THE STATUS OF GOVERNMENT FINANCIAL MANAGEMENT: A LOOK AT THE FISCAL YEAR 2011 CONSOLIDATED FINANCIAL STATEMENTS

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

TUESDAY, MARCH 1, 2012

Serial No. 112–145

Printed for the use of the Committee on Oversight and Government Reform

Available via the World Wide Web: http://www.fdsys.gov
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

74–457 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
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THURSDAY, MARCH 1, 2012,

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2154, Rayburn House Office Building, Hon. Todd Russell Platts [chairman of the subcommittee] presiding.

Present: Representatives Platts, Guinta, Towns and Connolly.

Staff Present: Ali Ahmad, Majority Communications Advisor; Michael R. Bebeau, Majority Assistant Clerk; Robert Borden, Majority General Counsel; Linda Good, Majority Chief Clerk; Tegan Millspaw, Majority Research Assistant; Jaron Bourke, Minority Director of Administration; Beverly Britton Fraser, Minority Counsel; Ashley Etienne, Minority Director of Communications; Devon Hill, Minority Staff Assistant; Paul Kincaid, Minority Press Secretary; Mark Stephenson, Minority Director of Legislation.

Mr. PLATTS. This hearing of the Subcommittee on Government Organization, Efficiency and Financial Management will come to order.

We certainly appreciate everyone's participation, especially our witnesses. In the interest of time management, we are going to dispense with opening statements here with Committee members and submit our statements for the record, and leave the record open for seven days for any other members to submit opening statements or extraneous material, and go right to our witnesses.

We are honored to have three very distinguished public servants. We are grateful for your participation here today and especially for your work day in and day out, as part of the Federal Government's work on behalf of all of our Nation's citizens.

We are honored to have the Honorable Gene Dodaro, Comptroller General of the United States; the Honorable Daniel Werfel, Controller of the Office of Management and Budget; and the Honorable Richard Gregg, Fiscal Assistant Secretary of the Department of Treasury. Again, we have had a chance to review your written statements and we appreciate that preparation that you provided us. It allows us to be a little more prepared for a good engagement here today.

The practice of the Committee, if I could ask, now that you are all seated, is to stand, and we will swear you in. If you would raise your right hand. Do you solemnly swear or affirm that the testimony you are about to give this Committee will be the truth, the whole truth and nothing but the truth?

[Witnesses respond in the affirmative.]

Mr. PLATTS. Let the record reflect that all witnesses answered in the affirmative. And Mr. Comptroller General, we will begin with you and again appreciate your participation here today.

STATEMENTS OF WITNESSES

STATEMENT OF GENE L. DODARO

Mr. DODARO. Thank you very much, Mr. Chairman. It is a pleasure to be here this morning. Ranking Member Towns, nice to see both of you to discuss the results of our latest review of the financial statements for fiscal year 2011.

I might take this opportunity, Mr. Chairman, with your announcement that you are not running for re-election, I just want to take this opportunity to thank you on behalf of myself and all my colleagues at the GAO for your dedication to financial management improvement. I think your efforts with the DHS Accountability Act and improper payments, working on a bipartisan manner with your colleagues has really made a difference. I just want to thank you for that.

Mr. PLATTS. Mr. Comptroller General, I appreciate the kind words. It has been a remarkable experience for the last 12 years. I don't know what is next, but I look forward to whatever that chapter is. But as I said before we started, working with you and your staff at GAO has been a great experience and we are grateful. And working with my Ranking Member, my former Chairman, we kind of keep swapping seats, who is Chairman and Ranking Member. But the approach I know that we have taken, along with you and our other witnesses, is just a team effort. It has been a real privilege to work with you and all here in Washington on behalf of the people of my district.

So I appreciate the kind words.

Mr. DODARO. Sure, thank you. You leave with our appreciation and best wishes.

With regard to our report this past year, as will be no surprise to either of you, we again disclaimed to give an opinion on the accrual based audited financial statements of the United States Government. Three main reasons remain; serious financial management problems at the Department of Defense and issues at Treasury with both preparing consolidated financial statements and eliminating inter-governmental transactions.

Now, there are a few important developments with regard to DOD that I would like to highlight this morning. First, in addition to this Committee's focus, the House Armed Services Committee has had a special panel on DOD financial management, held a number of hearings, issued a report encouraging them to continue with their improvements. So the Congress is getting more actively engaged, and I think that is a very positive development and hope that it continues as DOD progresses.

Also, having the Congress set a firm deadline of 2017 in terms of auditability for the Department is an important step.

Secondly, Secretary Panetta has advanced those goals by setting a date of 2014 for the audits of the statements of budgetary resources. This is a very important early step and I think will give indications as to whether or not they are going to be able to make the 2017 date as well. Because it will highlight additional problems up front.

Thirdly is that the Department has set priorities for the beginning of their financial Management improvement in dealing with budgetary resources and also the existence and completeness of military assets. These are the things they care about at the Department. And I think if they can't make progress in these areas, it is going to be even more difficult in dealing with some of the other issues associated with preparing financial statements.

So I think all these elements, against the backdrop of a lot of fiscal pressure that the Department is going to be under, are creating the proper environment, hopefully, for improvement. Now, one should not underestimate the serious challenges that DOD is going to face in improving their controls and systems and the skills of their workforce. But I think these are encouraging signs.

With regard to Treasury, they have taken some important steps in order to help deal with inter-governmental transactions by engaging the agencies on a quarterly and regular basis, which I think is very important. They have also signaled their intent to prepare financial statements for the general fund transactions, which is really important in order to really figure out how to finally deal with this inter-governmental transaction issue. There hasn't been enough transaction history in order to make sure that they can find and eliminate all these transactions. This will create a better record for them to eliminate those transactions.

Also, again we have identified weaknesses and improper payments and information security and tax collection activities. I would be happy to talk about any of those and the Qs and As.

Just in closing, Mr. Chairman, I would say it is really critical that the Federal Government continue to make progress in addressing these financial management challenges I have just outlined at DOD and Treasury. But it is really important also that the civilian agencies continue to maintain their record of improvements and sustain that going forward. All these things are critical to make sure there is proper accountability and stewardship of the taxpayers' funds and also to more effectively manage the cost to government. All this occurring against a backdrop of really long-term serious challenges facing our Federal Government.

So I thank you for the opportunity to be here today. At the appropriate time be happy to answer any questions.

[Prepared statement of Mr. Dodaro follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Government Organization, Efficiency and Financial Management, Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Thursday, March 1, 2012

FISCAL YEAR 2011 U.S. GOVERNMENT FINANCIAL STATEMENTS

The Federal Government Faces Continuing Financial Management and Long-Term Fiscal Challenges

Statement of Gene L. Dodaro
Comptroller General of the United States

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GAO-12-444T

March 1, 2012

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Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-444T, a testimony before the Subcommittee on Government Organization, Efficiency and Financial Management, Committee on Oversight and Government Reform, House of Representatives

FISCAL YEAR 2011 U.S. GOVERNMENT FINANCIAL STATEMENTS

The Federal Government Faces Continuing Financial Management and Long-Term Fiscal Challenges

Why GAO Did This Study

GAO annually audits the consolidated financial statements of the U.S. government. The Congress and the President need reliable, useful, and timely financial and performance information to make sound decisions and conduct effective oversight of federal government programs and policies.

However, over the years, certain material weaknesses in internal control over financial reporting have prevented GAO from expressing an opinion on the accrual-based consolidated financial statements. Unless these weaknesses are adequately addressed, they will, among other things, continue to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; and (2) affect the federal government's ability to reliably measure the full cost as well as the financial and nonfinancial performance of certain programs and activities.

This testimony presents the results of GAO's audit for fiscal year 2011 and discusses certain of the federal government's significant long-term fiscal challenges.

What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management. The federal government has generally taken or plans to take actions to address GAO's recommendations.

View GAO-12-444T. For more information, contact Robert F. Dacey or Gary T. Engel at (202) 512-3406.

What GAO Found

Three long-standing major impediments continued to prevent GAO from expressing an opinion on the federal government's accrual-based consolidated financial statements: (1) serious financial management problems at the Department of Defense (DOD) that have prevented DOD's financial statements from being audited, (2) federal entities' inability to adequately account for and reconcile intragovernmental activity and balances, and (3) the federal government's ineffective process for preparing the consolidated financial statements. GAO also reported material weaknesses involving billions of dollars in improper payments, information security, and tax collection activities. Also, GAO was prevented from expressing opinions on the 2011 and 2010 Statements of Social Insurance and the 2011 Statement of Changes in Social Insurance Amounts because of significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth reflected in the statements.

GAO is encouraged by the commitment of DOD leaders to improving DOD's financial management and achieving auditiability and by the congressional attention being given to this important matter. The Congress set statutory deadlines for DOD auditability, convened a congressional panel to focus on the issue, and held several hearings on DOD financial management. The Secretary of Defense accelerated the timeline for DOD auditability, setting a 2014 deadline for audit readiness of the Statement of Budgetary Resources, and DOD has issued a plan for meeting that date, which GAO is in the process of reviewing. The plan emphasizes the importance of leadership, including senior leaders and field commanders, to achieving DOD's goals, and it links accountability to performance appraisals. To meet their financial management and auditability goals, DOD and its components will need to overcome significant challenges, including implementation of its financial improvement plan, deployment of supporting automated systems, and assessment and resolution of gaps in workforce skills.

The Department of the Treasury (Treasury) furthered its commitment to resolve unreconciled differences between federal entities regarding intragovernmental activity and balances, which included several short- and long-term initiatives. In addition, Treasury, in coordination with the Office of Management and Budget (OMB), implemented corrective actions during 2011 to address certain deficiencies regarding the preparation of the consolidated financial statements. Fully addressing the numerous issues in these areas will require a strong and sustained commitment by federal entities and leadership by Treasury and OMB.

The 2011 Financial Report of the United States Government included comprehensive long-term fiscal projections for the U.S. government, which provides a much needed perspective on the federal government's long-term fiscal position and outlook. These, like GAO's simulations, include the savings provided by the Budget Control Act of 2011. While assuming that the savings as a share of gross domestic product continue beyond the decade leads to an improvement in the long-term fiscal path, it does not make the path sustainable. Addressing the long-term fiscal imbalance is made more difficult by the need to balance achieving the goals of sustaining economic growth in the near term, while producing a plan to change the federal government's long-term fiscal path.

Mr. Chairman, Ranking Member Towns, and Other Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss our report on the U.S. government's consolidated financial statements for fiscal years 2011 and 2010. During fiscal year 2011, the federal government continued to face economic and fiscal challenges in a slow growth economy with high unemployment. Dealing with the government's long-term fiscal challenges will require sustained attention and difficult decisions to address serious deficit and debt issues. These fiscal issues further highlight the need for the federal government to operate as effectively and efficiently as possible. Therefore, the Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information for individual federal entities and the federal government as a whole. Even though significant progress has been made in federal financial management since the enactment of key reforms in the 1990s, our report on the U.S. government's consolidated financial statements illustrates that much work remains to improve federal financial management. I would like to commend you, Mr. Chairman, and this Subcommittee, for continuing the annual tradition of oversight hearings on this important subject. Your involvement is critical to assuring continued progress.

Our testimony today discusses the following major issues relating to the consolidated financial statements for fiscal years 2011 and 2010: (1) the results of our audit, including continued major impediments to an opinion on the accrual-based consolidated financial statements[1] and certain significant uncertainties that prevented us from expressing opinions on

[1] The consolidated financial statements other than the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts are referred to as the accrual-based consolidated financial statements. Most revenues reported in the accrual-based consolidated financial statements are recorded on a modified cash basis. In fiscal year 2011, the federal government adopted Statement of Federal Financial Accounting Standards No. 37, "Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements," which calls for a new basic financial statement, the Statement of Changes in Social Insurance Amounts, that is included, along with the related notes, in the consolidated financial statements. The Statement of Changes in Social Insurance Amounts presents the components of the changes of the open group measure (total present value of future expenditures in excess of future revenue), presented in the 2011 and 2010 Statements of Social Insurance. Neither the Statement of Social Insurance nor the Statement of Changes in Social Insurance Amounts interrelate with the accrual-based consolidated financial statements.

the 2011 and 2010 Statements of Social Insurance,[2] as well as on the 2011 Statement of Changes in Social Insurance Amounts; (2) the effects of the last economic recession and the federal government's actions to stabilize financial markets and promote economic recovery on the federal government's financial condition; and (3) challenges posed by the federal government's long-term fiscal outlook.

Both the consolidated financial statements and our related audit report are included in the fiscal year *2011 Financial Report of the United States Government* (*Financial Report*).[3] We performed sufficient audit work to provide our report on the consolidated financial statements, internal control, and compliance with selected provisions of laws and regulations. We considered the limitations on the scope of our work in forming our conclusions. We conducted our audit in accordance with U.S. generally accepted government auditing standards. Our audit report would not be possible without the commitment and professionalism of inspectors general throughout the federal government who are responsible for annually auditing the financial statements of individual federal agencies. The *Financial Report* is available at http://www.gao.gov/financial/fy2011financialreport.html and through the Department of the Treasury (Treasury) at http://www.fms.treas.gov/fr/index.html.

[2] Social insurance programs included in the Statement of Social Insurance are Social Security, Medicare, Railroad Retirement, and Black Lung.

[3] Also, see GAO, *Understanding the Primary Components of the Annual Financial Report of the United States Government*, GAO-09-946SP (Washington, D.C.: September 2009).

Results of Our Audit of the U.S. Government's Consolidated Financial Statements for Fiscal Years 2011 and 2010

The federal government was unable to demonstrate the reliability of significant portions of the U.S. government's accrual-based consolidated financial statements for fiscal years 2011 and 2010, principally resulting from limitations related to certain material weaknesses in internal control over financial reporting. As a result, we were unable to provide an opinion on such statements. Further, significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth[4] reflected in the 2011 and 2010 Statements of Social Insurance, prevented us from expressing opinions on those statements,[5] as well as on the 2011 Statement of Changes in Social Insurance Amounts. Given the importance of social insurance programs, such as Medicare and Social Security to the federal government's long-term fiscal outlook, the Statement of Social Insurance is critical to understanding the federal government's financial condition and fiscal sustainability.

The federal government did not maintain adequate systems or have sufficient, reliable evidence to support certain material information reported in the U.S. government's accrual-based consolidated financial statements. The underlying long-standing material weaknesses in internal control[6] contributed to our disclaimers of opinion on the U.S. government's accrual-based consolidated financial statements for the fiscal years ended 2011 and 2010.[7] Those material weaknesses relate to the federal government's inability to

- satisfactorily determine that property, plant, and equipment and inventories and related property, primarily held by the Department of

[4] These uncertainties are discussed in Note 26 to the consolidated financial statements.

[5] We expressed unqualified opinions on the 2009, 2008, and 2007 Statements of Social Insurance.

[6] A material weakness is a deficiency, or combination of deficiencies, in internal control 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.

[7] A more detailed description of the material weaknesses that contributed to our disclaimer of opinion, including the primary effects of these material weaknesses on the accrual-based consolidated financial statements and on the management of federal government operations, can be found on pages 224 through 228 of the *Financial Report*.

Defense (DOD), were properly reported in the accrual-based consolidated financial statements;

- reasonably estimate or adequately support amounts reported for certain liabilities, such as environmental and disposal liabilities, or determine whether commitments and contingencies were complete and properly reported;
- support significant portions of the reported total net cost of operations, most notably related to DOD, and adequately reconcile disbursement activity at certain federal entities;
- adequately account for and reconcile intragovernmental activity and balances between federal entities;
- ensure that the federal government's accrual-based consolidated financial statements were (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in conformity with U.S. generally accepted accounting principles (GAAP); and
- identify and either resolve or explain material differences between (1) certain components of the budget deficit reported in Treasury's records that are used to prepare the Reconciliation of Net Operating Cost and Unified Budget Deficit, the Statement of Changes in Cash Balance from Unified Budget and Other Activities, and the Fiscal Projections for the U.S. government (included in the Supplemental Information section of the *Financial Report*) and (2) related amounts reported in federal entities' financial statements and underlying financial information and records.

These material weaknesses continued 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 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 financial information to operate in an efficient and effective manner.

In addition to the material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements, we found the following three other material weaknesses in internal control.[8] These other material weaknesses were the federal government's inability to

- determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce improper payments,[9]
- identify and resolve information security control deficiencies and manage information security risks on an ongoing basis, and
- effectively manage its tax collection activities.

Since the enactment of key financial management reforms in the 1990s, significant progress has been made improving financial management activities and practices. For fiscal year 2011, 21 of 24 Chief Financial Officers (CFO) Act agencies were able to attain unqualified audit opinions on their accrual-based financial statements[10] within an accelerated reporting time frame, up from 6 CFO Act agencies for fiscal year 1996. Also, the preparation and audit of financial statements have identified numerous deficiencies, leading to actions to strengthen controls and systems. However, many of the CFO Act agencies continue to struggle with financial systems that are not integrated and do not meet the needs of management for reliable, useful, and timely financial information. Often, federal entities expend major time, effort, and resources to develop financial information that their systems should be able to provide on a daily or recurring basis. Therefore, it is important for the individual federal entities to remain committed to maintain the progress that has been achieved in obtaining positive audit results and to build upon that progress to make needed improvements.

[8] A more detailed discussion of these weaknesses, including the primary effects of the material weaknesses on the accrual-based consolidated financial statements and on the management of federal government operations, can be found on pages 229 and 230 of the *Financial Report*.

[9] Federal entities reported estimates of improper payment amounts that totaled $115.3 billion for fiscal year 2011, which represented approximately 4.7 percent of about $2.5 trillion of reported outlays for the associated programs.

[10] See app. I for the fiscal year 2011 audit results for the 24 CFO Act Agencies.

Addressing Impediments to an Opinion on the Accrual-Based Consolidated Financial Statements

Three long-standing major impediments continued to prevent us from expressing an opinion on the U.S. government's accrual-based consolidated financial statements: (1) serious financial management problems at DOD that have prevented DOD's financial statements from being auditable, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements. In addition, while improvements were made, financial management issues at the Department of Homeland Security (DHS) also contributed to our inability to express an opinion on the U.S. government's accrual-based consolidated financial statements. Extensive efforts by DOD and other entity officials and cooperative efforts between entity chief financial officers, Treasury officials, and Office of Management and Budget (OMB) officials will be needed to resolve these obstacles to achieving an opinion on the U.S. government's accrual-based consolidated financial statements.

Improving Financial Management at DOD

DOD leadership has, with oversight and reinforcement from Congress, committed DOD to the long-term goal of full financial statement auditability. The National Defense Authorization Act for Fiscal Year 2010, as amended, requires that DOD's financial statements be validated as ready for audit by September 30, 2017,[11] a date that has been DOD's stated goal since 2008. DOD's Financial Improvement and Audit Readiness (FIAR) Plan and semiannual status reports define the activities, corrective actions, and interim milestones necessary to achieve auditability and the availability of reliable, useful, and timely information for management decision making. The most recent update of the plan also emphasizes the importance of leadership, including senior leaders and field commanders, to achieving DOD's goals, and it links accountability to performance appraisals.

Under its FIAR Plan, DOD is focusing on improving controls and processes relied on to provide financial information in two areas it says are most critical to managing its operations: (1) budgetary information and (2) accountability over its military equipment. With respect to budgetary information, in October 2011, the Secretary of Defense directed the DOD

[11] National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, § 1003(a), (b), 123 Stat. 2190, 2439-40 (Oct. 28, 2009).

Comptroller to provide him with a plan to achieve audit readiness for the Statement of Budgetary Resources (SBR) by the end of 2014. The SBR is important because it is intended to show the flow of money in and out of DOD consistent with the budgetary information reported in the *Budget of the United States Government*.[12] The Secretary's directive also called for increased emphasis on accountability for assets, a full review of DOD's financial controls over the next 2 years and the establishment of interim goals, mandatory training for audit and key financial efforts, and establishing a pilot certification program for financial managers by the end of calendar year 2012.

DOD recently updated its FIAR Guidance, which provides a standardized methodology for DOD components to follow in planning and carrying out their FIAR efforts aimed at achieving audit readiness. However, as we reported in September 2011, we found that the Air Force and the Navy were not always effectively implementing the FIAR Guidance, presenting a risk of not achieving DOD's overall FIAR goals.[13] Specifically, we found that although the Air Force asserted audit readiness for its military equipment and the Navy asserted audit readiness for its civilian pay, neither of these areas were audit-ready because the Air Force and Navy had not fully carried out FIAR Guidance procedures. We recommended actions for improving the development, implementation, documentation, and oversight of DOD's financial management improvement efforts. In addition, the Marine Corps' attempt to achieve an audit opinion on its SBR is still in process. In that regard, we recently recommended that the Marine Corps develop a risk-based remediation plan and confirm that its actions fully respond to auditor recommendations and that DOD direct other military services to consider key lessons learned in their audit readiness plans as appropriate.

The Navy and Marine Corps also continue to address a key element necessary to achieve an auditable SBR—the reconciliation of their balance of funds with the balance on Treasury's books, or Fund Balance with Treasury (FBWT). (The process is similar in concept to reconciling a

[12] According to DOD officials, the goal of achieving SBR audit readiness by 2014 will only apply to the department's general funds, but not to its working capital funds.

[13] GAO, *DOD Financial Management: Improvement Needed in DOD Components' Implementation of Audit Readiness Effort*, GAO-11-851 (Washington, D.C.: Sept. 13, 2011).

checkbook with a bank account.) Because of the fundamental importance of the reconciliation, GAO reviewed the processes used by the Navy, Marine Corps, and the Defense Finance and Accounting Service, which processes much of DOD components' financial data, including transactions that affect FBWT.[14] We recommended that the Navy and Marine Corps improve policies and procedures that guide the FBWT reconciliation process, provide training to communicate these policies and procedures to staff, and resolve system deficiencies.

The effective implementation of Enterprise Resource Planning (ERP) systems will be critical to the success of all of DOD's planned long-term financial improvement efforts. ERP systems are integrated, multifunction systems that perform business-related tasks such as general ledger accounting and supply chain management. DOD considers their implementation essential to transforming its business operations. However, DOD continues to encounter difficulties in implementing its planned ERP systems on schedule and within budget. For example, in October 2010, we reported that six of nine critical DOD ERPs experienced schedule delays ranging from 2 to 12 years.[15] We also reported that five of these ERPs incurred cost increases totaling an estimated $6.9 billion. We made eight recommendations to DOD aimed at improving schedule and cost practices and the development of performance measures to evaluate whether the ERPs' intended goals are being accomplished.

Another key to effectively transforming DOD's financial management will be its ability to ensure that it has sufficient staff with the appropriate skills necessary to carry out financial and budgetary accounting duties. To that end, DOD is establishing a Financial Management Certification Program to be mandatory for its personnel in financial management positions. However, DOD has not yet performed a competency gap analysis for its financial management workforce as we reported in July 2011.[16] Further,

[14] GAO, *DOD Financial Management: Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury*, GAO-12-132 (Washington, D.C.: Dec. 20, 2011).

[15] GAO, *DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed*, GAO-11-53 (Washington, D.C.: Oct. 7, 2010).

[16] GAO, *DOD Financial Management: Numerous Challenges Must Be Addressed to Improve Reliability of Financial Information*, GAO-11-835T (Washington, D.C.: July 27, 2011).

the House Armed Services Committee (HASC) Panel on Defense Financial Management and Auditability Reform, which held several hearings on DOD financial management, recently reported that DOD personnel in other functional areas, such as logistics and acquisition, should also have the skills necessary to maintain appropriate controls and ensure that financial-related information is accurately recorded.[17] The HASC Panel made several recommendations about DOD's workforce, including recommending that DOD assess its financial management workforce with respect to existing skills and the critical skills and competencies that will be needed over the next decade.

While we are encouraged by DOD's recent plans and efforts to fundamentally transform its financial management operations, several DOD business practices, including financial management, remain on GAO's list of high-risk programs designated as vulnerable to waste, fraud, abuse, and mismanagement or in need of transformation.[18] Given the size, complexity, and interrelated nature of DOD's financial management and other business process control deficiencies, the sustained commitment by DOD's leaders will be critical to effectively building on DOD's initial momentum to transform its financial management operations and ultimately achieve auditability. Further, we agree with the recommendation by the HASC Panel on Defense Financial Management and Auditability Reform that strong congressional oversight must continue.[19] To assist Congress in its oversight efforts, we plan to reassess the FIAR Plan, associated guidance, and DOD's related actions as they continue to evolve.

Reconciling Intragovernmental Activity and Balances

Since the first audit of the U.S. government's fiscal year 1997 consolidated financial statements, we have reported a material weakness related to the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, as well as between federal entities and the General Fund. Consolidated financial statements are intended to present the results of operations and financial position of the components that make up the

[17] House Armed Services Committee, *Panel on Defense Financial Management and Auditability Reform Findings and Recommendations* (Jan. 24, 2012).

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

[19] House Armed Services Committee, *Panel on Defense Financial Management and Auditability Reform Findings and Recommendations* (Jan. 24, 2012).

reporting entity as if the entity were a single enterprise. Therefore, when preparing the consolidated financial statements, intragovernmental activity and balances between federal entities and between federal entities and the General Fund should be in agreement and must be subtracted out, or eliminated, from the financial statements. If the two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, resulting in errors in the consolidated financial statements.

Treasury has grouped intragovernmental activity and balances into the following five categories and established focus groups to work with federal entity personnel to identify and resolve reported unreconciled differences.

- **Fiduciary activities** include investments in Treasury securities with the Bureau of the Public Debt (BPD), borrowing from BPD and the Federal Financing Bank and related interest receivable and payable, interest expense and revenue, and federal loans receivable and payable.
- **Benefit activities** include contributions by federal entities into employee benefit programs (retirement, life insurance, workers' compensation, and health benefits) administered by the Office of Personnel Management and the Department of Labor.
- **Buy/Sell activities between entities** include buy and sell costs and revenues, accounts receivable and payable, and advances to and from others.
- **Transfers of funds** include transfers payable and receivable, and transfers in and out without reimbursement.
- **General Fund transactions and balances** include fund balance with Treasury, appropriations received and warrants, and custodial and non-entity collections.

The federal government has made progress in reconciling intragovernmental differences and the degree of progress varies by category. However, the federal government continues to be unable to adequately account for and reconcile intragovernmental activity and balances. For both fiscal years 2011 and 2010, amounts reported by federal entity trading partners for certain intragovernmental accounts were not in agreement by significant amounts. OMB and Treasury require the CFOs of 35 significant federal entities to reconcile, on a quarterly basis, selected intragovernmental activity and balances with their trading partners. A substantial number of the entities did not adequately perform the required year-end reconciliations for fiscal years 2011 and 2010.

Further, there continue to be hundreds of billions of dollars of unreconciled differences between the General Fund of the U.S. government and federal entity trading partners related to appropriation and other intragovernmental transactions. Currently, federal entities report their activity with the General Fund; however, the General Fund activity is not centrally accounted for, and therefore, there is no existing reporting process for which entities can confirm and reconcile all of their activity and balances with the General Fund. As a result of these circumstances, the federal government's ability to determine the impact of the unreconciled differences between trading partners on the amounts reported in the accrual-based consolidated financial statements is significantly impaired.

Over the years, we have identified and reported on numerous intragovernmental activities and balances issues and have made several related recommendations to Treasury. Treasury has taken or plans to take actions to address these recommendations. During fiscal year 2011, Treasury furthered its commitment to resolve differences in intragovernmental activity and balances, which included several short- and long-term initiatives. For example, Treasury expanded focus groups' monitoring and outreach efforts that included quarterly analysis and ongoing collaboration with entities to resolve intragovernmental differences.[20] Such focus groups made significant progress in understanding reasons for material differences and determining corrective actions to be taken, which resulted in adjustments to eliminate certain differences. Also, Treasury identified deficiencies in the intragovernmental process and is planning to develop governmentwide systems to improve intragovernmental transactions data. Further, Treasury is currently working to develop a complete set of financial statements for the General Fund, including intragovernmental transactions that will be audited. Resolving the intragovernmental transactions problem remains a difficult challenge and will require a strong and sustained commitment by federal entities, as well as continued strong leadership by Treasury and OMB.

Preparing the Consolidated Financial Statements

While Treasury, in coordination with OMB, implemented corrective actions during fiscal year 2011 to address certain internal control deficiencies detailed in our previously issued report, the federal

[20] Beginning in 2008, Treasury established three focus groups to work with federal entity personnel to identify and resolve reported differences related to benefits, transfers, and buy/sell transactions.

government continued to have inadequate systems, controls, and procedures to ensure that the consolidated financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in conformity with GAAP.[21] For example,

- Treasury's process did not ensure that the information in certain of the accrual-based consolidated financial statements was fully consistent with the underlying information in 35 significant federal entities' audited financial statements and other financial data.
- To make the fiscal years 2011 and 2010 consolidated financial statements balance, Treasury recorded net increases of $15.6 billion and $0.8 billion, respectively, to net operating cost on the Statement of Operations and Changes in Net Position, which it labeled "Unmatched transactions and balances."[22] Treasury recorded an additional net $6.0 billion and $3.8 billion of unmatched transactions in the Statement of Net Cost for fiscal years 2011 and 2010, respectively.
- Treasury's reporting of certain financial information required by GAAP continues to be impaired, and will remain so until federal entities, such as DOD, can provide Treasury with complete and reliable information required to be reported in the consolidated financial statements.

Until these and other internal control deficiencies[23] have been fully addressed, the federal government's ability to ensure that the consolidated financial statements are consistent with the underlying audited federal entities' financial statements, properly balanced, and in conformity with U.S. GAAP will be impaired. Resolving some of these internal control deficiencies will be a difficult challenge and will require a

[21] Most of the issues we identified in fiscal year 2011 existed in fiscal year 2010, and many have existed for a number of years. Most recently, in May 2011, we reported the issues we identified to Treasury and OMB and provided recommendations for corrective action in GAO, *Management Report: Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements*, GAO-11-525 (Washington, D.C.: May 26, 2011).

[22] Although Treasury was unable to determine how much of the unmatched transactions and balances, if any, relate to net operating cost, it reported this amount as a component of net operating cost in the consolidated financial statements.

[23] A detailed discussion of additional control deficiencies regarding the process for preparing the consolidated financial statements can be found on pages 226 through 228 of the *Financial Report*.

strong and sustained commitment from Treasury and OMB as they continue to execute and implement their corrective action plans.

Improving Financial Management at DHS

Improvements in DHS's financial management during fiscal year 2011 contributed to DHS receiving a qualified opinion on its Balance Sheet and Statement of Custodial Activity for the fiscal year.[24] These statements were qualified because of certain matters related to property, plant, and equipment; environmental liabilities; and other related balances. This qualified opinion represents a significant achievement for DHS. However, the remainder of its financial statements for fiscal year 2011 were not subjected to audit by the agency auditors, and the auditor was unable to form an opinion on DHS's internal control over financial reporting due to pervasive material internal control weaknesses over key financial reporting processes. It will be important that DHS continues to resolve its internal control deficiencies and build upon the progress it has accomplished as it moves forward to expand the audit to all financial statements and achieve its ultimate goal of obtaining a clean audit opinion on the full set of financial statements and on internal control over financial reporting.

Significant Uncertainties Result in Disclaimers of Opinion on the 2011 and 2010 Statements of Social Insurance as well as on the 2011 Statement of Changes in Social Insurance Amounts

Significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2011 and 2010 Statements of Social Insurance, prevented us from expressing opinions on the 2011 and 2010 Statements of Social Insurance, as well as on the 2011 Statement of Changes in Social Insurance Amounts.[25] The Statement of Social Insurance presents the actuarial present value of the federal government's estimated future revenue to be received from or on behalf of participants and estimated future expenditures to be paid to or on behalf of participants, based on benefit formulas in current law and

[24] For fiscal year 2010, these two statements were not auditable.

[25] About $24.6 trillion and $22.8 trillion, or 73 percent and 74 percent, of the federal government's reported total present value of future expenditures in excess of future revenue for 2011 and 2010, respectively, relate to the Department of Health and Human Services' 2011 and 2010 Statements of Social Insurance, which received disclaimers of opinion.

using a projection period sufficient to illustrate the long-term sustainability of the social insurance programs.[26]

The significant uncertainties, discussed in further detail in Note 26 to the consolidated financial statements, include:

- Medicare projections in the 2011 and 2010 Statements of Social Insurance were based on full implementation of the provisions of the Patient Protection and Affordable Care Act, as amended (PPACA),[27] including a significant decrease in projected Medicare costs from the 2009 Statement of Social Insurance related to (1) reductions in physician payment rates (totaling almost 30 percent in January 2012) and (2) productivity improvements for most other categories of Medicare providers. However, there are significant uncertainties concerning the achievement of these projected decreases in Medicare costs.
- Management has noted that actual future costs for Medicare are likely to exceed those shown by the current-law projections presented in the 2011 and 2010 Statements of Social Insurance due to the likelihood of modifications to the scheduled reductions.[28] The extent to which actual future costs exceed the projected current-law amounts due to changes to the physician payments and productivity adjustments depends on both the specific changes that might be legislated and on

[26] The projection period used for the Social Security, Medicare, and Railroad Retirement social insurance programs is 75 years. For the Black Lung program, the projections are through September 30, 2040.

[27] Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010).

[28] The Medicare and Medicaid Extenders Act of 2010, Pub. L. No. 111-309, § 101, 124 Stat. 3285, 3286 (Dec. 15, 2010) overrode the scheduled reductions in physician payments through December 2011 and reduced non-Medicare outlays by limiting a health insurance tax credit. Subsequent to the date of our 2011 report, (1) the Temporary Payroll Tax Cut Continuation Act of 2011, Pub. L. No 112-78, § 301, 125 Stat. 1280, 1283-1284 (Dec 23, 2011) overrode the scheduled reductions in physician payments through February 29, 2012 and (2) the Middle Class Tax Relief and Job Creation Act of 2012, Pub. L. No. 112-96, § 3003 (Feb. 22, 2012) overrode the scheduled reductions in physician payments through December 31, 2012.

whether legislation would include other provisions to help offset such costs.[29]

- Management has developed an illustrative alternative projection intended to provide additional context regarding the long-term sustainability of the Medicare program and to illustrate the uncertainties in the Statement of Social Insurance projections. The present value of future estimated expenditures in excess of future estimated revenue for Medicare included in the illustrative alternative projection exceeds the $24.6 trillion estimate in the 2011 Statement of Social Insurance by $12.4 trillion.

Projections of Medicare costs are sensitive to assumptions about future decisions by policymakers and about the behavioral responses of consumers, employers, and health care providers as policy, incentives, and the health care sector change over time. For example, behavioral responses of health care providers could affect Medicare beneficiaries' access to care. Such secondary impacts are not reflected in the Statement of Social Insurance projections but could be expected to influence the excess cost growth rate used in the projections.[30] Key drivers of uncertainty about the excess cost growth rate include the future development and deployment of medical technology, the evolution of personal income, and the cost and availability of insurance, as well as federal policy change, such as the PPACA. In August 2010, the Secretary of the Department of Health and Human Services, working on behalf of the Board of Trustees, established an independent panel of expert actuaries and economists to review the assumptions and methods used by the Trustees to make projections of the financial status of the trust funds. The work of the 2010 Technical Review Panel on the Medicare Trustees Report could provide additional guidance to management concerning ways to incorporate secondary impacts into future Statement of Social Insurance projections and related disclosures.

As noted in our audit report, in preparing the Statements of Social Insurance, management considers and selects assumptions and data that

[29] Public law 112-96 offset the physician payment reductions through various cuts under certain health care laws (public laws 111-148 and 111-152), as well as to Medicare payments to hospitals, skilled nursing facilities and clinical labs.

[30] The excess cost growth rate is the increase in health care spending per person relative to the growth of gross domestic product per person after removing the effects of demographic changes on health care spending.

it believes provide a reasonable basis for the assertions in the statement. The statement is not a forecast or prediction, but is intended to illustrate the potential impact of the continuation of current scheduled benefits and financing. The *Financial Report* includes a summary of the assumptions used by management and unaudited information concerning how changes in various key assumptions, such as health care cost growth, would affect the Statement of Social Insurance. Both the Statement of Social Insurance projections and the illustrative alternative estimate summarized in Note 26 in the *Financial Report* indicate that the Social Security and Medicare programs are not sustainable under current financing arrangements.

Effects of the Last Economic Recession and Stabilization Efforts on the Federal Government's Financial Condition

The federal government's financial condition continued to be significantly affected by the last economic recession and the federal government's actions to stabilize financial markets and promote economic recovery, among other factors. For fiscal year 2011, the federal government reported a net operating cost of about $1.3 trillion and a unified budget deficit of approximately $1.3 trillion. In addition, federal debt held by the public increased to about 68 percent of gross domestic product (GDP) as of September 30, 2011.[31]

The federal government undertook an array of unprecedented actions to help stabilize the financial markets and promote economic recovery. As of September 30, 2011, the federal government reported assets of over $295 billion, which is net of about $95 billion in valuation losses, as a result of these actions. In addition, the federal government reported incurring significant liabilities resulting from these actions as of September 30, 2011, including approximately $316 billion of liabilities for future payments to the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Because the valuation of these assets and liabilities is based on assumptions and estimates that are inherently subject to substantial

[31] Federal debt held by the public relative to GDP is a function of the federal government's fiscal policy as well as overall economic conditions. The Congress and the President have enacted laws to establish a limit on the amount of federal debt that can be outstanding at one time. Federal debt subject to the limit includes both debt held by the public and debt held by government accounts (intragovernmental debt holdings). In February 2011, we reported on the debt limit in GAO, *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, GAO-11-203 (Washington, D.C.: Feb. 22, 2011).

uncertainty arising from the uniqueness of certain transactions and the likelihood of future changes in general economic, regulatory, and market conditions, actual results may be materially different from the reported amounts.

Actions taken to stabilize financial markets—including aid to the automotive industry—increased the government's costs and contributed to growing federal debt held by the public. The economic downturn and the nature and magnitude of the actions taken to stabilize the financial markets and to promote economic recovery, as well as challenges in the housing market, will continue to affect the federal government's near-term budget and debt outlook. In addition, the future structure of Fannie Mae and Freddie Mac and the roles they will serve in the mortgage markets may also affect the federal government's financial condition.

The ultimate cost of the federal government's actions to stabilize the financial markets and promote economic recovery will not be known for some time as these uncertainties are resolved and further federal government actions are taken in fiscal year 2012 and later. Looking ahead, the federal government will face the challenge of determining the most expeditious manner in which to bring closure to its financial stabilization initiatives while optimizing its investment returns.

Long-Term Fiscal Challenges

The 2011 *Financial Report* includes comprehensive long-term fiscal projections for the U.S. government that, consistent with GAO simulations, show that without changes in current policy, the federal government continues to face an unsustainable fiscal path.[32] Such reporting provides a much needed perspective on the federal government's long-term fiscal position and outlook. The projections included in the *Financial Report* and our simulations both reflect an improvement resulting from provisions of the Budget Control Act of 2011 (BCA).[33] The BCA set limits on discretionary spending for fiscal years 2012-2021 and created the Joint Select Committee on Deficit Reduction. Under the enacted discretionary spending limits, discretionary spending as a share of the economy in 2021 would be lower than any level seen in

[32] GAO, *The Federal Government's Long-Term Fiscal Outlook: Fall 2011 Update*, GAO-12-28SP (Washington, D.C.: Oct. 23, 2011).

[33] Pub. L. No. 112-25, 125 Stat. 240 (Aug. 2, 2011).

the last 50 years. The fact that the Joint Select Committee did not reach agreement on a package triggered automatic procedures that would lead to additional spending reductions. Together, the provisions of the BCA would reduce deficits over the 2012-2021 decade by $2.1 trillion—largely through reductions in discretionary spending. Both the *Financial Report* and GAO's simulations assume these reductions occur, and that the savings as a share of GDP continue beyond the decade. Even with the reductions from the BCA, the government continues to face a significant structural imbalance between revenues and spending, driven on the spending side largely by rising health care costs and the aging of the U.S. population. We have already begun to see the impact of this structural imbalance—Social Security is now in a negative cash flow position. The growing gap between revenues and spending that is built into the current structure of the budget leads to continued growth in debt held by the public as a share of GDP; this is not sustainable. Changing this path will not be easy, and it will likely require difficult decisions affecting both federal spending and revenue. While delay increases the size of the changes that must be made, it is also important to recognize current economic conditions. Addressing the long-term fiscal imbalance is made more difficult by the need to balance achieving the goals of sustaining economic growth in the near term, while producing a plan to change the federal government's long-term fiscal path.

Closing Comments

In closing, even though progress has been made in improving federal financial management activities and practices, much work remains given the federal government's long-term fiscal challenges and the need for the Congress, the administration, and federal managers to have reliable, useful, and timely financial and performance information to effectively meet these challenges. Sound decisions on the current and future direction of vital federal government programs and policies are more difficult without reliable, useful, and timely financial and performance information. DOD, in particular, faces many difficult challenges in this area. We are encouraged by DOD's efforts toward addressing its long-standing financial management weaknesses and its efforts to achieve auditability. However, sustained and diligent DOD top management oversight toward achieving financial management capabilities, including audit readiness, will be critical going forward. Moreover, in addition to annual financial statements that can pass the scrutiny of a financial audit, the civilian CFO Act agencies must continue to strive toward routinely producing reliable, useful, and timely financial and performance data to help guide decision makers on a day-to-day basis. Federal entities' improvement of financial management systems will be essential to achieve this goal for their agency and the government as a whole.

The last economic recession and the federal government's actions to stabilize financial markets continued to significantly affect the federal government's financial condition. Continued focus and attention is needed to ensure (1) that sufficient internal controls and transparency are established and maintained for all financial stabilization efforts; and (2) that all related financial transactions are reported on time, accurately, and completely. In addition, the federal government will face the challenge of determining the most expeditious manner in which to bring closure to its financial stabilization initiatives while optimizing its investment returns.

Further, of utmost concern are the federal government's long-term fiscal challenges that result from large and growing structural deficits that are driven on the spending side primarily by rising health care costs and known demographic trends. This unsustainable path must be addressed by policymakers.

Finally, I want to emphasize the value of sustained congressional interest in federal financial management issues, as demonstrated by this Subcommittee's leadership. It will be key that, going forward, the appropriations, budget, authorizing, and oversight committees continue to support improvement efforts and to hold the top leadership of federal entities accountable for resolving the remaining problems.

Mr. Chairman and Ranking Member Towns, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have at this time.

GAO Contacts and Acknowledgments

For further information regarding this testimony, please contact Robert F. Dacey, Chief Accountant, or Gary T. Engel, Director, Financial Management and Assurance, at (202) 512-3406. Key contributions to this testimony were also made by staff on our Consolidated Financial Statement audit team.

Mr. PLATTS. Thank you for your testimony. You certainly hit some of the important high points, and your reference specifically on the improper payments with Mr. Towns introducing recent legislation, along with Senator Carper in the Senate, to take kind of the next step, even going a little further on how we can continue to tighten up the issue of improper payments and preventing that from occurring up front, rather than after the fact, trying to collect the money back. I look forward to working with you and your staff on that issue as well.

Mr. Werfel?

STATEMENT OF DANIEL I. WERFEL

Mr. WERFEL. Thank you, Chairman Platts, and Ranking Member Towns, for the invitation today to discuss the state of financial Management in the Federal Government, and in particular, the 2011 Consolidated Financial Report of the United States. Sound financial management is essential to the effective stewardship of taxpayer dollars and enabling agency decision makers to make tough choices on day to day and long-term management challenges. In this time of tight budgets, families across the Country are sitting around their kitchen tables and figuring out how to make the most of every penny. And they should expect nothing less from their government.

To meet this commitment, last year the Administration launched a campaign to cut waste, dedicated to combing through the entire Federal Government and rooting out any areas of waste an inefficiency. We have made tremendous strides to date. We are cutting real estate costs, driving down the amount of improper payments the government makes, closing data centers and saving money on information technology, and reducing administrative costs across the board.

Underlying all these efforts is the need for robust accounting practices, effective internal controls and reliable financial reports. These tools create an environment where agencies can be more effective in meeting our most critical bottom line results: effective and efficient programs, free of error and waste.

In addition to providing a comprehensive view of the Federal Government's finances, its current position as well as issues and conditions that impact future operations, the financial report provides us with an annual update on agency financial audit results, a critical indicator of the success of our efforts to strengthen financial management practices across government.

On those efforts, I am pleased to report that great progress was made in 2011. Twenty-three of the 24 CFO Act agencies obtained an audit opinion. The best performance by the Federal Government to date, and only two agencies received a qualified opinion. Moreover, auditor-identified material weaknesses continued to decline. And again, all major agencies met the 45-day deadline for producing audited financial statements at year end.

These successes are due to the tireless efforts, leadership and long-term commitment of our Federal agencies. For example, this year, NASA was able to overcome longstanding challenges with reporting certain assets and achieve a clean opinion on their financial statements for the first time since 2002. Similarly, the sustained leadership and persistence of the Department of Homeland Security led to them obtaining an opinion on their balance sheet for the first time since the Department's inception.

And although DOD was not able to obtain an audit opinion, they have significantly accelerated their efforts for getting there, with Secretary Panetta specifically expressing his strong commitment to achieving an audit of the Department's budgetary statement by 2014, which would establish a firm foundation for full financial auditabilty by 2017.

As we move forward on these efforts, we are cognizant that a foundation now exists that enables us to go beyond the balance sheet to ensure every dollar spent on programs and services is spent wisely. In today's continually challenging fiscal environment, wasting money is inexcusable and cannot be tolerated. As I mentioned earlier, we have already made tremendous progress in cutting administrative costs, saving money on real estate, reducing improper payments and other key reforms under the campaign to cut waste.

But in each of these areas, there is still significant work to be done in order to cut waste and improve efficiencies wherever possible. To achieve these goals, we will continue to improve financial management and identify ways to better manage and report on how the Federal Government spends taxpayer dollars. I look forward to working with Congress, GAO and the financial Management community to achieve our mutual goal of providing reliable and relevant financial information in a readily available and easily accessible format.

Since I finished a minute early, let me echo Mr. Dodaro's comments about your service to this Country, to this Subcommittee, Mr. Chairman. I would just mention, earlier in my career, I think it was around 2003, I saw you give a speech on the CFO Act and financial management generally. Some of the themes that you emphasized in terms of the purpose of the CFO Act and that are, you talked a lot about the audits that we do on a quarterly and an annual basis, financial statements are a means to a larger end of better Management and better data for information and decision making.

Those certainly resonated with me as I was starting out in financial management in 2003. I started my career in government in 1997, but got into financial management right at the time I saw that speech. And it was very helpful for me in terms of formulating my approach and my strategic vision for financial management from OMB's perspective.

So for all your work, OMB thanks you and wishes you the best of luck in the future.

[Prepared statement of Mr. Werfel follows:]

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

Thank you, Chairman Platts, Ranking Member Towns, and members of the Subcommittee, for the invitation to discuss the Consolidated Financial Report of the United States Government (*Financial Report*) and Federal financial management with you today.

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

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

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

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

2011 Audit Results

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

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

- Twenty-three of the twenty-four CFO Act agencies obtained an audit opinion, the best performance by the Federal Government to date;

- Of the 23 agencies that achieved an audit opinion, all but two achieved an unqualified, or "clean", opinion;

- We reported 31 auditor-identified material weaknesses for CFO Act agencies, as compared to 61 material weaknesses reported just over ten years ago; and

- Once again, all major agencies met the 45-day deadline for producing audited financial statements at year-end, a timeframe that outperforms the official statutory deadline for financial reporting by more than 100 days.

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

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

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

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

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

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

Priorities Beyond Financial Statements

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

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

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

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

- Promoting Efficient Spending. In an effort to reduce the amount of money the Federal government spends on administrative functions, the President signed an Executive Order this past November that requires agencies to reduce spending in certain administrative categories by 20 percent in FY 2013 from FY 2010 levels.[2] In total, Federal agencies are responsible for reducing administrative costs by $8 billion in FY 2013 in categories such as travel, printing, employee information technology devices, executive fleet, professional and technical services, supplies and materials, and extraneous promotional materials. Each agency has provided specific targets for how they are reducing spending in these areas, which are included in the President's 2013 Budget released last month.
- Better Management of Federal Real Property. The Federal Government owns or leases roughly 1.1 million real property assets, including land, buildings, and structures. Within this portfolio, there are opportunities for savings by disposing Federal real estate assets and operating Federal space more efficiently. To achieve the goal of shrinking the Federal real estate inventory and reducing operating costs, the Administration has taken several steps to improve the management of Federal real property. In June 2010, the President directed Federal civilian agencies to achieve $3 billion in savings by the end of FY 2012 by reducing annual operating costs, disposing assets, consolidating existing space, expanding telework, and other space realignment efforts.[3] Agencies have already achieved $1.5 billion in savings to-date and expect to exceed the President's goal and achieve $3.5 billion in savings by end of FY 2012. The President also introduced a legislative proposal in his 2012 Budget that would create an independent Board that would develop, and present to Congress, recommendations to dispose or consolidate unneeded properties. This approach, modeled after the successful Defense Base Closure and Realignment (BRAC) Commission, would enable the Federal Government to overcome the red tape, financial disincentives, and competing stakeholder interests that have traditionally slowed or halted progress when we have attempted to reduce our real estate footprint one asset at a time. The Board's recommendations would go directly to a floor vote in Congress, where only a "no" vote would prevent the recommendations from moving forward, ensuring that the recommendations are considered as a whole and in an expedited manner. The proposal aligns with the Administration's goal to reduce the Government's carbon footprint and addresses a GAO recommendation to target excess Federal real estate as part of our deficit reduction efforts.
- Addressing Improper Payments. This initiative is a central component of the Administration's efforts to eliminate waste, fraud, and abuse. Since November 2009, the President has issued Executive Order 13520 on Reducing Improper Payments, a Presidential memorandum on intensifying and expanding agency efforts to recapture improper payments, and a Presidential memorandum directing the establishment of a "Do

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

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

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

Closing

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

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

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

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

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

Mr. PLATTS. Thank you.
Secretary Gregg?

STATEMENT OF RICHARD L. GREGG

Mr. GREGG. Chairman Platts, Ranking Member Towns, thank you for inviting me to talk about the financial report for the United States Government for fiscal year 2011. Your interest in financial management is greatly appreciated.

The financial report provides the U.S. Government, President, Congress and the American people with a comprehensive view of the Federal Government's financial position. The projections in the report demonstrate that we must continue to take action to put the Federal budget on a more sustainable path. The Obama Administration is committed to meeting that challenge.

The Affordable Care Act of 2010 and the Budget Control Act of 2011, both of which Congress passed and President Obama signed, are expected to help bring the Government's expenditures more in line with its receipts. Together, these two laws substantially reduce the estimated long-term fiscal gap.

But there is still more work to be done. The fiscal year 2013 budget that President Obama submitted on February 13th seeks to build on that progress through a balanced plan for deficit reduction. The President's budget reduces projected deficits by a total of more than $4 trillion over the next 10 years, by adding more than $3 trillion in deficit reduction to the approximately $1 trillion in savings already enacted through the BCA. These savings would cut the deficit and begin placing the Federal debt on a downward path as a share of the economy by the middle part of the decade.

Addressing our Nation's fiscal challenges will require a sustained commitment, not just today, but for the long term. As Secretary Geithner has said, "Restoring fiscal sustainability will require substantial additional changes, including tax reforms to increase revenue and changes to make our entitlement program sustainable over time." But these reforms, if done on a broad-based and balanced way, and phased in over time to give Americans a chance to plan and adjust, will not impose an unfair or excessive burden on the citizens of this Country.

Let me turn to the financial report. The Federal Government, as Mr. Dodaro said, continues to receive a disclaimer of opinion on the government-wide audit. Last year I spoke to the Subcommittee about my personal commitment to addressing the audit issues for which Treasury is primarily responsible, the mitigation of the inter-governmental out of balance conditions and to improve the process for compiling the report itself. I think we have made significant progress on those two fronts over the last year.

Treasury, working in cooperation with OMB and GAO and all the Federal agencies, is pursuing a number of strategic solutions to resolve these issues and improve financial management across government. For example, we have launched a coordinated, multifaceted effort to resolve inter-governmental differences, including working groups that get together and identify areas where we can not only clear out the out of balance conditions but resolve the underlying problems. We have taken the lead in working with agencies to resolve reconciliation differences. We are creating metrics to go out to the agencies to measure their performance and we are developing an automated system to address the buy-sell issue which is a complicated one in this area.

In addition, in this fiscal year, in fact, in June, we will implement a central account group, or general fund, against which millions of transactions can be reconciled and validated. The original government-wide accounting construct lacked a central account of this type, giving rise to the audit issues that we have been facing.

And while additional work is certainly necessary, we continue to clear out many of the audit issues that GAO has identified over the years.

Let me just touch on a few financial management areas that complement what Danny said about things that are going on within the government and within Treasury. Within Treasury, we have launched an automated electronic invoice that any government agency can use to move away from paper invoice processing to electronic processing. It will save money and improve performance.

Treasury is also working to accelerate the use of electronic transactions. Many of our payments are now made electronically as a result of an initiative we started a couple of years ago. We have moved savings bonds from paper to electronic, and we also have the tax payments coming into Treasury almost all electronic these days. Those three initiatives alone will save about $500 million.

We are working with OMB to improve the payment process and to identify potential for improper payments before the payments go out through the goVerify program that we have put together. And there is a host of other things that we have done.

The last one I would mention is the provision in the fiscal year 2013 budget that consolidates the two fiscal bureaus that report to me, Public Data and FMS. We are doing that primarily to give us a greater opportunity to help other agencies across the government in the financial management realm. We are also going to save some money, but the primary reason is to strengthen our capacity to deal with financial management and to be a leader in financial management across government.

Mr. Chairman, that concludes my remarks. I would like to echo what my two colleagues said about your work over the years in providing great leadership in this area. It has been greatly appreciated by all of us in Treasury who have sat in this chair and you will be sorely missed. Thank you.

[Prepared statement of Mr. Gregg follows:]

Statement of
Richard L. Gregg
Fiscal Assistant Secretary
U.S. Department of the Treasury

House Committee on Oversight and Government Reform
Subcommittee on Government Organization, Efficiency, and Financial Management

March 1, 2012

Chairman Platts, thank you for inviting me to discuss the Fiscal Year (FY) 2011 Financial Report of the United States Government and the related audit. Your interest in continuing to strengthen Federal financial management is greatly appreciated.

The Financial Report of the U.S. Government provides the President, Congress, and the American people with a comprehensive view of the Federal Government's financial position.

Overall, in FY 2011, the Government's revenues increased to $2.4 trillion, and net operating cost decreased to $1.3 trillion– the latter which represents a $768 billion or 37 percent decrease from $2.1 trillion in FY 2010. The largest component in that decrease is decreases in estimates of non-cash costs from FY 2010 to FY 2011 relating to Federal employee and veterans benefits. As the costs associated with these liabilities are paid out in the future and do not yet represent a cash outlay, they are not reflected as outlays in the federal budget.

The Financial Report also explores longer-term fiscal sustainability issues, reporting on 75-year present-value projections of expenditures and revenues under current law and policy for a broad spectrum of Government revenues and spending, to include social insurance programs.

The projections in the report demonstrate that we must continue to take action to put the federal budget on a more sustainable path. The Obama Administration is committed to meeting that challenge.

The Affordable Care Act of 2010 and the Budget Control Act (BCA) of 2011 – both of which Congress passed and President Obama signed into law – are expected to help bring the Government's expenditures more in line with its receipts. Together, these two laws substantially reduce the estimated long-term fiscal gap.

But there's still more work to be done. The FY 2013 Budget that President Obama submitted on February 13, 2012 seeks to build on that progress through a balanced plan for deficit reduction. The President's Budget reduces projected deficits by a total of more than $4 trillion over the next 10 years by adding more than $3 trillion in deficit reduction to the approximately $1 trillion in savings already enacted through the discretionary caps included in the BCA. These savings would cut the deficit and begin placing federal debt on a downward path as a share of the economy by the middle part of the decade.

Addressing our nation's fiscal challenges will require a sustained commitment – not just today but for the long term. As Secretary Geithner has said, "Restoring fiscal sustainability will require substantial additional changes, including tax reforms to increase revenue and changes to make our entitlement programs sustainable over time. But these reforms, if done in a broad-based and balanced way and phased in over time to give Americans a chance to plan and adjust, will not impose an unfair or excessive burden on the citizens of this country."

Financial Management

The Federal Government continues to receive a disclaimer of opinion on the government-wide audit. Last year, I spoke to this subcommittee about my continued commitment to addressing the audit issues for which Treasury has primary responsibility – the mitigation of intragovernmental transaction imbalances and improvement of the process used to compile the Financial Report from the financial data of 150 Federal entities.

We have made significant progress on both fronts over the last year, and Treasury, working in cooperation with the Office of Management and Budget (OMB), other Federal agencies and the Government Accountability Office (GAO), is pursuing a number of strategies and solutions to resolve these issues and improve financial management across the Federal government.

- Treasury has improved precision in its analysis of intragovernmental differences in recent years, resulting in the identification and resolution of tens of billions of dollars in differences.
- Treasury has launched a coordinated, multi-faceted effort to resolve intragovernmental differences, including:
  - Establishing work groups that perform quarterly transactional analysis;
  - Taking the lead to see that reconciliations occur;
  - Implementing agency performance metrics; and
  - Developing an automated system and process to proactively address this issue for the long-term.
- During FY 2012, the Department will implement a central account group or "General Fund" against which millions of transactions can be reconciled and validated. The original government-wide accounting construct lacked a central account of this type, giving rise to audit issues. This effort will complete the government-wide accounting model, meeting a long unfulfilled need and facilitating intragovernmental transaction reconciliation and data compilation.
- While additional work remains to resolve these issues, we have reduced the number of GAO audit findings by two-thirds.

Other Financial Management Improvement Strategies and Actions:

- Treasury has developed a standard, government-wide electronic invoice portal, which vendors can use to submit invoices against any government purchase order. This effort will reduce costs while improving the disbursement process.

- Treasury's effort to expand the use of electronic transactions, including initiating plans to gradually eliminate paper check benefit payments, the discontinuation of paper savings bond purchases, and discontinue paper tax deposits by businesses, is estimated to save over $500 million in the next five years. This electronic initiative will also increase accuracy and improve customer service.
- Treasury is supporting OMB efforts to reduce improper payments by establishing and supporting the Administration's GOVerify portal to prevent ineligible recipients from receiving Federal payments.
- Treasury, working with OMB, has taken steps to improve the collection of delinquent debt. These actions are projected to substantially increase collections over the next 10 years.
- Treasury is exploring how cross- and central-servicing across a variety of functions and processes can be further leveraged to increase efficiency and reduce costs.
- Finally, the President's FY 2013 Budget proposes that the Bureau of the Public Debt and the Financial Management Service consolidate into the Fiscal Service, which will report to the Fiscal Assistant Secretary. The proposed consolidation will enable the Fiscal Service to provide financial management leadership across the government and also result in savings of $36 million over five years, starting in FY 2014.

Conclusion

The process of preparing the government-wide Financial Report is challenging and depends upon the coordinated efforts of thousands of dedicated personnel across hundreds of agencies. These individuals and organizations should be commended for their tremendous efforts each year to improve and ensure the integrity of the Federal Government's financial information. While vast improvements have been made in Federal financial management in recent years, considerable opportunities for further improvement remain. Treasury looks forward to continuing to work with OMB, GAO, and the many Federal agencies to improve Federal financial management.

Thank you, Mr. Chairman. This concludes my testimony. I look forward to your questions.

Mr. PLATTS. Thank you, Mr. Secretary. It has been an interesting experience, in working with Mr. Towns on the Subcommittee over the years, and trying to raise awareness in the general public, I guess, that the issues that all of you deal with every day are critically important.

I reference back that, years back when we had a hearing on steroids in baseball and you couldn't fit everyone or all the cameras in this room, I am a huge baseball fan, but if they want to kill themselves doing steroids, that is not a priority issue for this Committee. And yet when we are talking about how we spend trillions of dollars, we have a lot of empty seats.

The issues you are working on every day really are the issues that this Committee and the Federal Government needs to be focused on. So I appreciate all of your nice words, and certainly look forward to the final 10 months working with you and then I will be a private citizen. Then I will keep tracking how we are doing.

But we are going to try to get through some questions here. The votes have gone up, but we are going to try to get through as many as we can, so that ideally we don't have to have you wait while we run over.

I am going to start with Danny, Mr. Werfel. You started a reference I wanted to start with, which is, what is the real purpose of what we do when it comes to audits and financial statements. That is to have knowledge that we can then act on, and not just once a year, but throughout the year. And to be able to make informed decisions.

I will start with you, but if any of the three of you want to comment. What percentage of the departments and agencies do you think are still having to make heroic efforts to make that 45-day deadline as opposed to having in place the systems that really are going to generate the information at the end of the year ready for audit that we really are after? Because that is what is ultimately going to benefit the department heads, the agency officials in day to day Management. I know it is going to be an estimate or a guesstimate, but any ideas?

Mr. WERFEL. I would say that about, roughly 70 percent of the major agencies at this time have hit their stride and gotten their sea legs.

Mr. PLATTS. That is a seven zero?

Mr. WERFEL. Seven zero, where—that is not, I don't mean to say that they are as efficient as they can be. But I would say that they have hit the point where there is a routine nature to the manner in which the financial statements are put together and the year-end activities occur.

Every once in a while, within those agencies, there is some kind of surprise that comes up in October that is unexpected, and there is a lot of scrambling and we might ramp into heroic efforts mode. But more and more I think we have achieved a stability. There are several agencies out there that still, it is a lot of workarounds, and it is a lot of manual processes. And you used the term heroic efforts. It is just not the right efficiency point, they just haven't hit their efficiency. And that impacts how they can manage more to the bottom line.

And I said in my remarks, the goal here is that financial statement reporting, internal controls, basic accounting, become a routine functionality, so that where you are doing your heroic efforts and where you are staying up at night worried is around things that are more impactful to the bottom line, like are the dollars going to the right person in the right amount.

Mr. PLATTS. General Dodaro?

Mr. DODARO. I agree with Danny that things have gotten much, much better over time. There is no question about it.

Another benchmark, though, that we look at is whether or not the agencies are able to be in compliance with the Federal Financial Management Improvement Act. We still have 11 of the agencies that are out of compliance with one of the three requirements there in terms of the standard general ledger, or whether they are following generally accepted accounting standards or Federal systems requirements. But it is much, much better. It is hard to quantify, but there is no question that it is marked Improvement from where we started back in 1996 and 1997 with these audits. There is no question.

A couple of areas, one area that we are still heroic efforts, still at the IRS on the tax collection activities, which is why we list that as a material weakness. We are still using their statistical sampling estimates to estimate the tax receivables. There is really not yet a good system there. They are making good strides with their system improvements efforts, but I would like to see more improvement over there. Because I think it would benefit the taxpayers as well as the government in that particular case. And of course, we have the issues at DOD, DHS and a few others.

But by and large, I would give it a much improved situation. We just need to keep it there. I am concerned, if you notice, some agencies slip out of unqualified opinions, slip back in, slip out. That is a little bit of a sign there too, that they are not smooth, you don't have smooth processes in place.

Mr. PLATTS. And continuing to have leaders like Secretary Panetta, who are emphasizing this as a clarity issue, not in place of their key functions at HHS or DOD or whatever, but along with. That leadership at the top really plays a huge role in whether they stay focused and don't slip out.

Mr. DODARO. That is essential. That is essential, as well as continued emphasis from OMB and Treasury.

Mr. PLATTS. Yes.

Mr. Secretary?

Mr. GREGG. The only thing I would add would be to reiterate what Danny said, is that whether it is the financial report or any other kind of operation or accounting process, you can't jump into it once a year and expect to deal with the issue appropriately. It has to be an ongoing process, and many of the things that we are working on is to not have the period that we have to issue the financial report to address the imbalances. But throughout the year, work at the agencies and OMB and GAO to know what the causes of those are and fix them so ultimately, when we get to the end of the year, we could be at some point pushing a button and the report is generated and the reconciliations are there.

Mr. PLATTS. Thank you.

One other quick question, then I am going to turn to the Ranking Member. DOD, obviously is a huge part of ever getting to a clean audit, the Secretary has been great in setting the priority there, and getting to 2014 with the statements. Do we think that is realistic? In other words, I think just a few months back we had the CFO at Air Force saying they were going to have trouble meeting the 2017 deadline, and now we are talking about part of that being 2014. Your estimate of whether we can meet that goal, which we need to, and obviously Congress has said we will, in law. But we have said some other things in law about financial Management that were not yet achieved.

Any idea?

Mr. DODARO. I think this time we have more interim measures to be able to determine whether we are going to make 2017 or not. If you recall, in the past, DOD always had an out year estimate of when they were going to make it. But there weren't interim milestones to be able to tell.

That is why Secretary Panetta's decision on 2014 is so important. If they can't make 2014, and get audits on the statement of budgetary resources, it is going to be really, really difficult to make the 2017 goal. So I think over the next couple of years, particularly, I applaud the Marines, because they have gone out front, as they usually do, and are trying to get their statement of budgetary resources audited. They are trying for the third time this year. I think every year the are learning more, and hopefully the other Services will benefit from their experience.

So these interim milestones, Mr. Chairman, I think will give us a better, more realistic assessment than trying to speculate at this time about 2017.

Mr. PLATTS. Great.

Mr. WERFEL. I absolutely agree. I have talked many times about what I thought was a critical missing piece to the Defense Department's efforts. It is what I call a moment of truth for the finance shop. They have many moments of truth at the Defense Department more broadly.

But for the finance shop, the rest of government looks at November 15th each year as the day in which they have to hand in their final papers and get graded. And in many agencies, that is embedded into performance appraisals and it is embedded into the manner in which the effectiveness of the CFO and their entire operation is working.

But the Defense Department, they have had a disclaimer for so long, they don't have that healthy stress that exists. But by Secretary Panetta putting a line in the sand and saying, we will be auditable on the statement of budgetary resources by this date, I know for a fact that internally inside the Defense Department, this is making waves and people are recognizing that there is a line in the sand and for agencies like Air Force and others, they are moving in new directions to try to make sure they meet that commitment.

And it is a smart line in the sand that he has drawn, because the statement of budgetary resources is so central, the budget execution, whether program managers and field commanders throughout the Defense Department can know what cash they have on hand, what their obligation rate is, what their expenditure rate is, to meet emerging commitments. That is the bread and butter of what they do.

And you can convince people that if you can't pass this test, then it is impacting your mission. Now you are in a place where you will get more accountability and I think it is a good place to be.

Mr. PLATTS. Great.

The Ranking Member, Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

I am pleased to see that the rates of improper payments have decreased, as we discussed in our hearing on this matter several weeks ago. Today, however, I want to focus on the President's goals to recapture at least $2 billion in improper overpayments by the end of the fiscal year 2012. So I guess, let me ask you, Mr. Werfel, your testimony indicates that Federal agencies are on track to meet or exceed the President's goal in 2012.

My question is simply this. If we proceed with ten new payment recovery audit programs as has been proposed by my legislation and Senator Carper's legislation, would you expect to see a significant impact to the recovery of the improper payment fund?

Mr. WERFEL. I would. I think that the challenge that we are having right now is making the transition from recovery audits and a contractor/vendor payment setting to recovery audits in a grantee-making environment. Let me explain that. The recovery audits first launched as a legal requirement in 2002. It focused on vendor payments. So we have this, we built up this capacity to send in these specialized auditors and scrub both the agency's books and the contractor receiving the funds books and find errors, keep a portion of what they find. The incentive structure is there. And the process is working very effectively.

That was expanded to Medicare. And it was a seamless transition, because the Medicare processors operate very much like contractors. There is an expectation that the way they keep their books would be audited, and auditable. And the types of transactions between the agency and the Medicare contractors looked and felt a lot like Federal contract payments. So there is familiarity.

Where we have been challenged is in expanding that to grants. So we have not yet figured out exactly how to maximize the impact of sending recovery auditors down to States, local governments, universities, it is a much different proposition. There are a lot of different cultural issues. When Federal employees knock on the door of a State government office and say, we are here to audit, show us your paperwork, it is very different than showing up at a Medicare claims processor. And that is something we need to work on.

I will finish by saying that in Medicaid, the Affordable Care Act specifically expanded, and the expectation to do recovery auditing in Medicaid, which operates, as you know, like a grant program. And HHS, with this pressure of, this healthy pressure of needing to be successful in the Affordable Care Act, has gotten out front and done a lot of work and issued the regulations and done a lot of outreach to get that Medicaid program started. It started in January of this year.

I am very hopeful that with that program, if it can get off the ground and get off the ground well, that a lot of lessons would be learned that we can carry over to other State and grant programs.

So to go back to your answer, absolutely, Congressman Towns, we will increase, we will go way above $2 billion, if we can expand beyond contracts to grants effectively. We just haven't yet figured out the exact critical path, but Medicaid is going to be a critical moment in time for us.

Mr. TOWNS. Right, thank you very much. Is there anything that we should do on this side to sort of help you implement it?

Mr. WERFEL. I think that the important point is to keep us accountable, make sure that we are reporting to you consistently on the different challenges we are seeing in the grants realm, the State and local government realm, so that there is an openness and a dialogue around how to fix this. It may be at some point in the there is a future hearing where this is your first panel and your second panel are State controllers or State finance directors, and you are asking them, help us figure out how to make a recovery audit program work at the State level. This is something that I think is going to require that type of collaboration to make it work.

Mr. TOWNS. Right. Thank you very much, Mr. Chairman.

Mr. PLATTS. We are going to need to run for votes. I do have some others, and I think it is only going to be about 15, 20 minutes. Probably no more than 20 minutes, and I should be able to be back. So I apologize in holding you, was hoping to get through more.

But as a follow-up to your answer, I appreciate the suggestion, I think it is a great one as far as when we are looking at Medicaid and these grant programs to get that insight from the States and how they can better partner with us, something I think we will look at doing with the auditor general in Pennsylvania or the equivalent position in New York. You are right, if we are going to be successful in improper payments in a lot of these areas, especially Medicaid being from a dollar level one of the biggest, we are going to have to have a better relationship, because it is ultimately at a State level where those dollars are being spent and need to be tracked.

We are going to stand in recess for approximately 15 to 20 minutes then continue. Thank you.

[Recess.]

Mr. PLATTS. Hearing will come to order.

I offer Mr. Towns' apologies, he is having to run to Energy and Commerce now, so he won't be able to join us. But I do appreciate your patience and while I catch my breath, having run over and back to the Floor to try to expedite the hearing here.

I want to pick up, we were talking about DOD, and certainly one of the big challenges. General Dodaro, in your testimony you talk about the importance of implementing the enterprise resource planning system and the number of challenges, ten, when you talked about six of the nine of the critical ERPs had experienced delays. One of the things that caught my attention was two to twelve years of delay that you referenced, and that you have made recommendations to DOD to try to improve their implementation of these plans as well as to deal with the cost of them. You reference in your testimony cost increases totaling almost $7 billion.

Can you expand on what you think the challenge DOD is facing here, and especially, if we are talking about 2014 for the first statement, being auditable, 2017, to be able to have the whole department audited, when we see two to twelve year delays with implementing ERPs, that is not real encouraging.

Mr. DODARO. Basically the problems that DOD is having here, and I would be happy to submit our detailed reports for the record, where we have outlined all the recommendations, aren't dissimilar from what we see in other IT investment issues across government in terms of making sure, you have to have the requirements there, properly outlined, the fact that they have to make sure that they stabilize the systems going forward. And it has proven to be a difficult issue across government in terms of managing these IT investments.

And DOD business systems modernization more broadly is on our high risk list. So it is not just isolated in the financial management area, but it is a broader issue. We have recommended that DOD have better enterprise architectures to manage their systems. Right now they have over 7,000 different systems, 2,000 investments in new ones. It is a massive activity. And to have an enterprise architecture to guide it.

A lot of the information they are going to need eventually comes not just from the financial management community but from logistics, procurement, and other parts of DOD.

So there are two really sets of issues here. One is to have a good architecture, where all these systems can be integrated properly, because that is one of the big problems now. Then secondly is to manage the systems using a disciplined process that is put in place. Many of our recommendations go to instituting good practices.

Mr. PLATTS. Is one of the challenges, since we are talking multiple years of implementation, to then have access to that good information, from when there is a change of administration, does that an impact on why we see delays estimating two to twelve years? Is that a factor, or is it more that they are just not putting in place that architecture to then follow along and implement?

Mr. DODARO. It is more the lack of disciplined systems than it is a change in administration. Although we have recommended in the past that you need to have a chief management officer at the Department of Defense. Right now, the Deputy Secretary is double-hatted, but there is a CMO structure in place in the Services, and a deputy CMO that reports to the Deputy Secretary.

So we are watching that very carefully to make sure, and I hope that that makes a difference in instituting more disciplined management practices in place.

A big challenge DOD is going to have, even if they have the good systems, is getting the right data entry to get reliable data in there. Part of the issue is that they are being able to document a lot of their transactions. Having not been able to document some of their transactions was one of the main reasons they couldn't get an opinion on the Marine Corps statement of budgetary resources.

So a lot of this is really, I think, better perfecting and having discipline in the record-keeping and their systems and development, which hasn't been a priority in the past.

Mr. PLATTS. We are going to be doing a hearing in a couple of weeks with Army, related to personnel and accounting.

Mr. DODARO. You will see that issue vividly in that hearing.

Mr. PLATTS. And that kind of leads to the broader issue, and you referenced it, General Dodaro, and maybe if any of the three of you want to comment, that a number that jumps out is that in the past fiscal year, we spent almost $80 billion on IT systems. Yet we are still having the difficulty of how those systems are being implemented and then generating useful information.

Is there, in the big picture, not just DOD, but in any of the departments or agencies, is there any one issue that as a committee we should be conscious of that IT implementation, expenditure and actual how the money is used, that is most problematic, that we are spending tens of billions and not maybe getting the return on that investment that we hope to?

Mr. DODARO. I would say there are two things the Committee could focus on. One is the implementation of this IT dashboard that has been put in place. We have made recommendations, that dashboard is helping because it better tracks the performance of the systems enhancements on cost schedule and whether or not they are really going to achieve the results that they are intending to achieve.

So there is much more transparency now than there ever has been. We have made further recommendations to make sure that information is most current as possible.

But that gives the Congress and the public a window into the performance of these new systems investments. And we can work with you to provide our recommendations on that area.

Secondly, I was here two days ago talking about duplication, overlap, fragmentation of the Federal Government. I pointed out, at DOD and Energy Department that we identified 37 different investments totaling over a billion dollars that were potentially duplicative. So if you are spreading your talent out across more systems than you really have to, and you are not concentrating on managing the performance of a fewer number of systems properly, you are going to have even bigger problems. So the potential, having processes in place, investment management processes to look at the portfolio of programs and make sure that you don't have duplicative investments. And many of these occur in administrative systems, whether they are in personnel management systems. We also talked about the Office of Personnel Management and other agencies are developing individual case Management systems for background investigations on their own, rather than using one common system. I was pleased that OMB accepted our recommendation to work with OPM and to try to streamline that across process.

So I think there are plenty of fruitful opportunities for the Committee to pursue in this area.

Mr. PLATTS. Yes, I, because of being in another markup, wasn't able to be at the hearing on Tuesday. And DOD is a perfect example, 7,000 systems that you know there is overlap, duplication in those that could have been much better managed. And because it wasn't, now to try to get control or bring it under control is going to be very challenging.

Mr. Werfel?

Mr. WERFEL. I would like to add a few thoughts if I could. First of all, I appreciate Mr. Dodaro mentioning the IT dashboard. Obviously transparency is the staple of any effective government reform effort. Bringing to light credible and reliable information about the status of projects helps drive accountability.

And I agree with Mr. Dodaro about the emphasis on duplication and overlap.

The one area that I would suggest the Committee look into is an area where we have been extremely focused from the start of this Administration, and that is on the overall size and scope of our IT projects, our basic assessment is that we have not historically as a government done a good job in right-sizing the business requirements for these systems. We take on a lot of nice to haves in terms of what our systems need to do.

And we bought into, I think unfortunately, a notion that we can move to these large, single instance systems that can solve multiple problems simultaneously in a seamless way. And on paper it looks good. But when you get down to the practicality of whether our government organizations have the capacity to manage the change involved, which is a lot of business process change, it is a lot of data cleanup, it is cultural changes and training, all things that need to happen. But if you take on too big of a project, we tend to never get across the finish line in the way we envision.

So our emphasis has been on downsizing and down-scoping our IT projects across the board into more bite sized chunks. And here is what that does. It does a couple of key things. By doing that, you get to meaningful points of functionality quicker. So if you have this large project, and even the best project management team in the world is going to take five years to deploy, a lot of the key senior officials involved won't be there five years from now. And the taxpayer is not getting the benefit of an active system for another five years.

If you say, okay, our first landing point will be 18 months from now and it won't do everything that the full vision does, but it will give us meaningful return on investment functionality within 18 months, well, first of all, the senior leaders will be there. And on that go-live date, there will be a sense of accountability. And it creates a change management environment that is more manageable.

So we have in financial systems over the summer of 2010, we looked at every financial system project with this thought in mind. And we shrunk the budget of our financial systems by $1.6 billion, just on the notion of, you have asked for too much, you have asked for too many nice to haves. We are doing that in a lot of other areas.

So I think as a government, we need to be on a better diet in terms of what business requirements we are asking our systems to do, and look for these shorter bursts of functionality. The challenge we have with agencies like DOD are that they have already, when this Administration came on board with this guiding principle of smaller, more targeted, higher priority business needs for our systems, the Defense Department had already launched into these broad ERPs. It is hard to walk back from the big systems once you are halfway down the football field.

I think they are looking very closely at areas where they can as they are implementing forward shrink the size of the problem, shrink the footprint of business requirements, make some important adjustments so that they can get to meaningful deployment sooner.

Mr. PLATTS. I know we saw, I am drawing a blank on the name of the program at DOD where they had spent $100 million over I think seven years, with no, as you say, result. By the time they got far along, it was realized that it couldn't actually do what it needed to do, and the taxpayers were out the money without a benefit.

Mr. DODARO. Yes, a couple other points I would suggest along these lines. One is we pointed out in our report that was released Tuesday not only duplication systems but for cost saving opportunities . And one in Defense was this next generation email system for the Navy, where they looked at different alternatives and then they actually selected an approach that wasn't one of the alternatives that they had identified. And it was much more costly and involved many more contractors than any of the alternative approaches. So we recommended re-assessing that.

What we have been trying to do at GAO is get in earlier in these decisions along the lines that Mr. Werfel mentioned early on.

One of the major pieces of legislation that this Committee sponsored many years ago was the Clinger-Cohen Act that actually put chief information officers in place across government. The idea there was to have a disciplined investment management process, to do more modular approaches and not the big systems approach.

So I think this Committee has opportunity to look at how well that is working. We could provide a lot of assistance in that area.

Mr. PLATTS. That might be, using the specific example of the Navy system where we maybe partner with you to do some productive oversight and help to see if they will reevaluate what their decision was. Secretary Gregg?

Mr. GREGG. If I might add, actually, you can do these things successfully. Just to give another point, the Bureau of Public Debt, which is part of the Fiscal Service, they provide services to other government agencies accounting services, through a franchise activity. They are well along to implementing an upgraded ERP. They are on time, they are under budget. And they have done that two or three times. It gets down to identifying exactly what you are going to do and sticking to it and having the management, discipline to do that.

And the minimizing the reliance to the extent you can on outside contractors.

Mr. PLATTS. Which agency or office was that?

Mr. GREGG. It's the Bureau of Public Debt, part of the Fiscal Service. They provide franchising services to 55 or 60 smaller government agencies in the accounting area. They have done that and they are on schedule to implement that.

Mr. PLATTS. Maybe we need to loan those men and women out to DOD on their ERPs.

Mr. GREGG. The one thing that often, I think both Gene and Danny alluded to it, is that these projects tend to grow. And the

Public Debt office service, this is what the service is, and in one respect it may be somewhat vanilla. But they don't modify it for their customers. This provides basic, good, sound accounting, and they don't deviate from that. If you don't want to come and be their customer, then that is fine. But if you do, here is what you get. I think that has really paid dividends for them over the years, and for their customers, in keeping the costs down and the quality high.

Mr. PLATTS. Yes. I want to touch on kind of a different issue, different track. And it relates to one of the audit issues raised by GAO, was Medicare cost growth. Secretary Gregg, in your testimony you talk about the projected savings because of the Affordable Care Act and what will transpire. And the GAO referenced that as one of the areas of concern. We probably saw evidence of that just a few weeks back, with the payroll tax bill, where at least for the next 18 months, we are suspending the provider payment reductions, which would have been drastic and ultimately led to less access to care for seniors.

Secretary Gregg, if you want to comment, given that that legislation is now passed and is an example of I will say the fallacy of the Affordable Care Act on the fiscal impact, there really won't be savings, because of that type. Congress, we are not going to let Medicare provider reimbursements drop 25 percent or more now, or I would contend, ever, because of what it would mean to seniors getting access.

Mr. GREGG. I think two things. One is that the auditors for the associate programs identified in their view significant uncertainties about the amount that was identified. Having said that, I think there is still significant savings through the Act.

Mr. PLATTS. I am not saying there is not anything in the Act. But if I remember, and this number, my memory is it was $220 billion or $240 billion over ten years, was specifically related to Medicare provider payment reductions. I am pretty sure it was over $200. I don't remember the exact number. That is significant, that aspect of the bill.

Mr. GREGG. And I think there are a couple provisions in there where the auditors and GAO said, well, based on experience that there is some uncertainty whether or not these are actually going to be realized. I think that was the reason for the disclaimer. But on the one hand you have a statute that is in place, and on the other hand, you have past experience that might suggest that additional legislation may come along and modify it.

Mr. PLATTS. I think it is one of the challenges when we pass the bill, and then as we go forward with audits, whether it is CBO and how they score the bill or now how we try to assess its actual impact, is CBO did what they were required to do, look at what the bill said and score it based on what it said, even though everyone knew at the time it passed that we would not allow, as we now have not allowed those payments to drop.

Until we get to a more frank or accurate, I am trying not to use the word honest, meaning I don't think there is any intent of dishonesty, but the reality of the impact was we didn't have an accurate or honest assessment of the impact, we really will struggle with trying to have a true understanding of the fiscal situation or challenges coming, and then how we deal with them.

Mr. DODARO. There are really a few things I would like to comment on that I think will help shed some light on it. One is, the financial statements were prepared, as you mentioned, in order to assume that the law was enacted. But there are uncertainties. Now, a couple of things in that regard. One is the reimbursements to doctors, which you mentioned was deferred. And there are questions about whether that will continue to be deferred or not in the future. That is one answer.

Now, there are provisions in the health care legislation to reduce payments to hospitals that are different. Supposedly the hospitals have agreed to accept those in exchange for greater coverage of individuals under health care. So that should be okay, perhaps, if that arrangement holds over the next decade.

Then there is the question of assumed productivity increases in other parts of the health care profession. That is another degree of uncertainty. So those are the reasons that led us to disclaim to give an opinion on there. And you have a lot of inherent uncertainties in the health care field anyway in terms of cost growth. But I just wanted to offer those comments.

Mr. PLATTS. Because we are trying to assess what, in reality, future Congresses will do, they are always going to have some uncertainty in how we make those projections. I don't want to dismiss, Controller Werfel referenced earlier the Medicaid aspects of the bill, of trying to have a proactive approach that can prevent misuse of funds, as one of those examples of a positive aspect.

So while I was opposed to the bill in total, I don't want to dismiss or contend that there are not aspects of it that I think are wise and good policy going forward.

I want to touch on just a couple of things. General Dodaro, you talk about in your statement compliance with auditing laws, and you referenced earlier the Federal Management Financial Improvement Act and the number of entities still not in compliance and the impact that has. Would any of you comment, are we doing a better job? And this has been one of my frustrations, I guess, whether I was Chairman or Ranking Member here, that we have laws that are not complied with but there is no consequence for those who fail to comply. Are we doing a better job of sending, and Mr. Werfel, you might have mentioned earlier, DOD, the fact that the Secretary is saying in 2014 we will do this, that there is a better understanding in the Department that there is a hard deadline and there will be consequences. Unless we have consequences, the deadlines ultimately don't mean anything. Here we have laws that are being ignored and not complied with.

Are we doing a better job of sending the message out, whether it is civilian or with DOD, military personnel, that you are giving this charge and you will fulfill it, and if not, it will reflect on you from a personal standpoint in your job rating or assessments? Is that culture changing at all?

Mr. WERFEL. I think it is. There are examples of statutory requirements where there were no particular sanctions where the global accountability on it was so high that we, that we were going to make it no matter what. The example I am referring to is the Recovery Act. All the various reporting deadlines within the Recovery Act to get the information out, that we had to stand up a nationwide data system in a matter of months and it took an enormous amount of combined stakeholder engagement and senior leadership attention to get that all done, all in not just the name of a statutory deadline but a broader expectation that Congress, the President, citizen intermediaries like the media all placed on——

Mr. PLATTS. So the public, the fact that it was a very transparent public aspect helped to make sure that—yes.

Mr. WERFEL. Yes. And then on the other end of the spectrum, if you have a law that is out there that doesn't have that type of attention, whether inherently within an administration, there are no hearings on it and the media is not paying attention, you might see situations where statutory deadlines are missed and there is not a lot of accountability or attention to it.

I think the place likely to land is somewhere in the middle, where clearly, where there are moments in time where a statutory deadline is surrounded by a tremendous amount of attention from this Committee, from other committees, from the Administration, it is kind of, it feeds off each other. We end up in a situation where these deadlines are consistently met.

But you can't prioritize everything. And you can't expect that in all situations. For those places where we don't see that, I feel there can be different things we can do to drive greater accountability, including organically within the government embedding these things in performance appraisals, which is happening more and more, thanks to efforts at OPM and others to try to enforce more performance-based work from Federal employees and tying merit-based promotions and salary increases and things like that.

And then there are some creative things that I have seen come out of this Committee and on the Senate side in the area of improper payments, saying that if the IG finds you non-compliant, there needs to be a disclosure to the Hill with these kinds of explanations. There is a transparency element to that, an additional reporting requirement to that, that can be helpful.

So it is finding that right calibration, but yes, I think there are moments in the Federal financial frame where if there is not enough attention to it and not enough teeth in the statute, it is hard to keep everyone in line on every single requirement.

Mr. PLATTS. So maybe a good example, if my good friend, Mr. Towns, was here, in the coming term, 2013–2014, he would say if he was Chairman, and I would say whoever succeeds me as Chairman from our side, but that they work with DOD, not wait until 2014, but in early 2013 maybe mid-year 2013, in getting to that 2014 deadline that DOD knows that this Committee, whoever is in this chair for the next two years, leading up to that 2014 deadline, is very public about scrutinizing DOD meeting that deadline?

Mr. WERFEL. Yes. It is like the point Gene was making on the IT dashboard. It is out there, there is a report card for it, it is public. It reinforces. If there are interim report card moments for the Defense Department that are public, that is going to be a better ingredient for accountability and sustained leadership attention than if we just wait until 2014 and see what happens.

Mr. DODARO. I would offer a couple of observations on this. First, the last update we did of the high risk list, we took two times off the high risk list. In both of those cases, over a dozen hearings had been held by Congress since we put the area on the high risk list to get them off. There is no doubt in my mind that that would not have happened absent Congressional oversight and top commitment by the Administration. One was personnel security clearances, we were way behind in clearing people, and that was a big issue after 9/11. So the Deputy for Management at OMB and the OPM Director led a task force, they focused on it, Congress focused on it and it got fixed. There were metrics, they moved to a specific period of time.

Now, I contrast that to the Anti-Deficiency Act which has criminal and civil penalties in it, and we know there have been violations, but nobody has ever been prosecuted as a result of those violations. So I think transparency and involvement of top people, where there is a coalescing of Administration priority and Congressional priority and things get done. And that is really, I think, the proper vehicle to pursue.

I was involved in the original development of the legislation back in 1996 that created the Financial Management Improvement Act. And there was in draft legislation, there were penalties in there. If you didn't achieve compliance, your budget was reduced by so much, but that created so much problem. And people were afraid, I think rightfully so, of unintended consequences, that that could occur, that that was removed from the final legislation that is in place. But in my view, there is no substitute for Congressional and Administration attention.

Mr. PLATTS. That may be, as we look at the remainder of this year, with the number of oversight hearing issues, such as the State cooperation on Medicaid and grant programs, perhaps with Navy and IT, and that type thing, we look at maybe in the fall one that is DOD-specific on where they are, to kind of set the stage for whoever does succeed me as chair.

And as far as getting more attention, I always think about asking the three of you to admit to steroid usage so that we would have more media focus on these important issues. So for a future hearing, we may ask you to start bulking up.

[Laughter.]

Mr. PLATTS. And I appreciate your patience. If I can, maybe two final issues. I always have too many probably for the time frame. In the testimony, and I guess it goes to one of the uncertainties and the impact of the economic recovery efforts, and specifically, General Dodaro, you referenced the $316 billion in future payments related to Fannie Mae and Freddie Mac and what that ultimate cost is going to be.

That number, I have not seen before, and maybe just missed it. But it is, to me, was much higher than any estimates I had, which were $150 billion, $200 billion. Can you comment on that and is that a pretty, do you think, a pretty solid estimate of what that ultimate cost is going to be?

Mr. DODARO. So far, and probably the numbers you are referring to that are most often referenced is what has already been paid, which is about $183 billion recently. This morning in the paper, another disclosure about losses for this last quarter for one of the NGSEs.

The $316 billion, there is also a disclosure in there that there may be an additional $60 billion over and above the $316. Now, this changes every year based upon circumstances and estimates. So we will have to watch it. But I do think that ultimately this will be one of the greater costs of the financial recovery efforts, will be Freddie Mac and Fannie Mae. That is setting aside even what the transition issues would be, once the Congress settles on what their ultimate disposition should be.

So this is something we are watching closely, the same way we are watching under the TARP program, we still have to exit from AIG, General Motors. We have made recommendations to Treasury that they have the expertise to be able to divest there at an appropriate point in time to protect the taxpayers.

And so all these investments we are watching very closely going forward.

Mr. PLATTS. And obviously that has a huge impact on the bottom line, when we talk about future liabilities and our fiscal position.

Mr. DODARO. Oh, definitely. Fannie Mae and Freddie Mac are huge entities and they have a lot of repercussions.

Mr. PLATTS. Great. We have been joined by the gentleman from Virginia, Mr. Connolly. Do you have questions?

Mr. CONNOLLY. I do, thank you, Mr. Chairman.

And thank you to our panelists. Mr. Dodaro we heard from just the other day. Mr. Werfel, we have missed you. There was a period of time during Congress I thought you had a cot somewhere. But thank you so much for your willingness and patience to share with members of Congress. Mr. Gregg, welcome.

Mr. Dodaro, there has been a lot of talk about balancing the budget and ways we can do it. I want to talk to you a little bit to follow up on the conversation we had in full committee the other day. Do you remember what percentage of GDP revenue Federal revenue represented the last time we balanced the budget?

Mr. DODARO. Not off hand.

Mr. CONNOLLY. Would 19.6 percent roughly sound right to you?

Mr. DODARO. Yes.

Mr. CONNOLLY. And 20.5 percent the very last year we balanced the budget? Roughly, roughly guess.

Mr. DODARO. All right.

Mr. CONNOLLY. And it is somewhere between 14 percent and 15 percent today?

Mr. DODARO. Yes.

Mr. CONNOLLY. Would it be fair to say that when you look at the fact that we are at 25 percent spending, which is too high, higher than it was last time we balanced the budget, but revenue is too low, relative to that record, that we have to address both sides if we really seriously want to put ourselves on a sustainable path toward balance in the Federal budget?

Mr. DODARO. I am on record as saying we need to address everything, revenue, entitlements and other government spending.

Mr. CONNOLLY. Would it be fair to say that it would be a very hard climb to try to balance the budget only on the spending side of the ledger?

Mr. DODARO. Yes.

Mr. CONNOLLY. Thank you.

Mr. Gregg, in your testimony, you actually said, you pointed out that the Affordable Care Act reduced Federal outlays and helped reduce deficit spending, if I understood your testimony correctly.

Mr. GREGG. Pardon me?

Mr. CONNOLLY. I said, in your testimony, you talked about how the Affordable Health Care Act actually helped reduce Federal outlays and long term actually will contribute to deficit reduction. Is that your testimony?

Mr. GREGG. And while there is some uncertainty on the numbers, the savings are still very significant.

Mr. CONNOLLY. Very significant. Do we have any evidence with respect to, for example, Medicare premiums or Medicare Advantage premiums that maybe the promise of the Affordable Health Care Act is in fact being realized, or shows some empirical evidence that it might be? Did Medicare Advantage premiums go up or down the last two years?

Mr. GREGG. I am sorry, Mr. Connolly, I can't answer that. But I can get an answer for you for the record.

Mr. CONNOLLY. Would it surprise you to learn that as a matter of fact the answer to that is they went down both years for the first time in the history of the program?

Mr. GREGG. No.

Mr. CONNOLLY. And Medicare premiums this year went down. And in both cases, especially Medicare Advantage, the number of people enrolled, because one of the criticisms of health care reform was, it will destroy Medicare Advantage, in both of the subsequent years since passage of the Act, not only did premiums go down, benefits went up, with lower cost to the consumer, and the number of people registered actually increased very significantly. Other than that, the predictions of killing Medicare Advantage have been proved correct.

We were talking, Mr. Dodaro, the other day about metrics. And one of the things, and I know the Chairman certainly has not only concurred with this concept but tried to help it along, there are some investments we can make in the Federal Government that actually have huge return on them. I want to give you the opportunity to revisit the issue of what that ratio was for every dollar we were investing in new resources at GAO, what was the payoff for taxpayers in terms of dollars saved?

Mr. DODARO. Basically, our return on providing, the record at GAO returning financial benefits for every dollar invested at GAO in the last four years was on average $91 to every dollar invested in GAO.

Mr. CONNOLLY. Ninety-one to one?

Mr. DODARO. Yes. The last year was 81 to 1.

Mr. CONNOLLY. And what has happened to your budget?

Mr. DODARO. Our budget has been reduced about 8.3 percent since 2010. And our number of staff by the end of this year will be 11 percent lower than it was in 2010. That will be the lowest staff level that we have had in GAO since 1935.

Mr. CONNOLLY. I would say to my friend, the Chairman, whose retirement still causes me sorrow, because his voice is going to be very much missed here in the Congress, this Subcommittee has done some pioneering work on a bipartisan basis, looking at issues like this, improper payments. And Mr. Werfel, you testified about this, and I hope the Chairman will indulge me just a few more seconds. We have to get out of this mindless narrative that all spending is the same and all spending is bad. There are such things as strategic investments.

A hundred and twenty-five billion dollars a year in improper payments, if we could in theory bring that to zero times ten, that exceeds the sequestration number we are sweating buckets of blood about around here. If you could have even half that 91 to 1 ratio, let's say in the first year it is that, but you come down a little bit in the next year, it is still a bargain. Instead, we are at the lowest level since 1935. We are actively dis-investing in opportunities to enhance revenue and to catch waste, fraud and abuse and mistakes early on and prevent them. That is good for taxpayers.

This Subcommittee has talked about the need for, and thank God the Congress passed the Federal Acquisition Institute Training Bill that I introduced. And again, Mr. Platts was a co-sponsor. It is penny-wise and pound-foolish not to have highly skilled, highly trained managers of big, large contracts. What can go wrong if you have someone who doesn't really know what they are doing?

Mr. DODARO. Lots.

Mr. CONNOLLY. Right. And so it just, we have to change the narrative around here. Again, I want to thank my friend, the Chairman of the Subcommittee, who has tried to change the narrative around here about this. We need to highlight that kind of statistic more. We need to educate our colleagues around here that it aint all the same and that there are some investments worth making if we share this goal about reducing the deficit and getting our arms around the fiscal situation.

Well, what are the tools we need? And all too often we have substituted ideological rhetoric and political catch phrases that are not a substitute for thoughtful, analytical work about what are the analytical tools we need, frankly, to do our job and do it better.

Mr. Werfel, I have not given you an opportunity. If the Chairman will indulge one more minute, just to allow Mr. Werfel to respond. I thank the Chair for his indulgence.

Mr. WERFEL. I think you are hitting on a central issue: where are there investments that have a positive return on investment for the taxpayer, in particular in program integrity. Every year the President's budget includes a suite of program integrity proposals that will improve our track record on improper payments in Medicare and improve tax enforcement. The numbers are staggering in terms of the types of savings we can achieve, over a one-year window, over a ten-year window. Either way you are looking at very large numbers, in the $100 billion range.

Often, those investments are not enacted through the appropriations process. And it is enormously frustrating that investments that can return dollars and help us in our battle against the deficit are not enacted. So I agree.

And I also would emphasize that I think as we move forward as a Federal Government, the more that we can do to improve the analysis that we have on the return on investment of our dollars, whether it is for GAO, Inspector General's shop, a new fraud detection technology that we need to invest in, and we can expose that and make it clear, I think we are better off. This is an area where this Committee can play a critical role in highlighting places, in any President's budget, whether it is this one, the next one or the previous one, where those investments have a positive return to drive down error and improve efficiency. More people need to be singing that song that you are singing and bring attention to it.

Mr. CONNOLLY. I thank the Chair for his consideration.

Mr. PLATTS. I thank the gentleman for his comments and being right on point. When you look at the number, the $91 or $83 return for every dollar spent, perhaps the gentleman and I can look, as we move into the appropriations process, see if there is a way in a bipartisan way to make sure we are making that investment specifically, and being able to make that case of the wisdom of it and the return to the taxpayer.

We are going to conclude, and I want to thank each of you again for your insights that you share with us and giving us some more work to do with your knowledge and things that we need to highlight. We will keep the record open, as I said earlier, for seven days for any additional information you want to provide, or members that want to provide a statement for the record.

I know I will have the chance to interact with you some over the next 10 months, but I very much appreciate what you do every day and your commitment to good fiscal management, which is one of the Federal Government's most important responsibilities, is how we handle the hard-earned dollars of our fellow citizens. I know each of you and your staffs are focused very much on that day in and day out. That is commendable.

When I talk about public service being a calling, what you are doing epitomizes that calling of serving your fellow citizens. So thanks for your testimony and your patience as we had to break for votes.

This hearing stands adjourned.

[Whereupon, at 11:44 a.m., the subcommittee was adjourned.]