiative is to implement a more efficient hiring strategy by consolidating recruitment efforts across the CFO Council agencies to create one pool of eligible and qualified accountant candidates from which to make selections.

OPM and the CHCO Council Partnered to Identify and Address Critical Skills Gaps

We first added federal strategic human capital management to our High Risk List in 2001.[111] It was becoming increasingly clear that federal human capital strategies, including the ones for federal financial management, did not adequately meet current and emerging needs of government or meet needs to serve citizens in the most effective, efficient, and economical manner possible. In 2011, our High Risk List further highlighted the need to close government-wide and emerging critical skills gaps.[112] A skills gap may consist of (1) a "staffing gap," in which an agency has an insufficient number of individuals to complete its work, such as a lack of contracting officers within its workforce, or (2) a "competency gap," in which an agency has individuals without the appropriate skills, abilities, or behaviors to successfully perform the work.

While the need to close critical skills gaps continues to exist, agencies made significant efforts to identify and address skills gaps in their financial management workforces. In 2011, OPM and the CHCO Council created a working group that identified critical skills gaps in six

[111]GAO, *High-Risk Series: An Update*, GAO-01-263 (Washington, D.C.: January 2001).

[112]GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011).

government-wide, mission-critical occupations—including that of auditor—and actively worked toward addressing these skills gaps, for example, by updating qualification standards, developing and providing guidance to federal agencies, and working with federal agencies to assess and mediate existing skills gaps. The CHCO Council took steps to address skills gaps and collaborated with OPM in updating the *Job Family Standard for Professional and Administrative Work in the Accounting, Auditing, and Budget Group* released in 2019.

OPM continues to demonstrate leadership through its numerous efforts to assist agencies in addressing mission-critical skills gaps within their workforces. OPM developed and provided guidance to agencies on the use of OPM's multifactor model for identifying agency-specific and government-wide high-risk, mission-critical occupations to be targeted for skills gap closure and developing corrective action plans to close skills gaps.[113] In addition, OPM designed an action plan template for agencies to use as a model in identifying key actions, responsible parties for those actions, milestones, time frames, and performance metrics for monitoring progress and skills gap risk reduction and closure. In January 2017, agencies started submitting quarterly progress reports to OPM, which track their progress against the measures and milestones that they established to address skills gaps. OPM works with agencies on issues and to help them determine any barriers that need to be addressed.

As a result of these efforts, agencies became more aware of available flexibilities and developed various means of addressing skills gaps. For example, agencies, with assistance from OPM and the CHCO Council, started to use compensation flexibilities to address human capital challenges. In 2017, we found that 20 of the 26 member agencies of the CHCO Council reported using special payment authorities—such as statutory provisions allowing agencies to provide recruitment incentives and student loan repayment—to varying degrees to help address agency-specific or other skills gap areas,[114] including recruitment incentives for

[113]According to OPM, the multifactor model is a standardized, data-driven approach that provides a consistent agency-level assessment used to identify agency-specific and government-wide high-risk, mission-critical occupations. The model is composed of four distinct factors: (1) 2-year retention rate, (2) quit rate, (3) retirement rate, and (4) applicant quality. Agencies are to report all of their identified mission-critical occupations to OPM.

[114]GAO, *Federal Pay: Opportunities Exist to Enhance Strategic Use of Special Payments*, GAO-18-91 (Washington, D.C.: Dec. 7, 2017).

auditors.[115] The CHCO Council continues to advise and collaborate with OPM on addressing skills gaps.

OPM Assisted Agencies in Developing and Implementing Their Human Capital Operating Plans

To further help address skills gaps in the federal workforce, OPM finalized revisions to its strategic human capital management regulation in December 2016, which included a new Human Capital Framework. This regulation was effective in April 2017. OPM designed the framework for agencies to use to plan, implement, evaluate, and improve human capital policies and programs. Additionally, the revised regulation provided that agency human capital policies and programs must monitor and address skills gaps within government-wide and agency-specific mission-critical occupations by using comprehensive data analytic methods and gap closure strategies. The regulation also directed executive branch agencies to issue human capital operating plans that describe agency-specific skills and competency gaps that are selected for closure and the strategies that agencies will implement to close identified gaps.

Human Capital Operating Plan

The Human Capital Operating Plan includes agency program-specific workforce investments and strategies, such as those for hiring staff and closing skills gaps. The plan aligns with agency annual performance plans and timelines included in the Government Performance and Results Modernization Act of 2010.

Source: Office of Personnel Management. | GAO-20-566

OPM made substantial contributions in assisting agencies in developing and implementing their human capital operating plans and addressing skills gaps. This includes providing guidance, training, and ongoing support for agencies on the methods for identifying skills gaps and developing strategies to address them. From May 2019 to July 2019, OPM met with agencies through its annual human capital reviews to assess agencies' design and implementation of their human capital operating plans and to provide feedback on agencies' strategic human capital progress.[116] For example, OPM worked with the Department of Homeland Security workforce planners on the agency's reskilling efforts. These efforts included (1) understanding the agency's existing workforce, (2) developing an agile workforce, and (3) planning for automation. OPM also led efforts under the President's Management Agenda (see text box below).

[115]At that time, there were 27 member agencies for the CHCO Council. One of the members, the Office of the Director of National Intelligence, has its own personnel system and does not use the special payment authorities generally available to other agencies and as such was not included in the scope of the report.

[116]Human capital reviews are OPM's annual, evidence-based review of an agency's design and implementation of its human capital operating plan. These reviews are also an agency's opportunity to obtain focused, high-level feedback from OPM on its strategic human capital progress. See https://www.opm.gov/policy-data-oversight/human-capital-management/human-capital-reviews/ (accessed May 15, 2020) for additional information.

Office of Personnel Management's (OPM) Efforts under the President's Management Agenda

OPM led efforts to reshape the federal workforce under the 2018 President's Management Agenda priority goal, Developing a Workforce for the 21st Century. For example, OPM developed professional cross-agency tools such as the *Executive Playbook for Workforce Reshaping* and the *Reskilling Toolkit*. These tools can be found at https://www.opm.gov/policy-data-oversight/workforce-restructuring/reshaping/ (accessed May 15, 2020).

Source: OPM. I GAO-20-566

OPM Developed the *Federal Workforce Priorities Report*, Which Established Government-Wide Human Capital Priorities

Office of Personnel Management (OPM) Federal Workforce Priorities Report

In December 2016, in response to our recommendation in *Human Capital: Strategies to Help Agencies Meet Their Missions in an Era of Highly Constrained Resources* (GAO-14-168), OPM issued a final regulation that among other things required OPM to complete the *Federal Workforce Priorities Report*. In 2018, OPM established the report.

Source: GAO. I GAO-20-566

In 2018, OPM issued the first *Federal Workforce Priorities Report* to communicate key government-wide human capital priorities, suggest strategies, and help inform agency strategic and human capital planning. The report identified changes in the external environment that will likely affect federal human capital management—including for federal financial management positions—such as the evolving role of workers, changes in technology, employee health, and shifting generational demographics. In particular, the report noted that agencies will need to expand employee development opportunities for continual professional growth and skills development. During workforce reshaping, employees' responsibilities are modified through reassignment, relocation, or increased workloads. The report described that in order for agencies to sustain high performance, it is imperative that employees receive the proper training and development to address new and augmented assignments and acclimate to new environments and modes of operation.

Challenges Remain in Federal Financial Management

Substantial progress has been made in federal financial management to address many challenges over the past 30 years. However, challenges remain in fully achieving the vision of the CFO Act. We identified challenges that remain in each of the five major areas of federal financial management: leadership, financial reporting, internal control, financial management systems, and the federal financial management workforce.

Leadership Challenges

While substantial progress has been made in the area of leadership, challenges remain in federal financial management. Table 9 lists the leadership challenges to achieving the purposes of the CFO Act.

Table 9: Leadership Challenges to Achieving the Purposes of the Chief Financial Officers Act of 1990

Leadership 	• Chief financial officers (CFO) would benefit from standardized financial management responsibilities. • Deputy CFO positions would be strengthened by defined financial management responsibilities. • The federal government lacks a complete and integrated financial management plan.

Source: GAO analysis. | GAO-20-566

CFOs Would Benefit from Standardized Financial Management Responsibilities

The authority and functions of CFOs in carrying out their responsibilities relating to federal financial management vary among the 24 CFO Act agencies. In March 2020, we sent a questionnaire to the CFOs from the 24 CFO Act agencies asking whether their financial management responsibilities included (1) budget formulation, (2) budget execution, (3) strategic planning, (4) performance management, (5) risk management, (6) internal controls, (7) financial systems, and (8) accounting. Twelve of the 20 CFOs who responded to our questionnaire (about 60 percent) stated that their positions entail all eight areas of financial management. Because of the interdependency of the budget and accounting functions, some agencies have included both budget formulation and budget execution, as well as strategic planning, under the CFO's authority, while others have not. With respect to agency budgetary functions, 15 of the 20 CFOs who responded to our questionnaire (about 75 percent) stated that their positions entail responsibilities for both budget formulation and budget execution functions in their agencies.

The CFO Act provided agency CFOs with leadership responsibilities for overseeing all financial management activities of their respective agencies, including over financial management systems, financial reporting, and internal control; agency financial management personnel, activities, and operations; preparation of financial statements; and monitoring of budget execution. In addition, *Standards for Internal Control in the Federal Government* states that management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. However, the specific responsibilities assigned to CFOs vary among agencies and are inconsistent government-wide. Most financial experts we interviewed agreed, and the CFO Council and CIGIE reported, that to allow for better strategic decision-making, CFO responsibilities should include budget formulation and execution, planning and performance, risk management and internal control, financial systems, and accounting.

Most experts also agreed that standardizing the CFO portfolio across agencies would promote standardized financial management training and education and consistent skill sets across agencies, both at the executive and staff levels. In addition, according to AGA, a common theme across CFO surveys from year to year was having CFOs share a standardized and consistent range of duties to include not only budgeting but also responsibilities for performance and planning, risk management and internal controls, financial systems, and accounting. One respondent to AGA's survey stated that consolidating financial systems, data, and analysis responsibilities could help advance the integration of performance, analytics, and budgeting.

In 2011, the CFO Council and CIGIE reported that some agencies have created independent CFO organizations. Others have merged CFO functions with existing organizational components and have seemed only to add the CFO title to the organizational chart to meet the act's requirements. They also reported that divergent approaches to implementation have contributed to differing visions of the CFO role and oversight areas at each agency. Without a standardized set of core CFO responsibilities at CFO Act agencies, some CFOs may not possess all of the necessary authorities within their agencies to carry out federal financial management activities and achieve the full potential of the CFO Act.

Deputy CFO Positions Would Be Strengthened by Defined Financial Management Responsibilities

The responsibilities of deputy CFOs in carrying out federal financial management are not defined in the CFO Act and vary among the 24 CFO Act agencies. In our March 2020 questionnaire, we asked agency CFOs whether their deputy CFOs' responsibilities relating to federal financial management included (1) budget formulation, (2) budget execution, (3) strategic planning, (4) performance management, (5) risk management, (6) internal control, (7) financial systems, and (8) accounting. Seven of the 20 CFOs who responded to our questionnaire (about 35 percent) stated that the deputy CFO positions entail all eight areas of financial management. These responses to our questionnaire show that the deputy CFO responsibilities vary across CFO Act agencies.

An agency CFO is to be a key figure in an agency's top management team, and the deputy CFO is to report directly to the CFO. The CFO Act provided that the deputy CFO is to possess demonstrated ability and experience in accounting, budget execution, financial management analysis, and systems development but did not define areas of responsibilities for the deputy CFO.

In 2011, the CFO Council and CIGIE identified turnover of agency CFOs, even during the same administration, as a significant challenge. Depending on the agency involved, the CFO Act requires the CFO to be a presidential appointee with Senate confirmation or appointed by the agency head. Deputy CFOs are career civil servants. Sixteen of the 24 CFO positions at the CFO Act agencies (about 67 percent) are presidential appointees with Senate confirmation. There is not a standardized or predictable time for both a presidential appointment and Senate confirmation to occur. Accordingly, if a vacancy in a CFO position occurs for a presidentially appointed and Senate confirmed CFO, the amount of time that the position remains vacant could be somewhat lengthy.

In 2011, the CFO Council and CIGIE also stated that major financial management improvement initiatives can take years to fully implement and realize, often outlasting the average tenure of a politically appointed CFO. Deputy CFOs can be better prepared to act for CFOs when there are vacancies, or to advise the acting CFO in the event that the deputy CFO is not designated to serve in this capacity, if appropriate responsibilities are established for deputy CFOs. CIGIE also said that deputy CFOs should be sufficiently empowered with more standard responsibilities to ensure effective succession planning. In addition, when asked about the range of responsibilities for the deputy CFO position, several financial management experts responded to our 2019 open-ended survey question that it is important for the deputy CFO to be able to cover the CFO's responsibilities during a vacancy.[117] Further, in interviews, several financial management experts stated that deputy CFOs are often unable to take on the roles and responsibilities of the CFO position during a vacancy because of the lack of defined responsibilities that are consistent with the breadth of the responsibilities of the agency CFO. Several of the financial management experts we spoke with stated that this stems from the lack of specific requirements in the CFO Act. In addition, *Standards for Internal Control in the Federal Government* states that management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

Further, financial experts we met with in 2019 agreed that the deputy CFOs should have the same breadth of responsibilities as the CFO. With frequent CFO turnover and potentially lengthy intervals between official appointments, long-term planning and leadership continuity can be affected when deputy CFOs do not have the same breadth of responsibilities. Results from our 2019 survey indicated that

- 17 of 24 CFO and deputy CFO survey respondents stated that the Deputy CFO position should include all, most, or many of the same responsibilities as the CFO position;
- 19 of 21 IG survey respondents stated that the deputy CFO position should contain all, most, or many of the same responsibilities as the CFO position; and
- seven of eight independent public accountant survey respondents stated that the deputy CFO position should contain all, most, or many of the same responsibilities as the CFO position.

With defined responsibilities consistent with the breadth of the responsibilities of the agency CFO, deputy CFOs would be in a better position to continue financial management initiatives and improvements in the absence of political leadership.

[117]We surveyed 47 individuals from the CFO offices of the CFO Act agencies and included individuals holding the position of CFO, acting CFO, deputy CFO, or equivalent at these agencies. We surveyed 53 individuals from the IG offices holding the position of IG, acting IG, deputy IG, or counsel to the IG and 24 independent public accountants who have performed federal financial statement audits. Results of the survey represent the views of those individuals who responded and may not be representative of all individuals from the CFO offices, IG offices, or independent public accountant firms. See app. I for additional information about the survey.

The Federal Government Lacks a Complete and Integrated Financial Management Plan

Since OMB issued the *2009 Federal Financial Management Report*, which OMB stated served as the annual government-wide 5-year plan and status report for the executive branch, government-wide financial management plans as required by the CFO Act have not been prepared. The CFO Act called for OMB to submit to Congress annual government-wide 5-year plans for improving federal financial management. It also called for each agency CFO to annually prepare a plan to implement the government-wide plan prepared by OMB. However, because OMB has not prepared annual government-wide 5-year plans since issuing the 2009 plan, agencies could not prepare plans to implement them. Moreover, the act required annual government-wide and agency-level status reports. The OMB plans and status reports were to be submitted to Congress to enable comprehensive congressional oversight.

OMB stated that it is meeting the intent of the requirement by providing information in the annual government-wide consolidated financial statements, in the PMA, and in documents placed on Performance.gov and the CFO Council's website. In the consolidated financial statements, the information is included in the Management's Discussion and Analysis Financial Management section. This section discusses several of the priorities and accomplishments in financial management for the prior and current fiscal years and in some cases discusses goals for the next fiscal year. In addition, according to OMB, financial management elements are being considered in implementing the 2018 PMA.

OMB stated that the CFO Council has used the PMA as a framework when creating cross-agency priorities and that agencies have used the PMA and the cross-agency priorities as a road map to guide their financial management efforts. According to OMB, in 2019, the CFO Council, in coordination with OMB, had identified financial management cross-agency priorities and was developing detailed plans for each. Two of these plans, Results-Oriented Accountability for Grants and Getting Payments Right, have been completed and posted on Performance.gov. The others were being managed by executive steering committees comprising CFO Council–approved members. The CFO Council website contains the federal financial management status reports from fiscal years 2014 through 2017. While the Management's Discussion and Analysis Financial Management section, the PMA, and other OMB documents contain information about improvements in financial management, these documents do not provide a complete and integrated financial management strategy for making continued improvements to federal financial management and for reporting on the administration's accomplishments comprehensively.

OMB further stated that the government-wide 5-year financial management plan and annual status reports are no longer relevant in light of the current status of financial management. OMB stated that the government-wide 5-year plan was beneficial over the first few decades following enactment of the CFO Act, when OMB and agencies were standing up new organizations and making major realignments of staff, establishing a new standard-setting body, and determining how to conduct first-ever audits of federal agencies. OMB also stated that in the ensuing years since the CFO Act, great progress has been made to achieve the financial reforms called for by the act. For example, in fiscal year 2019, 22 out of 24 CFO Act agencies received clean audit opinions on their financial statements. OMB further stated that the prescriptive requirements outlined in the CFO Act to produce an annual government-wide 5-year plan has long exceeded its usefulness for setting a strategic vision for financial management transformation for the decades ahead. In a much more integrated and technologically advanced world than existed when the law was enacted, OMB stated that strategic planning across the federal government's broad management portfolio is much more effective than planning for financial management transformation in isolation as called for by the CFO Act.

In 2019, OMB proposed eliminating the CFO Act requirement for a government-wide 5-year plan, arguing that this change would provide it with flexibility to report the information that is most relevant to financial management most efficiently. However, having a complete and integrated financial management plan would help to address long-standing, costly, and challenging concerns in financial management strategically, comprehensively, efficiently, and cost effectively. Such a plan would provide a unified vision of the federal government's plans to improve financial management, including the interrelationship between the various financial management initiatives, and establish clear expectations. It would also facilitate the development of agency plans consistent with that unified vision as well as the annual government-wide and agency-level status reports reporting on progress against the plans.

Several of the financial experts we interviewed stated that there should be a government-wide financial management plan and that without one, the government lacks a clear strategic direction and agency improvement efforts may not appropriately address government-wide priorities. A complete and integrated financial management plan that includes the resources required and measures progress through interim milestones with completion dates provides a tool to hold agencies accountable and facilitate congressional oversight. This is especially important for addressing long-standing, costly, and challenging concerns in financial management.

Several experts also stated that they believe that a government-wide plan could be done every few years instead of annually, but that the status report could continue to be prepared annually. A complete and integrated government-wide financial management plan (1) prepared and submitted by OMB every 4 years with timing to match the Government Performance and Results Act reporting requirement and (2) supported by agency plans prepared every 4 years, along with the preparation and submission of an annual financial management status report, would help to ensure that the federal government is developing direct, transparent, and consistent actions that address financial management challenges. Supporting CFO Act agency plans to implement the 4-year government-wide financial management plan prepared by OMB would also help to ensure that agencies are addressing government-wide financial management challenges. Consultation with appropriate financial management experts, including the CFO Council, the Chief Information Officers Council, the Chief Data Officer Council, the Chief Acquisition Officers Council, CIGIE, and GAO, would help to ensure that the plans fully incorporate and address government-wide financial management priorities.

Financial Reporting Challenges

While substantial progress has been made in financial reporting, agencies still face challenges because they lack the information needed for effective financial management. Table 10 lists the financial reporting challenges to achieving the purposes of the CFO Act.

Table 10: Financial Reporting Challenges to Achieving the Purposes of the Chief Financial Officers Act of 1990

Financial reporting	• Improving the linking of agency performance and cost information could enhance decision-making. • Agencies have limited performance-based metrics for assessing the quality of their financial management. • Agencies may not have key financial management information needed for decision-making.

Source: GAO analysis. | GAO-20-566

Improving the Linking of Agency Performance and Cost Information Could Enhance Decision-Making

Although substantial progress has been made in federal financial reporting, agencies do not adequately link their performance with related cost information, which hinders policymakers and managers from making fully informed decisions. Data are critically important to increasing the effectiveness of the federal government, promoting transparency, and facilitating public engagement and oversight. Recognizing the need to have complete, reliable, timely, and consistent financial information for managing programs, Congress included provisions in the CFO Act that called for agencies to develop and maintain integrated accounting and financial management systems that provide for, among other things, systematic measurement of performance and the development and reporting of cost information.

The cost of running the country is a concern to the public and to the federal government. Comparing financial information on costs with nonfinancial information on performance provides a basis for assessing the efficiency and effectiveness of government programs.[118] Congress passed GPRA and the GPRA Modernization Act of 2010 to lay a foundation for results-oriented management by establishing a performance planning and reporting framework to help agencies better

[118]Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting* (Washington, D.C.: September 1993).

articulate program goals and results and plan and execute operations. As required by GPRA, federal agencies have prepared strategic plans since 1997 and annual performance plans and performance reports since fiscal year 1999. Such reporting is intended to provide transparency on agency plans and performance and improve the American people's confidence in government by holding federal agencies accountable for achieving program results.

In 2018, we found that agencies' reported use of performance data to make decisions has generally not improved.[119] The 2018 PMA, in outlining a long-term vision for modernizing federal operations and improving the agencies' ability to achieve outcomes, noted that government agencies do not consistently apply data-driven decision-making practices. The PMA also called for smarter use of data and evidence for decision-making and accountability around service and results. In the PMA, the administration acknowledged the need to do more and announced a number of goals, including *Leveraging Data as a Strategic Asset*, to improve the use of data in federal decision-making.

While agencies made efforts to implement data-driven decision-making, opportunity exists to enhance the availability and reliability of performance and cost information, which in turn would better link information for decision-making. Agencies adopted various methods of accumulating and assigning costs to obtain the cost information needed to enhance programs, improve processes, establish fees, develop budgets, prepare financial reports, and report on performance. A number of agencies implemented activity-based costing, which creates a cost model of an organization by identifying the activities performed, the resources consumed, and the outputs (products and services) produced by that organization. Despite these efforts, few federal agencies have systems that can routinely provide managers with reliable cost information to inform decision-making.

Respondents to our 2019 CFO and deputy CFO survey noted that agencies face challenges in

- developing and maintaining an integrated agency accounting and financial management system (19 of 24 respondents),

---

[119]GAO, *Managing for Results: Government-wide Actions Needed to Improve Agencies' Use of Performance Information in Decision Making*, GAO-18-609SP (Washington, D.C.: Sept. 5, 2018).

- developing and reporting cost information (19 of 24 respondents), and
- having financial management systems that produce the needed financial data to help address agency performance goals (21 of 24 respondents).

CFO and deputy CFO 2019 survey respondents shared some insights on the causes for these challenges, including

- there is a lack of demand for analyzing the cost of achieving performance goals;
- the agency does not have modern systems that can generate reliable, accurate, and timely data; and
- the agency is not able to assign certain costs, such as overhead, to fully account for program costs.

Treasury, in response to our 2019 testimony, agreed that while agencies prepare annual performance and financial reports, opportunities exist to create additional linkages between financial and performance information that can be valuable to assess agency results.[120] Treasury also noted that while technology has allowed better integration of systems, issues related to classification of data in one system versus another system prevent successful linkage of data.

A comprehensive, long-term plan to link performance and cost information that is incorporated into the government-wide and agency-level plans, once implemented, would help provide agencies with the tools needed to facilitate effective and efficient decision-making. Agencies that lack readily available, reliable, and linked performance and cost information may not be able to effectively make financial management decisions that are based on dollars allocated and results achieved and thus may miss opportunities to reduce costs or enhance mission effectiveness.

Agencies Have Limited Performance-Based Metrics for Assessing the Quality of Their Financial Management

Federal agencies have limited financial management performance-based metrics (e.g., financial statement audit opinions and the number of reported material weaknesses in internal control over financial reporting) to help them assess the quality of their financial management. The CFO Act was enacted, among other things, to bring more effective general and financial management practices to the federal government. OMB noted in

[120] GAO-20-203T.

its *1993 Federal Financial Management Status Report and 5-year Plan* that in order to define the expectations for financial management in the federal government, and enable an objective and reliable assessment of the achievement of these expectations, the federal government needs clear, comprehensive, and consistent performance measures.

As part of efforts to improve federal financial management, OMB, in collaboration with the CFO Council, developed a number of financial management performance-based metrics to (1) recognize agency financial management performance, (2) demonstrate each agency's progress toward achieving sound financial management, and (3) help management identify and focus on areas that require further improvements. These metrics included gross budgetary authority and estimated percentage of budget authority to be audited, percentages of timely prompt payments, and percentages of payroll by electronic funds transfer. Performance-based metrics continued to provide value to OMB and federal agencies in helping to achieve more effective financial management practices. In the *2009 Federal Financial Management Status Report*, the last status report it prepared, OMB noted that performance metrics helped measure the success of federal financial management and demonstrated that challenges exist.

Performance-based metrics help agencies to keep track of financial management priorities, measure the quality of their financial management, and take steps needed to improve their financial management, all of which are still relevant today. Examples of comprehensive financial management performance-based metrics that may be used to meet today's needs include the agencies' number of internal control deficiencies and number of corrected internal control deficiencies during the reporting year. Leaders we interviewed who served in federal financial management positions provided additional examples of the benefits of using performance-based metrics. These included developing government-wide performance-based metrics to help track (1) information technology (IT) capital investments and evaluate the success of these investments and (2) the identification and reduction of government-wide improper payments. According to OMB, it would be difficult to develop additional metrics that would apply to all agencies. OMB noted that agencies can include financial management performance-based measures in their performance reporting. While we recognize the challenges in developing the metrics, government-wide measures used consistently across all executive agencies could effectively assess the quality of financial management for the federal government as a whole, in addition to assessing the quality of an agency's financial management.

Definition of Performance Measurement

Office of Management and Budget (OMB) Memorandum M-20-12, dated March 10, 2020, defines performance measurement as the ongoing monitoring and reporting of program accomplishments, particularly progress toward preestablished goals. Performance measurement also is used to find ways to improve progress, reduce risks, or improve cost-effectiveness.

Source: OMB. I GAO-20-566

Standards for Internal Control in the Federal Government states that the oversight body is responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. In addition, the CFO Act prompts OMB to include appropriate information in its annual financial management status reports to fully inform Congress regarding the financial management of the federal government. Developing and using key financial management performance-based metrics against which the quality of agencies financial management can be assessed provides agencies with a more complete analysis across the breadth of financial management functions and helps ensure that the federal government better manages and uses the resources entrusted to it. Including these metrics in the government-wide and agency-level plans and reporting agency performance against the metrics in financial management status reports would facilitate communication of the metrics and agencies' performance against the metrics.

Agencies May Not Have Key Financial Management Information Needed for Decision-Making

Although substantial efforts have been made to develop complete, reliable, timely, and consistent financial information to manage programs, federal agencies may not have key financial management information needed for effective financial management and decision-making. Key financial management information includes information necessary to prepare financial reports as well as other information needed for effective financial management and decision-making. In our biennial High Risk List, we reported that the lack of accurate and reliable financial data has contributed to some of the high-risk areas, including (1) managing federal real property, (2) improving the management of IT acquisitions and operations, (3) DOD's financial management, and (4) DOD weapon systems acquisition.[121] For example, in 2018, we found that a number of agencies did not identify key information related to their IT acquisitions (e.g., IT contracts and related obligation amounts) to ensure proper oversight of IT acquisitions and ensure that IT contracts awarded are not duplicative, wasteful, or poorly constructed.[122] We selected 22 agencies for review and found that the agencies failed to identify 31,493 IT

[121]GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

[122]GAO, *Information Technology: Agencies Need to Involve Chief Information Officers in Reviewing Billions of Dollars in Acquisitions*, GAO-18-42 (Washington, D.C.: Jan. 10, 2018).

acquisitions with a total of $4.5 billion in obligations for fiscal year 2016. Further, we also found that agencies lacked quality assurance processes for ensuring that billions of dollars requested in their IT budgets were based on reliable cost information. As a result, agencies are at risk of not having appropriate oversight of IT acquisitions worth billions of dollars and not having adequate transparency into IT spending to make informed budget decisions.[123]

Effective financial management starts with complete, reliable, consistent, and timely information, and government financial systems must be designed to produce that information. This information should include all key financial management information needed for effective financial management and decision-making. For example, one of the purposes of FFMIA was to enable the full disclosure of federal financial data, including the full costs of federal programs and activities. FFMIA requires CFO Act agencies and their auditors to determine whether agency financial management systems comply substantially with federal financial management systems requirements. While detailed system requirements were developed in the 1990s that included a broad range of financial information, such systems requirements were revised over time and are now focused on financial reporting and do not generally include technical system requirements related to other key financial management information (e.g., acquisitions and grants management) needed for management decision-making.[124] We expressed concerns about the adequacy of financial management systems requirements contained in the *Treasury Financial Manual*.[125]

Standards for Internal Control in the Federal Government states that management should use quality information to achieve the entity's objectives. To achieve this internal control principle, management (1)

[123]We made recommendations to a number of agencies to address our findings. As of May 2020, some agencies have addressed our recommendations and some agencies have not. See GAO-18-42 for additional information.

[124]Technical system requirements help ensure that a core financial system is fully supported and capable of processing the workload required. Such a system must provide transaction processing integrity and general operating reliability; use standard procedures for installation, configuration, and operations; provide seamless integrated workflow processing; have the ability to query, access, and format information; and be well documented. It must also not conflict with other administrative or program systems or with other agency-established IT standards.

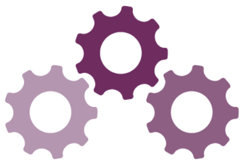
[125]GAO, *Fiscal Year 2008 U.S. Government Financial Statements: Federal Government Faces New and Continuing Financial Management and Fiscal Challenges*, GAO-09-805T (Washington, D.C.: July 8, 2009).

obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements, (2) processes the obtained data into quality information, and (3) uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks. In order to support the production and use of more complete and reliable financial data, it is necessary for the heads of executive agencies to (1) identify the key financial management information needed for effective financial management and decision-making; (2) determine whether they have access to such key information on a timely basis; and (3) if they do not, develop systems and processes to provide such key information. The development of tools to assist agencies in this process may help provide consistency and completeness in application.

The need to identify key financial management information and assess the adequacy of the information has become increasingly important as the federal government shifts toward leveraging data as a strategic asset to grow the economy, increase the effectiveness of the federal government, facilitate oversight, and promote transparency. In December 2019, as part of efforts under the PMA goal *Leveraging Data as a Strategic Asset*, goal team leaders developed and issued the *Federal Data Strategy (FDS) 2020 Action Plan* to guide federal agencies in accelerating the use of data to deliver their missions, serve the public, and manage resources. The FDS Action Plan identified six agency actions as foundational steps to support agencies in establishing plans, processes, and priorities for better managing data assets while considering how the agencies' data assets could be leveraged to advance their missions. The first action, *Identify Data Needs to Answer Priority Agency Questions*, called for agencies to identify priority questions and, more critically, to identify the data needed to answer these priority questions. Without identifying the key information or data needed, the government cannot adequately ensure accountability, measure and control costs, manage for results, or make timely and fully informed decisions about allocating limited resources.

While the key information needed by federal agencies may vary based on, for example, agency mission and the maturity of an agency's financial management practices, some examples of basic key information may include (1) costs and revenues categorized by relevant dimensions (e.g., appropriation accounts, organizational units, programs, and projects) and (2) performance information that is integrated with financial information to help assess effectiveness and efficiency. Identifying and, if necessary, developing key financial management information are critical for effectively managing areas that may be vulnerable to fraud, waste, abuse, and mismanagement or in need of transformation to address economy, efficiency, or effectiveness challenges, such as asset management, grants management, and real property.

Internal Control Challenges



The CFO Act required CFOs to develop and maintain integrated agency accounting and financial management systems that included internal control to provide for complete, reliable, consistent, and timely information prepared on a uniform basis and that responds to agency management's financial information needs. To ensure the reliability of financial information, agencies need effective internal controls. While agencies made important progress in strengthening internal control, the federal government faces many internal control problems, some of which are long-standing. Table 11 lists the internal control challenges to achieving the purposes of the CFO Act.

Table 11: Internal Control Challenges to Achieving the Purposes of the Chief Financial Officers Act of 1990

Internal control 	• Agencies may not have reasonable assurance that key financial management information is reliable. • Opportunities exist to address government-wide improper payments. • Material weaknesses continue to prevent an opinion on the U.S. government's consolidated financial statements.

Source: GAO analysis. | GAO-20-566

Agencies May Not Have Reasonable Assurance That Key Financial Management Information Is Reliable

Agencies may not have reasonable assurance that financial reporting and other key financial management information that agencies use is reliable. If effectively designed and operating, internal controls over financial reporting and key financial management information provide reasonable assurance that such information is reliable. If internal control over financial reporting and other key financial management information is not effective, there is a reasonable possibility that material misstatements of the financial statements and other key financial management information will not be prevented, or detected and corrected, on a timely basis.

A key principle of internal control under federal internal control standards is that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.[126] Management is to evaluate and document the results of monitoring to identify any internal control deficiencies and use this evaluation to determine the effectiveness of the internal control system.

Under financial auditing standards, agency management acknowledges its responsibility for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of

[126] GAO-14-704G.

financial statements that are free from material misstatement, whether due to fraud or error. As noted earlier, the objectives of internal control over financial reporting are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

One important tool for strengthening internal control over financial reporting at federal agencies has been OMB Circular No. A-123, which carries out OMB's responsibility to provide guidelines for agencies to follow in evaluating their systems of internal control. In December 2004, OMB issued A-123, Appendix A, *Internal Controls over Financial Reporting*, which provided a methodology that agency management could use to assess, document, and report on internal control over financial reporting. It emphasized management's responsibility for establishing and maintaining effective internal control over financial reporting. Appendix A required CFO Act agency management, in addition to providing an overall assessment of internal control (including internal control over operations and compliance), to annually (1) perform a separate assessment of the effectiveness of internal control over financial reporting, (2) provide a report on identified material weaknesses and corrective actions, and (3) provide a separate management conclusion on the effectiveness of the agency's internal control over financial reporting. Such management assessment and reporting on internal control over financial reporting was generally consistent with internal control requirements for publicly traded companies under the Sarbanes-Oxley Act of 2002, which are still in place.

In 2016, OMB broadened the government's focus on internal controls to incorporate ERM in its Circular No. A-123.[127] According to OMB, it revised Circular No. A-123 to ensure that agencies manage risks that they may face when trying to achieve their strategic objectives, as well as risks that may arise through agency activities and operations. The 2016 revision of OMB Circular No. A-123 requires agencies to develop and maintain risk profiles, which provide an analysis of the risks arising from

[127]ERM is a forward-looking management approach that allows an agency to assess threats and opportunities that could affect the achievement of its goals.

agency activities and operations that an agency faces in achieving its strategic objectives. According to OMB, the risk profiles prioritize the most significant risks identified and assessed through the risk assessment process and identify appropriate agency options. Such options may include the use of internal controls for addressing significant risks.

In 2018, based on the overall risk-based approach in OMB Circular No. A-123, OMB issued an updated Appendix A to OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk*. The updated Appendix A integrates (1) internal control over operations, (2) reporting (including internal control over financial reporting), and (3) compliance to result in an overall assessment of an agency's internal control using a risk-based approach. With the updated Appendix A, OMB no longer requires agencies to provide a separate management assessment of and conclusion on the effectiveness of an agency's internal control over financial reporting. OMB referred to the process for agencies to separately assess internal control over financial reporting as rigorous. Under the updated Appendix A, agencies may determine that internal control over financial reporting is not an area of significant risk and therefore not assess these controls with the same rigor that was applied prior to 2018, thereby not providing management with reasonable assurance that the data are reliable.

Additionally, the revised Appendix A also requires that agencies develop and maintain data quality plans that consider the risks to data quality in federal spending data required by the DATA Act and any controls that would manage such risks in accordance with OMB Circular No. A-123. Further, agency senior accountable officials are required to certify each quarter, among other things, that their data submissions under the DATA Act are valid and reliable. However, the revised appendix does not require a separate management assessment of the effectiveness of internal controls over such federal spending data. As we previously reported, there are significant data quality problems related to the completeness and accuracy of DATA Act data posted on USAspending.gov.[128] Incorporating other key financial management information, such as spending data that supports agency reporting under the DATA Act, with management's assessment and reporting on internal control over financial reporting would provide a basis for determining

[128]GAO, *DATA Act: OMB, Treasury, and Agencies Need to Improve Completeness and Accuracy of Spending Data and Disclose Limitations*, GAO-18-138 (Washington, D.C.: Nov. 8, 2017).

whether such other key financial management information needed for effective financial management and decision-making is reliable.

Also, independent audit testing of the effectiveness of internal control over financial reporting and other key financial management information is critical to providing reasonable assurance that key financial management information is reliable. As noted earlier, beginning with the fiscal year 2007 update to *Audit Requirements for Federal Financial Statements*, OMB required that—for those controls that the auditor determines are properly designed and implemented—the auditor will perform sufficient tests of those controls to conclude whether they are operating effectively and to support a low level of assessed control risk. Such audit testing, expanded to include other key financial management information, would provide an independent assessment of such internal controls and identify deficiencies that may exist in management's internal control assessment. Without independent audit testing of the effectiveness of internal controls over financial reporting and other key financial management information, ineffective internal controls and unreliable key financial management information may not be prevented or detected by agency management.

In our 2019 survey of CFOs and deputy CFOs, 10 of 24 respondents said that ensuring data quality of financial information was very or extremely challenging. OMB stated that management's assessment of internal control over financial reporting is adequately addressed under existing initiatives and ERM contained in OMB guidance. OMB also stated that its internal control guidance is a risk-based assessment of all internal controls, including operations, reporting (including internal control over financial reporting), and compliance. However, without (1) identifying and, if necessary, developing all key financial management information needed for effective financial management and decision-making; (2) separately assessing and reporting on the effectiveness of internal controls over financial reporting and other key financial management information; and (3) independently audit testing such controls, management would lack reasonable assurance of the reliability of such information. Reliable key financial management information is needed for policymakers and management to make fully informed decisions.

Opportunities Exist to Address Government-Wide Improper Payments

Improper payments have consistently been a government-wide issue, despite efforts to reduce them. Since fiscal year 2003—when executive agencies were required to begin reporting estimated improper payments under IPIA—cumulative improper payment estimates have totaled almost $1.7 trillion. Although agencies made progress identifying and reducing improper payments, more work needs to be done to address this government-wide material weakness in internal control. Specifically, in fiscal year 2020, we reported that the federal government is still unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them.[129]

From fiscal years 2003 through 2016, a government-wide estimate and error rate had been reported in financial reports based on the programs and activities that reported estimates. However, OMB stopped reporting a government-wide improper payment estimate in fiscal year 2017 because it stated that program-by-program improper payment data were more useful. However, we believe that the aggregation of improper payment estimates is essential for transparency and that key decision makers should have the information readily available to know the full extent and magnitude of the government-wide improper payments. A key provision in PIIA requires OMB to report a government-wide improper payment estimate amount.[130] The implementation of this provision would be a positive step in determining the overall progress the federal government is making in the improper payment area.

The federal government also needs to reasonably assure that agencies take appropriate actions to reduce improper payments. For example, in supplemental appropriations acts providing disaster relief funds in 2017 and 2018, Congress mandated an oversight framework for these funds by requiring federal agencies to submit internal control plans to Congress, based on OMB guidance. However, in June 2019, we found that OMB lacked a strategy for ensuring that federal agencies provide sufficient, useful plans in a timely manner for oversight of disaster relief funds.[131] As a result, we found that selected agencies did not submit their disaster aid internal control plans timely and that the plans also lacked necessary

[129]Efforts to determine the full extent of improper payments are hindered by (1) risk assessments not accurately assessing improper payment risks, (2) programs determined to be risk susceptible not reporting estimates, and (3) estimation methodologies not producing reliable estimates. GAO-20-315R.

[130]31 U.S.C. § 3352(f)(2)(D).

[131]GAO, *2017 Disaster Relief Oversight: Strategy Needed to Ensure Agencies' Internal Control Plans Provide Sufficient Information*, GAO-19-479 (Washington, D.C.: June 28, 2019). We recommended that OMB develop a strategy to ensure that agencies communicate sufficient and timely internal control plans for effective oversight of disaster relief funds. OMB disagreed with our recommendation, stating that it believed that OMB action was not warranted. We continue to believe that OMB should take actions to implement our recommendation, as outlined in that report.

information, such as how the selected agencies plan to meet OMB guidance and federal internal control standards. Such a strategy could help provide Congress with assurance that agencies will establish effective and efficient controls over disaster aid.

In addition, the federal government needs to reasonably assure that states, local governments, and nonprofit organizations take appropriate actions to reduce improper payments of federal funds. For example, OMB recently revised its compliance supplement for Medicaid to enable auditors, as part of the single audit of federal financial assistance that a state received or administered, to test for beneficiary eligibility for the program and review payments for managed care services to help to ensure that the managed care providers meet minimum standards for spending on beneficiary care.[132] If this expansion of the compliance supplement is successful for Medicaid, other federal programs that states, local governments, and nonprofit organizations administer may also benefit from such revisions.

Steps are being taken to address improper payments. For example, the 2018 PMA established a cross-agency priority goal of Getting Payments Right. Additionally, we regularly issue recommendations to help other agencies reduce improper payments. Our recommendations cover a wide range of payment integrity issues, including (1) reporting improper payment estimates for risk-susceptible programs, (2) developing reliable improper payment estimates, (3) strengthening internal controls to reduce improper payments, and (4) improving transparency and oversight of agency payment integrity initiatives.

Material Weaknesses Continue to Prevent an Opinion on the U.S. Government's Consolidated Financial Statements

Since our first audit for fiscal year 1997, we continue to be unable to express an opinion on the accrual-based consolidated financial statements of the U.S. government because of long-standing material weaknesses in internal control. These weaknesses continue to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost, as well as the financial and nonfinancial performance, of certain programs

[132]The Single Audit Act, 31 U.S.C. chapter 75, provides for either a program-specific audit or an organization-wide "single audit" of states, localities, and nonprofit entities that expend $750,000 or more of federal assistance annually. These audits encompass both financial and compliance components, and OMB publishes an annual compliance supplement to guide auditor compliance testing related to each major federal program, including Medicaid.

and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable, useful, and timely financial information to operate effectively and efficiently.

Since our fiscal year 1997 audit, three major impediments prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements.

- **Department of Defense.** After many years of working toward financial statement audit readiness, DOD underwent full financial statement audits in fiscal years 2018 and 2019. These audits resulted in disclaimers of opinion and thousands of audit findings, including material weaknesses in internal control over financial reporting (20 in fiscal year 2018 and 25 in fiscal year 2019). Some of the material weaknesses are examples of long-standing weaknesses that DOD has been unable to address, such as an inability to account for its property and equipment and ineffective IT controls. DOD has acknowledged that achieving a clean audit opinion will take time. DOD reported that the number of auditor findings closed and material weaknesses downgraded from year to year is an objective measure of progress toward that goal. DOD will also track progress by the number of components moving from disclaimers of opinion to clean opinions. DOD reported closing 550 or 23 percent of the 2,377 findings resulting from its fiscal year 2018 audit. In fiscal year 2019, the auditors issued an additional 1,300 findings.
- **Intragovernmental activity and balances.** While significant progress has been made over the past few years, the federal government continues to be unable to adequately account for intragovernmental activity and balances between federal entities. Federal entities are responsible for properly accounting for and reporting their intragovernmental activity and balances in their entity financial statements. Then when preparing the consolidated financial statements, intragovernmental activity and balances between federal entities should be in agreement and must be subtracted out, or eliminated, from the consolidated financial statements. OMB and Treasury have issued guidance directing federal entities to reconcile intragovernmental activity and balances with their trading partners and resolve identified differences. In addition, the guidance directs the CFOs of significant component entities to report to Treasury, their respective IGs, and us on the extent and results of intragovernmental activity and balance reconciliation efforts as of the end of the fiscal year. However, we continued to note that amounts that federal entity

trading partners reported to Treasury were not in agreement by material amounts for fiscal year 2019.

- **Preparation of the consolidated financial statements.** Treasury, in coordination with OMB, has implemented corrective actions in recent years to address weaknesses in the federal government's process for preparing the consolidated financial statements. Corrective actions included improving systems and implementing new processes for preparing the consolidated financial statements and enhancing guidance for collecting data from federal entities. However, the federal government's systems, controls, and procedures used to prepare the consolidated financial statements were not adequate to reasonably assure that the statements are consistent with the underlying audited entity financial statements, properly balanced, and in accordance with U.S. generally accepted accounting principles.

Further, significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, and a material weakness in internal control prevented us from expressing an opinion on the sustainability financial statements.[133]

We, in connection with our audits—and agency auditors, in connection with their audits—have identified numerous deficiencies underlying the above weaknesses and have provided recommendations for corrective action.

[133]The sustainability financial statements are based on projections of future receipts and spending for the federal government as a whole and for the social insurance programs, while the accrual-based consolidated financial statements are based on historical information, including the federal government's assets, liabilities, revenue, and costs.

Financial Management System Challenges

Although efforts to improve financial management systems have led to progress, the CFO Act agencies continue to face challenges in implementing financial management systems that meet federal requirements. The federal government is one of the world's largest and most complex entities, which, as noted in the PMA, brings inherent challenges when trying to implement modern technology to meet the unique missions of each agency and uphold the expectations of data accountability and transparency. Table 12 lists the financial management systems challenges to achieving the purposes of the CFO Act.

Table 12: Financial Management Systems Challenges to Achieving the Purposes of the Chief Financial Officers Act of 1990

Financial management systems	• Opportunities exist for improving financial management systems. • Some agencies rely on legacy systems that use outdated languages, are costly to maintain, and may not report reliable information. • Challenges impede widespread adoption of shared services.

Source: GAO analysis. | GAO-20-566

Opportunities Exist for Improving Financial Management Systems

Over the years, the federal government has made significant efforts and invested substantial resources to improve IT, including the government's financial management systems. Yet the government continues to face significant and long-standing challenges in managing, modernizing, and acquiring IT as well as in complying with federal financial management systems requirements. In 2019, we reported that the executive branch had undertaken numerous initiatives to better manage the more than $90 billion that the federal government annually invests in IT. However, federal IT investments frequently fail or incur cost overruns and schedule slippages while contributing little to mission-related outcomes. These investments often suffered from a lack of disciplined and effective management, including inadequate project planning, clearly defined requirements, and program oversight and governance.[134] For example, in 2016, we found that HUD's efforts to modernize its financial management systems were hindered by weaknesses in implementing key IT management practices. Specifically, HUD's governance process was not fully effective in recognizing and addressing challenges as they arose, including those identified with the scope, schedule, and costs of the program. Further, HUD faced challenges with sustaining leadership, coordinating among stakeholders, and aligning its financial management system with other IT modernization efforts. We stated that going forward, it would be critical for HUD to address its management and governance

[134] GAO-19-157SP.

weaknesses to help ensure that the success of subsequent modernization efforts was not jeopardized.[135]

We also reported that documenting modernization plans in sufficient detail increases the likelihood that modernization initiatives will succeed.[136] According to our review of government and industry best practices for modernizing federal IT, it is essential for agencies to have documented modernization plans for legacy systems that at a minimum include three key elements: (1) milestones to complete the modernization, (2) a description of the work necessary to modernize the legacy system, and (3) details regarding the disposition of the legacy system.

Some of the government's challenges in modernizing and acquiring IT, including its financial management systems, have been long-standing. In 2010, OMB Memorandum M-10-26, *Review of Financial Systems IT Projects*, stated that IT projects too often cost more than they should, took longer than necessary to deploy, and delivered solutions that did not meet the government's business needs.[137] OMB further stated that although these problems exist across the government's IT portfolio, financial systems modernization projects, in particular, consistently underperformed in terms of cost, schedule, and performance. OMB also stated that federal agencies experienced substantial cost overruns and lengthy delays in planned deployments because the scope of their financial system projects were broad-based business transformations rather than projects that focused on essential business needs. Compounding this problem, projects persistently fell short of planned functionality and efficiencies once deployed. In response, this memorandum required CFO Act agencies to immediately halt the issuance of new task orders or new procurements for all financial system projects pending review and approval from OMB. OMB made further efforts to address the challenges associated with agencies acquiring IT

[135]GAO, *Financial Management Systems: HUD Needs to Address Management and Governance Weaknesses That Jeopardize Its Modernization Efforts*, GAO-16-656 (Washington, D.C.: July 28, 2016). We made four recommendations to HUD on this matter and have continued to monitor HUDs progress on implementing our recommendations, which remain open.

[136]GAO, *Information Technology: Agencies Need to Develop Modernization Plans for Critical Legacy Systems*, GAO-19-471 (Washington, D.C.: June 11, 2019).

[137]Office of Management and Budget, *Memorandum for Heads of Executive Departments and Agencies: Immediate Review of Financial Systems IT Projects*, OMB Memorandum M-10-26 (June 28, 2010).

investments by issuing Memorandum M-13-02, *Improving Acquisition through Strategic Sourcing*, which required agencies to review certain IT investments and identify significant savings opportunities.

CFO Act agencies continue to experience challenges with complying with FFMIA requirements—federal financial management systems requirements, the *U.S. Standard General Ledger*, and federal accounting standards. In 2020, we reported that long-standing financial management systems weaknesses at several large CFO Act agencies, along with the size and complexity of the federal government, continue to present a formidable management challenge in providing accountability.[138] For fiscal year 2019, auditors of eight of the 24 CFO Act agencies reported that the agencies' financial management systems did not substantially comply with one or more of the three FFMIA requirements. FFMIA substantial noncompliance has been a long-standing concern. For fiscal year 2010, auditors of 10 of the 24 CFO Act agencies reported that the agencies' financial management systems did not substantially comply with one or more of the three FFMIA requirements.

With the long-standing challenges the federal government has faced in managing, modernizing, and acquiring IT, including its financial management systems, as well as in complying with federal financial management systems requirements, it is critical for the government to identify and strategically plan for effective systems modernization. A comprehensive, long-term plan to address the challenges in financial management systems that is incorporated into the government-wide and agency-level plans discussed above would help ensure that agencies are held accountable for a long-term vision of managing, modernizing, and acquiring financial management systems in a cost-effective manner with appropriate security considerations that meet the information needs of the government. Without a comprehensive, long-term plan, the federal government and individual agencies may miss the opportunity to strategize a long-term vision and take appropriate actions to effectively modernize its financial management systems.

[138] GAO-20-315R.

Some Agencies Rely on Legacy Systems That Use Outdated Languages, Are Costly to Maintain, and May Not Report Reliable Information

The federal government's IT systems—which include financial management systems—consist of both outdated legacy systems and modernized systems. The outdated legacy systems pose challenges in part because they rely on old languages, which are difficult and costly to maintain. In addition, some agencies have not established modernization plans for their legacy systems. Further, we are concerned about the ability of some legacy financial management systems to report reliable financial information.

In 2019, we analyzed a total of 65 legacy systems in need of modernization for the 24 CFO Act agencies.[139] These legacy systems provide vital support in various areas, including those relating to health care, emergency management, war readiness, and financial management. Of the 65 legacy systems selected, we identified the 10 most critical legacy systems in need of modernization in the federal government. Among the 10 legacy systems selected, several use outdated languages, have unsupported hardware and software, and are operating with known security vulnerabilities. For example, Treasury's Internal Revenue Service's System 6, which contains taxpayer data and is a data source on which many Internal Revenue Service processes depend, was written in a now outdated assembly language code and Common Business Oriented Language (COBOL). We have raised, and Treasury has recognized, a number of concerns related to this system's reliance on assembly language code and COBOL, the maintainability of the system, and attrition of staff with the knowledge to maintain the system.

In addition, according to the agencies for the 10 legacy systems we selected, these legacy systems ranged from about 8 to 51 years old and, collectively, cost approximately $337 million annually to operate and maintain. Given the age of the hardware and software in legacy systems, their importance to agency missions, and the security risks they pose, it is imperative that agencies carefully plan for their successful modernization. In 2019, we also found that some agencies had not established complete modernization plans and faced an increased risk of cost overruns, schedule delays, and project failure.[140] For example, three of 10 identified agencies with critical systems most in need of modernization—the Departments of Education, Health and Human Services, and

[139] GAO-19-471.

[140] GAO-19-471.

Transportation—did not have documented modernization plans for their critical legacy systems.[141] We made eight recommendations—one to each of eight agencies—to ensure that they document modernization plans for the selected legacy systems.

Legacy System

The Modernizing Government Technology Act defines a legacy information technology system as a system that is outdated or obsolete.

Source: National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, title X, subtitle G (2017). | GAO-20-566

In addition, in 2020, we reported that some legacy financial management systems may affect an agency's ability to report reliable financial information. For example, we found that (1) outdated systems could affect Treasury's ability to obtain reliable financial information from agencies and (2) the Department of Veterans Affairs' legacy system issues coupled with a decentralized reporting structure led to systemic and pervasive control deficiencies that impeded its ability to process, summarize, and report reliable financial information in a timely manner.[142] Correcting systems problems is a difficult challenge for agencies because of the age and poor condition of their critical financial systems. Some of these legacy systems cannot provide reliable financial information for key government-wide initiatives, such as integrating performance and cost information.

In our 2019 survey of CFOs and deputy CFOs at the 24 CFO Act agencies, we asked about the extent to which their agencies use core systems that are old and use obsolete software or hardware to perform financial management functions. Ten of the 24 CFOs and deputy CFOs who responded to our survey stated that their agencies use a moderate or great number of obsolete hardware and software. In addition, in our 2019 survey of CFOs and deputy CFOs, seven of 24 stated that it has been extremely or very challenging to work with financial management systems that are old and use obsolete hardware or software.

With a number of agencies relying on critical systems that use outdated languages, it is critical for the government to identify and strategically plan for transitioning to effective financial management systems. A comprehensive, long-term plan to address the challenges in federal financial management systems modernization that is incorporated into the government-wide and agency-level plans would help ensure that agencies are held accountable for a long-term vision of modernizing financial management systems in a cost-effective manner with appropriate security considerations that provide for the information needs of the government. Without a comprehensive, long-term plan, agencies

[141] GAO-19-471.

[142] GAO-20-315R.

may miss the opportunity to strategize a long-term vision and take appropriate actions to effectively modernize federal financial management systems.

Challenges Impede Widespread Adoption of Shared Services

A number of challenges impede widespread adoption of shared financial management services government-wide, including weaknesses in project implementation, scheduling, and management and cost overruns. In 2019, the PMA reported a challenge for the federal government in one of its cross-agency priority goals related to sharing quality services. The PMA reported that outdated processes and technology, coupled with a culture of noncompliance, have created an inflexible mission-support environment. It further stated that rather than economizing by sharing across the federal government, the federal government duplicates technology efforts across hundreds of locations. In the Management's Discussion and Analysis Financial Management section of the fiscal year 2019 *Financial Report*, OMB reported that the sharing of financial technology and services has been successful for smaller agencies but has not met expectations for larger agencies. OMB further stated that when service providers have attempted to provide financial management services to or share technology with agencies that have more complex requirements, the result has often been cost overruns and the need for systems upgrades or customization.[143]

The government has experienced challenges in broadening its use of shared services for some time. In 2015, AGA stated that shared service providers lacked the capacity to meet the differing needs of agencies and that agencies cannot invest in shared services largely because of funding restraints. However, AGA stated that the CFO community could benefit from fully leveraging opportunities for efficiency through shared service providers.[144] In addition, in 2010, OMB stated that past attempts to mandate use of financial management shared services yielded inconsistent results, as medium and large agencies encountered the same types of costs and risks with a shared service provider as they did when modernizing "in house."

According to Treasury, the federal financial management infrastructure exists in a complex environment of legacy IT, customized tools built to

[143]GAO-20-315R.

[144]Association of Government Accountants, *Survey Series: The CFO Act at 25: Perspectives from Two Decades of CFO Surveys & Prospects for the Future* (November 2015).

unique requirements, lack of harmonized standards, and business processes that do not fully leverage modern technology. Treasury also noted this is largely because of the greater number of and more complex systems requirements of the larger agencies. In 2019, we testified that some CFO Act agencies have had difficulty finding providers with sufficient capacity and instead decided to modernize their financial system internally.[145] Other agencies that have attempted to move their financial systems to a shared service provider failed to meet their cost, schedule, and performance goals. For example, in 2013, HUD initiated a modernization program called New Core, which involved migrating financial management capabilities to a shared service provider, with expected benefits to include reducing legacy systems costs, improving data, and resolving weaknesses in its financial management systems. After spending about $58 million over 3 years, HUD decided to end New Core development in April 2016. We reported that one of the factors that led to the decision was that in order for HUD's system requirements to be met, enhancements to the shared service provider's standard solutions would be required.[146]

In 2019, OMB issued Memorandum M-19-16, which provided a strategy—based on industry experiences and lessons learned from other central governments—aimed at reducing duplication, improving accountability, and increasing federal shared services. According to OMB, the strategy will enable the delivery of an innovative, flexible, and competitive set of solutions and services. The strategy includes the

- establishment of a process for designating agencies as Quality Services Management Offices (QSMO);[147]
- establishment of a governance and accountability model that will be used to engage customers and enable QSMO performance excellence, including the Shared Services Governance Board and the Business Standards; and

[145]GAO-20-203T.

[146]GAO-16-656.

[147]According to OMB, QSMOs are to offer solutions that will standardize processes, reduce the technology footprint, and reduce government-wide operating costs. QSMOs will serve as the lead agencies in the federal government and will take responsibility for establishing and or managing such solutions.

- appointment of a senior accountable point of contact from each CFO Act agency to coordinate actions across the agency to support adoption of the shared service strategies.

In 2019, OMB predesignated Treasury as the QSMO for financial management. Treasury officials have stated that they believe the department's implementation plan, which articulates the role of the QSMO as a broker for agencies to access commercial and federal providers, would allow flexibility in choice and the ability to offer various solutions to more agencies. In June 2020, OMB formally designated Treasury as the QSMO for financial management government-wide.

With a number of challenges in increasing the use of shared services government-wide, it is critical for the government to identify and strategically plan for effectively using shared services. A comprehensive, long-term plan to address these challenges that is incorporated into the government-wide and agency-level plans would help ensure that agencies are held accountable for a long-term vision of increasing the use of shared services government-wide in a cost-effective manner. Without a comprehensive, long-term plan, agencies may miss the opportunity to strategize a long-term vision and take appropriate actions to effectively increase the use of shared services government-wide.

Federal Financial Management Workforce Challenges

Since enactment of the CFO Act, technological advances led to the automation of many financial management processes. Personnel previously responsible for transaction processing now need to provide other value-added services, such as data analysis and decision support. OPM, the CFO Council, the CHCO Council, and agencies have made efforts to identify and address human capital challenges that continue to evolve. Table 13 lists the federal financial management workforce challenges to achieving the purposes of the CFO Act.

Table 13: Federal Financial Management Workforce Challenges to Achieving the Purposes of the Chief Financial Officers Act of 1990

Financial management workforce	• Comprehensive planning could help agencies build a federal financial management workforce that can adapt to modern needs. • Comprehensive planning could help agencies close skills gaps in the federal financial management workforce.

Source: GAO analysis. | GAO-20-566

Comprehensive Planning Could Help Agencies Build a Federal Financial Management Workforce That Can Adapt to Modern Needs

The CFO Act called for the agency CFO to direct, manage, and provide policy guidance and oversight of the agency's financial management personnel, activities, and operations, including the recruitment, selection, and training of personnel to carry out agency financial management functions. While agencies made improvements in the federal financial management workforce, some challenges continue. These challenges include hiring and retaining staff with the appropriate professional qualifications, training employees to obtain the necessary expertise and skill sets, and developing workforce planning that would address modern needs and technology. Technology advancements will continue to transform federal program and financial management, and technological disruptions, such as new system implementations through shared services, automation, and artificial intelligence, could have a fundamental impact on federal financial management.

In 2019, we reported challenges related to the future of the federal workforce.[148] Human capital experts noted that perceptions held by potential applicants regarding the nature of federal work could negatively affect hiring and employee retention—such as the perception that the government is overly bureaucratic, that federal work lacks innovation, or that federal work is less prestigious than that in the private sector. These experts also noted that employees have an increasing demand for career mobility—including opportunities for promotions or to rotate to different

[148] GAO-19-181.

roles or projects within the same agency, a different agency, or outside of government. Experts said that employees are also seeking greater developmental opportunities and would prefer longer-term employment where they can continue to build their skills and train, and that investing less in employee development would result in greater employee turnover. In April 2020, we hosted a focus group discussion with experts in the financial management community who expressed similar concerns.

Additionally, the results of our 2019 survey of CFOs and deputy CFOs of CFO Act agencies noted the following:

- 14 of 24 respondents said that their agencies do not have all of the staff with the professional qualifications, capabilities, and expertise needed to support financial management operations and practices effectively and
- 20 of 24 respondents said that they faced challenges in building a financial management workforce for the future with mission-critical skills.

Standards for Internal Control in the Federal Government states that management should (1) demonstrate a commitment to recruit, develop, and retain competent individuals and (2) evaluate performance and hold individuals accountable for their internal control responsibilities. With rapid changes, such as emerging technologies and growing availability of data, it is critical for the government to identify and strategically plan for the future workforce to achieve effective financial management. A comprehensive, long-term plan to address the challenges in the federal financial management workforce that is incorporated into the government-wide and agency-level plans would help ensure that agencies are held accountable for a long-term vision of attracting and retaining a workforce that maintains the professional qualifications, capabilities, and expertise that will meet current and future needs. Without a comprehensive, long-term plan, agencies may miss the opportunity to strategize a long-term vision and take appropriate actions to strengthen the federal financial management workforce.

Comprehensive Planning Could Help Agencies Close Skills Gaps in the Federal Financial Management Workforce

While significant progress has been made in identifying and addressing government-wide and agency skills gaps in the federal financial management workforce, challenges remain for agencies in closing them. OPM continues to demonstrate leadership commitment through its efforts to assist agencies' in identifying and addressing mission-critical skills gaps within their workforces. However, insufficient numbers of staff, inadequate workforce planning, and a lack of training in critical areas are continuing challenges to closing these gaps. Both within federal agencies and across the federal workforce, the gaps between what the federal government needs and the skills federal employees have continue to impede the government from cost effectively serving the public and achieving results.

In March 2019, we reported that skills gaps played a significant role in 16 high-risk areas, including a number of federal financial management areas, such as (1) DOD financial management and (2) National Aeronautics and Space Administration acquisition management.[149] Specifically, we found that DOD's financial management staff remain insufficient in number, qualifications, and expertise. These skills gaps contributed to DOD's inability to account for and report on its spending or assets accurately and to be held accountable for its extensive resources and more efficient management of its assets and budget. As another example, we found that the National Aeronautics and Space Administration lacks enough staff or staff with the right skills for several major acquisition projects and has capability gaps in areas such as cost estimating and earned value management.[150]

A comprehensive, long-term plan to address the challenges in the federal financial management workforce that is incorporated into the government-wide and agency-level plans would help ensure that agencies are held accountable for identifying and closing government-wide and agency skills gaps. Without a comprehensive, long-term plan, agencies may miss the opportunity to identify and strategize agency-specific long-term plans for identifying and closing skills gaps and to take appropriate actions to strengthen the federal financial management workforce.

Conclusions

Congress passed the CFO Act nearly 30 years ago to reform and modernize federal financial management. Among other things, Congress designed the CFO Act to modernize federal financial management leadership structures, safeguard taxpayer-provided resources, equip government leaders with timely and reliable information for cost management, and professionalize the federal financial management

[149] GAO-19-157SP.

[150] Earned value management is a project management tool that integrates the technical scope of work with schedule and cost elements for investment planning and control; it compares the value of work accomplished in a given period with the actual cost of the work accomplished and the value of the work planned in that period. Differences in expectations are measured in both cost and schedule variances.

workforce. In the decades since enactment, the federal government has made significant strides in improving financial management and fulfilling the aims of the CFO Act. However, challenges affecting federal financial management remain in the areas of leadership, financial reporting, internal control, financial management systems, and the federal financial management workforce.

While the federal government has significantly reformed its leadership structures, the CFO positions in federal agencies do not have standardized responsibilities and the CFO Act did not define responsibilities for deputy CFOs. Without a standardized set of responsibilities for CFOs and defined responsibilities consistent with the breadth of CFO responsibilities for deputy CFOs, they may not have the necessary authorities for effective financial management. Additionally, the federal government lacks a complete and integrated government-wide financial management plan and agency plans to implement the government-wide plan. Periodically preparing and implementing plans at the government-wide level would help to ensure that the federal government is developing direct, transparent, and consistent actions to improve financial management systems, strengthen the federal financial management workforce, and effectively link performance and cost information for decision-making. Consultation with financial management experts and preparing annual status reports also would help the federal government to ensure that the plans appropriately address challenges.

Further, agencies continue to face challenges in reliably measuring and assessing the quality of their financial management. By developing and using comprehensive performance-based metrics, and by better linking performance measurement to cost information, individual agencies and the broader federal government would be able to more readily assess their financial management needs. Additionally, taking steps to identify key financial management information, as well as assessing and reporting by management on the effectiveness of internal controls over financial reporting and other key financial management information and auditor testing and reporting on such controls, would enhance agency leaders' access to accurate and reliable financial data and, in turn, their ability to make more informed financial decisions. Addressing these challenges to account for modern needs and technology would help the federal government to fully achieve the vision of the CFO Act. To this end, continued congressional leadership is critical for creating modern federal financial management practices that are capable of providing reliable information that lawmakers and government leaders need for decision-making.

Matters for Congressional Consideration

We are making the following eight matters for congressional consideration:

Congress should consider legislation to require each CFO at a CFO Act agency to oversee and provide leadership for all of the responsibilities necessary to effectively carry out federal financial management activities, including the formulation and financial execution of the budget, planning and performance, risk management, internal control, financial systems, and accounting. (Matter for Consideration 1)

Congress should consider legislation to require deputy CFOs in CFO Act agencies to have defined responsibilities consistent with the breadth of those of the agency CFOs. (Matter for Consideration 2)

Congress should consider legislation to require the Director of OMB to prepare and submit to the appropriate committees of Congress a government-wide 4-year financial management plan (with timing to match the GPRA reporting requirements) and an annual financial management status report.

a. The plan should include actions for improving financial management systems, strengthening the federal financial management workforce, and better linking performance and cost information for decision-making.

b. The plan should be developed in consultation with the CFO Council, the Chief Information Officers Council, the Chief Data Officer Council, the Chief Acquisition Officers Council, CIGIE, GAO, and other appropriate financial management experts. (Matter for Consideration 3)

Congress should consider legislation to require each CFO at a CFO Act agency, in consultation with financial management and other appropriate experts, to prepare an agency plan to implement the 4-year government-wide financial management plan prepared by OMB. (Matter for Consideration 4)

Congress should consider legislation to require the Director of OMB to prepare comprehensive financial management performance-based metrics and use these metrics to evaluate the financial management performance of executive agencies. The metrics should be included in the government-wide and agency-level financial management plans, and agencies' performance against the metrics should be reported in the annual financial management status reports. (Matter for Consideration 5)

Congress should consider legislation to require the head of each executive agency to identify, and if necessary develop, the key financial management information, in addition to financial statements, needed for effective financial management and decision-making. (Matter for Consideration 6)

Congress should consider legislation to require the head of each executive agency to annually assess and separately report their conclusion on the effectiveness of internal controls of the agency over financial reporting and other key financial management information. (Matter for Consideration 7)

Congress should consider legislation to require auditors, as part of each financial statement audit of an executive agency, to test and report on internal control over financial reporting and other key financial management information. (Matter for Consideration 8)

Agency Comments

We provided a draft of this report to OMB, Treasury, and OPM for review and comment. Treasury and OPM provided technical comments, which we incorporated as appropriate. OMB provided oral and technical comments, which we incorporated as appropriate.

In oral comments, OMB reemphasized its concerns relating to our third matter for congressional consideration (regarding a government-wide 4-year financial management plan and an annual financial management status report) and our seventh matter for congressional consideration (regarding executive agency heads annually assessing and reporting on the effectiveness of internal controls over key financial management information). OMB had expressed its concerns on these issues during the course of our review and we incorporated OMB's views into the body of our draft report. In oral comments, OMB stated that it appreciated our incorporation of its views into our draft report. We continue to believe that these measures would improve federal financial management.

We are sending copies of this report to the appropriate congressional committees, the Director of the Office of Management and Budget, the Secretary of the Treasury, the Director of the Office of Personnel Management, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-5500, Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov, or Robert F. Dacey at (202) 512-3406 or daceyr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

Gene L. Dodaro
Comptroller General of the United States

Appendix I: Objectives, Scope, and Methodology

Our objectives were to discuss (1) the progress made in achieving the purposes of the Chief Financial Officers Act of 1990 (CFO Act) and improving federal financial management and (2) the remaining challenges for the federal government in achieving effective government-wide financial management.[1] We addressed these objectives based on five major areas of federal financial management: (1) leadership, (2) financial reporting, (3) internal control, (4) financial management systems, and (5) the federal workforce. We testified about our preliminary observations on this work in October 2019.[2]

To address our objectives, we analyzed relevant laws related to federal financial management in the five major areas mentioned above; federal financial management guidance, such as Office of Management and Budget (OMB) circulars; and various reports on financial management issues. We conducted interviews with selected officials with experience in federal financial management, a discussion group with former chief financial officers (CFO), and a discussion panel with experts in federal financial management. We conducted surveys of the 24 CFO Act agencies' CFOs, deputy CFOs, inspectors general (IG), and independent public accountants to obtain knowledge of agency federal financial management. We administered a questionnaire to the 24 CFO Act agencies' CFOs or acting CFOs on the roles and responsibilities of the CFO and deputy CFO positions. We also reviewed the results of Association of Government Accountants surveys on federal financial management.[3]

- **CFO questionnaire.** To gain perspectives on the responsibilities of federal CFO and deputy CFO positions, we developed and administered an email-based questionnaire from March 2, 2020, through May 4, 2020, to the 24 CFO or acting CFOs from the CFO Act agencies. Of the 24 CFO Act agencies that received our questionnaire, 20 agencies responded, an 83 percent response rate.
- **Discussion group of former CFOs.** In April 2020, we hosted a CFO discussion group, with logistical assistance from the Partnership for

[1]Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

[2]GAO, *Federal Financial Management: Substantial Progress Made since the CFO Act of 1990 and Preliminary Observations on Opportunities for Enhancement*, GAO-20-203T (Washington, D.C.: Oct. 30, 2019).

[3]The web-based surveys, discussion panel with experts, and significant review and analysis occurred during our work completed for GAO-20-203T.

Public Service, to obtain views on the current challenges and potential solutions for improving federal financial management.[4] When planning the meeting, we considered former CFOs, former deputy CFOs, and former assistant secretaries from a variety of agencies who were currently strategic advisors to government executives.[5] We had a total of five strategic advisors participate, who had all served in federal CFO capacities. Topics for discussion included the current and future challenges and potential solutions for each of the five areas—leadership, financial reporting, internal controls, financial management systems, and the federal financial management workforce—and the roles of the Department of the Treasury (Treasury) and OMB with regard to the CFO Act.

- **Web-based surveys.** To obtain perspectives of agency personnel on federal financial management, we developed and administered two web-based surveys from May 22, 2019, through August 5, 2019. We administered one survey to 47 individuals from the CFO offices of the CFO Act agencies and included individuals holding the positions of CFO, acting CFO, deputy CFO, or equivalent at these agencies as of May 1, 2019. Of the 47 individuals we surveyed, 24 individuals responded, which resulted in a 51 percent response rate.

  We administered the other survey to 53 individuals holding the positions of IG, acting IG, deputy IG, or counsel to the IG at the CFO Act agencies as of May 1, 2019,[6] and an additional 24 independent public accountants who have performed financial statement audits for these agencies since fiscal year 2014. Of the 77 individuals we surveyed, 29 individuals responded, a 38 percent response rate. Results of both surveys represent the views of those individuals who responded to the surveys and may not be representative of all

[4]The Partnership for Public Service is a nonprofit, nonpartisan organization that strives for a more effective government for the American people.

[5]The Strategic Advisors to Government Executives (SAGE) network comprises more than 120 former political and career executives who continue their commitment to public service by supporting current government leaders. By sharing their extensive experience and expertise, SAGEs help senior executives create and manage a more effective and efficient government. See https://ourpublicservice.org/programs/strategic-advisors-to-government-executives/ (accessed May 22, 2020).

[6]The 53 participants also included individuals holding the position of (1) acting deputy IG and (2) assistant IG or equivalent positions that are responsible for financial statement audits.

individuals from the CFO offices, IG offices, or independent public accountant firms.[7]

To enhance data quality, we used recognized survey practices in developing the questionnaires and in collecting and processing the survey response data. To minimize errors arising from differences in how questions might be interpreted and to reduce variability in responses that should be qualitatively the same, we conducted pretests with two deputy CFOs, one assistant deputy CFO, one deputy IG, and one independent public accountant. We considered their feedback in some instances and revised the surveys to improve the clarity of the questions, minimize errors arising from differences in how questions might be interpreted, and reduce variability in responses. An independent survey specialist within GAO also reviewed drafts of the questionnaires prior to their administration. To reduce nonresponse, another source of nonsampling error, we followed up by email and phone with officials who had not responded to the surveys to encourage them to complete them.

- **Discussion panel of financial management experts.** In May 2019, we hosted an expert meeting with the theme "CFO Act - Progress and Challenges." When planning the meeting, we considered experts with a broad array of expertise. We had a total of eight experts participate, representing both the federal and private sectors. They included individuals who had served in auditing capacities and individuals who had represented federal entities being audited. Some experts were currently serving in their roles, and others had retired. By including experts with both present and past experiences, we obtained views on progress and challenges since enactment of the CFO Act, the role of Treasury and OMB with regard to the act, and suggestions for improvements to financial management processes and systems. The meeting transcript was categorized by key points, including progress, challenges, OMB's and Treasury's roles, government-wide plans, financial management systems, shared services, leading practices, and proposed reforms or suggestions for improvements.

We conducted this performance audit from October 2018 to August 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

[7]In some cases, we edited responses for clarity or grammar or to remove identifying information.

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: GAO Contacts and Staff Acknowledgments

GAO Contacts

Gene L. Dodaro, (202) 512-5500

Dawn B. Simpson, (202) 512-3406, simpsondb@gao.gov

Robert F. Dacey, (202) 512-3406, daceyr@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Phyllis Anderson (Assistant Director), LaDonna Towler (Assistant Director), Melanie Darnell (Auditor-in-Charge), Mark Cheung, Patrick Frey, Jason Kelly, Jason Kirwan, Christopher Klemmer, Jill Lacey, Lisa Motley, Anne Thomas, Walter Vance, and Yi (William) Ye made key contributions to this report. Other staff who contributed to this report were David Ballard, Jeremy Choi, Isabella Hur, Michael LaForge, Christy Ley, Keegan Maguigan, Heena Patel, and Matthew Valenta.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube.
Subscribe to our RSS Feeds or Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/fraudnet/fraudnet.htm

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

Orice Williams Brown, Managing Director, WilliamsO@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548