

**Calendar No. 548**

104TH CONGRESS }  
2d Session }

SENATE

{ REPORT  
104-339 }

**FEDERAL FINANCIAL MANAGEMENT  
IMPROVEMENT ACT OF 1996**

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**REPORT**

OF THE

**COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE**

TO ACCOMPANY

**S. 1130**

TO PROVIDE FOR THE ESTABLISHMENT OF UNIFORM ACCOUNT-  
ING SYSTEMS, STANDARDS, AND REPORTING SYSTEMS IN THE  
FEDERAL GOVERNMENT, AND FOR OTHER PURPOSES



JULY 30, 1996.—Ordered to be printed

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### FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

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Mr. STEVENS, from the Committee on Governmental Affairs,  
submitted the following

### REPORT

[To accompany S. 1130]

The Committee on Governmental Affairs, to which was referred the bill (S. 1130) to provide for the establishment of uniform accounting systems, standards, and reporting systems in the Federal government, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill, as amended, do pass.

#### I. PURPOSE

The purpose of S. 1130, the Federal Financial Management Improvement Act of 1996, is to provide for a more productive, efficient and accountable Federal government through implementation of consistent and uniform accounting standards throughout all Federal agencies.

#### II. SUMMARY

On May 16, 1996, the Committee on Governmental Affairs voted unanimously to report S. 1130, the Federal Financial Management Improvement Act of 1996, as introduced by Senator Brown and amended by a substitute offered by Senator Brown. The Act as amended requires each Federal agency to implement and maintain financial management systems that comply with applicable accounting requirements and standards. S. 1130 directs each auditor of an agency's financial statement to report whether the agency's financial management systems have implemented uniform accounting standards in accordance with this Act.

The Director of the Office of Management and Budget, acting through the Controller of the Office of Federal Financial Management, shall make a separate determination as to whether each agency's financial management systems comply with applicable requirements and standards. If the Controller determines that the systems do not comply, the agency head, in consultation with the Controller, shall develop and implement a remediation plan. Failure to remedy systems defects within two years (or an agency-designated deadline when compliance cannot be achieved within two years) triggers an OMB report to Congress on the deficient systems and the officers and employees responsible for the deficiency.

### III. NEED FOR LEGISLATION

The Committee believes that the financial management systems of the Federal government are inadequate. Correcting these and other financial management problems has been a longstanding priority for the Committee. The Chief Financial Officers Act of 1990 (CFO Act), for example, laid the groundwork for significant financial management reform through the appointment of agency chief financial officers and requirements for annual audited financial statements. Even with such reforms, however, Federal agencies still lack many of the basic systems needed to provide uniform and reliable financial information. Without such systems, Federal finances are still far from what American taxpayers have a right to expect.

Over two hundred years ago, the Framers of the Constitution wrote: "No money shall be drawn from the Treasury, but in consequence of appropriations made by law; and a regular statement and account of all public money shall be published from time to time" (United States Constitution, Article 1, Section 9, Clause 7). These words were written when the sum of all public money was a tiny fraction of what it is today. Federal outlays for Fiscal Year 1997 are projected to reach \$1.6 trillion. These are the outlays of a government so massive and complex that each year it controls and directs cash resources of almost two trillion dollars, issuing 900 million checks on more than 800 separate accounts and maintaining payroll and benefits systems for 4½ million government employees. Inevitably, given the size of this government, even relatively small errors and inefficiencies of financial management regularly cost the taxpayers hundreds of millions of dollars.

A uniform and widely accepted set of accounting standards and practices across the hundreds of agencies that make up this \$1.6 trillion budget is clearly essential. Amazingly, however, there are more than 200 primary accounting systems within the Federal government. Despite an obvious need for uniformity, many agencies of the United States government set their own accounting standards, often making their account incompatible with those of other agencies. The American Institute of Certified Public Accountants pointed out in a 1989 publication that the Budget and Accounting Procedures Act of 1950 directed the GAO to issue accounting standards. GAO did so, but these standards have never been uniformly used. "The primary reason for this is that the Federal government still does not provide an environment that insists on compliance with those standards." Although Committee action has led to the estab-

lishment of important reforms since 1989, most notably the 1990 CFO Act, oversight has shown that mechanisms needed to ensure the implementation and enforcement of uniform accounting practices throughout the Federal government require substantial improvement.

The costs are high. While we cannot know exactly how many billions of taxpayers dollars have been wasted, some alarming data is available. A 1995 GAO report reveals that the Pentagon made more than \$400 billion in adjustments to correct errors in defense reporting data for fiscal years 1991 to 1993—and the resulting statements still were not reliable. In addition, the Pentagon paid vendors \$29 billion that could not be matched with supporting documents to determine if the payments were proper. The Pentagon made an estimate \$3 million in fraudulent payments to a former Navy supply officer for more than 100 false invoice claims, and approximately \$8 million in Army payroll payments were made to unauthorized persons, including six “ghost” soldiers and 76 deserters. Charles Bowsher, Comptroller General of the United States, testified before this Committee in December of 1995 that “DOD does not have effective financial management operations. \* \* \* No single military service or major component has been able to withstand the scrutiny of a financial statement audit.”

GAO also reports that the Medicare program is undermined by flawed payment policies, weak billing controls and inconsistent program management. Instances of fraud and abuse abound in the \$190 billion program. GAO issued a report in January 1996, detailing a long list of frauds. They include a \$4.3 million overpayment to a company providing heart monitoring services as well as 4,000 fraudulent claims by a Medicare supplier totaling approximately \$1.5 million. GAO discovered that frauds like these are perpetrated on a vast scale; one recently uncovered was operating across 20 states. The GAO report locates the root of the problem in financial management: “[O]ur work shows that outlandish charges or very large reimbursements routinely escape the controls and typically go unquestioned.” Even when fraudulent billing is discovered, Medicare usually has paid out the money and rarely acts effectively to recover it.

The Internal Revenue Service offers another example of poor financial management and its consequences. According to GAO testimony before this Committee on June 6, 1996, “fundamental, persistent problems remain uncorrected” despite concerted efforts by this Committee, GAO, and others over the past several years to improve financial management at the Internal Revenue Service. Amounts of total revenue and tax refunds (\$1.4 trillion and \$122 billion respectively for fiscal year 1995) cannot be verified or reconciled to accounting records maintained for individual taxpayers in the aggregate. The IRS cannot substantiate the amounts reported for specific types of taxes collected, such as social security taxes, income taxes, and excise taxes. The IRS cannot even verify a significant portion of its own nonpayroll operating expenses—which total the not inconsiderable sum of \$3 billion. This kind of sloppiness within the very agency that demands precision from every taxpayer in America reflects a reckless disregard for those taxpayers and it can no longer be tolerated.

Unfortunately, financial management problems are not isolated to just a few agencies. Each year, the Federal government spends more than \$100 billion of taxpayers' money on travel, rent, printing and reproduction, utilities, phone bills, and office supplies. But Federal agencies do not have a uniform and consistent accounting system to keep and track these overhead costs. Indeed, the Federal government does not even have a single, uniform definition of "overhead cost." Each agency, therefore, has its own "overhead" category, making it impossible for the public to know just how much money the Federal government as a whole is spending on certain expenses.

The results of poor financial management are threefold. First, the kind of egregious waste of taxpayer money illustrated above is unavoidable. Second, agency management is less competent at every level. Agencies are less able to conduct their functions, to manage their investments, to follow congressional directives, and to provide accountability for the billions of taxpayer dollars entrusted to them. Agencies experience increased costs and reduced performance. Third, poor financial management in Federal agencies means unreliable financial and program data for Congress, which in turn undermines the ability of elected officials to make intelligent decisions about responsible and effective uses of taxpayer money. The inescapable consequence of poor financial management is a well-deserved loss of confidence in Federal government.

Time and again this Committee has been confronted by financial management system failures in Federal agencies with no one accountable for the failure and no one responsible for the solution. S. 1130 establishes this responsibility. It builds on the requirements of the CFO Act to identify minimal financial systems requirements and use the audit process to assure that these requirements are implemented and maintained. It establishes responsibility for identifying and remedying deficient systems. It demands accountability for the problems and for their solutions. It will ensure that CFO Act financial statements more clearly identify for managers and policy makers how and where revenue is being spent. It will enhance to role and usefulness of CFO Act audits. It will force Federal agencies to compile and report costs in the same manner from one fiscal year to the next and make one agency's financial statements comparable to another's. This bill will help develop a Federal accounting system more closely linked to the budget and more focused on program outputs and outcomes. Better congressional decisions and better agency management will in turn help restore confidence in the government.

#### LEGISLATIVE BACKGROUND

In the past decade there have been a variety of efforts to reform Federal financial management and some very important legislative steps have been taken since 1990. The foundation of this progress is the Chief Financial Officers Act of 1990 (CFO Act), which was followed by the Government Performance and Results Act of 1993 (GPRA), the Government Management Reform Act of 1994 (GMRA), and the substantial body of work on accounting concepts and standards by the Federal Accounting Standards Advisory Board (FASAB).

In November 1990, Congress enacted the CFO Act. This landmark legislation established a CFO structure in 23 major agencies and the Office of Management and Budget (OMB) to provide leadership in addressing the decades of neglect in agency financial management operations. To help develop adequate controls and to generate increased pressure to fix longstanding problems, the CFO Act required agencies to prepare and have audited financial statements for revolving funds, trust funds and commercial activities. For 10 agencies on a pilot basis, Congress required preparation and audit of financial statements covering an agency's entire operation. The CFO Act pilots successfully demonstrated that regular preparation of financial statements and independent audit opinions clarified the scope and depth of financial management problems as well as the steps necessary to solve the problems. The financial statements' audits serve as an annual report card that generates the pressure to focus on and fix longstanding problems. The success of these pilots demonstrated the value of audited annual financial statements and formed the basis for passage of the 1994 GMRA.

The GMRA expanded the CFO Act to all portions of the 23 CFO-covered agencies and also added the Social Security Administration as a separate entity, increasing the number of CFO Act agencies to 24. Beginning with fiscal year 1996, the CFO Act as amended by the GMRA requires the head of each covered agency to submit audited agency financial statements by March 1, 1997, and annually thereafter. Pursuant to 31 U.S.C. 3521(e), an agency's Inspector General, an independent external auditor, or, at his discretion or at the request of Congress, the Comptroller General shall audit each agency's financial statement.

Beginning with fiscal year 1997, GMRA requires that the Comptroller General annually audit the consolidated financial statements of the executive branch. The committee strongly believes in the importance of these audit requirements, which are a key component of ensuring compliance with Federal accounting and system standards under S. 1130. The annual audits must be a high priority of the Inspectors General and the Comptroller General, with Congress making available the appropriate level of resources for this work.

In addition to these legislative initiatives, the role of the Government Performance and Results Act of 1993 (GPRA) should be noted. This act sets forth the major steps Federal agencies need to take to achieve a results-oriented management approach. They are to develop a long-term strategic plan, establish annual performance measures to monitor progress in meeting strategic goals, and link performance information to resource requirements through the budget. GPRA requires at least five performance budgeting pilots for fiscal years 1998 and 1999, which would systematically show the direct linkage between budgeted dollars and levels of program performance. Development of meaningful program performance budgets will require the effective implementation of both GPRA and the CFO Act.

During consideration of the CFO Act in 1990, the Comptroller General and the Director of OMB agreed to a cooperative approach to development of accounting standards and practices for the Federal government. This approach bridged the historic institutional



differences concerning leadership in this area. Since its creation in the Budget and Accounting Act of 1921, GAO was largely responsible for the accounting and auditing functions of the Federal government. From 1921 until 1950, GAO was engaged largely in auditing the vouchers supporting the accounts of government officials responsible for certifying and disbursing the government's payments of its bills and obligations.

After passage of the Budget and Accounting Procedures Act of 1950, GAO's role in Federal accounting shifted largely from day-to-day financial management to study and oversight. Authority for budgetary standards resided in the OMB and cash-type reporting duties in the Treasury Department. Over the same period, agencies developed accounting systems to serve their particular needs, including specialized systems for divisions within a department. It has not been uncommon for these systems to record transactions in a manner inconsistent and incompatible with accounts maintained at the department level. The results of this process included uncertainties in Federal accounting standards and inconsistent accounting systems.

A major breakthrough took place in 1990, therefore, when during the same period in which Congress passed the CFO Act, the Secretary of the Treasury, the OMB Director, and the Comptroller General agreed to establish the Federal Accounting Standards Advisory Board (FASAB). FASAB was charged with developing and recommending accounting standards for the Federal government. Once Treasury, OMB and GAO review and adopt a recommended standard, OMB and GAO each publish the standard and it becomes effective as a Federal Accounting Standard. It is these standards that the agency CFO's should use in developing the agency's integrated accounting and financial management systems.

After six years of work, FASAB is on the verge of completing the Federal government's first set of comprehensive accounting standards using this consensus approach. The FASAB has organized its standards into ten separate statements. They are (1) Objectives of Federal Financial Reporting, (2) Accounting for Selected Assets and Liabilities, (3) Accounting for Direct Loans and Loan Guarantees, (4) Accounting for Inventory and Related Property, (5) Accounting for Liabilities of the Federal Government, (6) Managerial Cost Accounting Standards for the Federal Government, (7) Entity and Display, (8) Accounting for Property, Plant, and Equipment, (9) Revenue and Other Financing Sources, and (10) Supplemental Stewardship Reporting.

The 1990 Memorandum of Understanding among GAO, OMB, and Treasury that created FASAB was a huge step forward in the process of setting uniform, consistent accounting standards. S. 1130 leaves the productive balance of this MOU in place and seeks to shift the focus of reform efforts to implementation of the agreed-upon standards. While development of the accounting standards is an enormous accomplishment, however, the Committee wishes to emphasize that the benefits of good financial management will flow from the implementation of these standards and not simply their promulgation. It will ensure that CFO Act financial statements more clearly identify for managers and policy makers how and

where revenue is being spent. It will enhance the role and usefulness of CFO Act audits.

There also have been administrative efforts specifically aimed at improving agency financial systems. In September 1995, the Joint Financial Management Improvement Program (JFMIP), a joint Treasury, OMB, and GAO program to strengthen Federal agency financial management practices, issued a revised and updated version of the Core Financial System Requirements. This document is a major step forward in developing the effective agency financial systems envisioned by the CFO Act and this legislation and is the most recent in a series of JFMIP publications detailing Federal financial management system requirements.

Despite these legislative and administrative accomplishments, it remains true that the Federal government still does not have a mechanism compelling implementation of uniform accounting standards. In March 1995, OMB reported that 39 percent of agency systems were originally implemented more than 10 years ago and that 53 percent need to be replaced or upgraded within the next five years. These statistics point out that there is a window of opportunity to advance uniform accounting standards across the Federal government if the required mandate for such standards is established quickly. S. 1130 will strengthen the CFO Act and the GMRA by providing the clear mandate needed for implementation of uniform accounting standards throughout the Federal government.

#### IV. LEGISLATIVE HISTORY OF S. 1130

S. 1130 was introduced on August 8, 1995, by Senator Brown and cosponsored by Senators Craig, Burns, and Inhofe. It was referred to the Governmental Affairs Committee. Senators Lott, Glenn, Nickles, Gorton, Levin, Faircloth, Grassley, and Kyl subsequently joined as cosponsors of the legislation.

The Committee considered S. 1130 at a hearing on December 14, 1995. The witnesses appearing before the Committee included the Honorable Charles A. Bowsher, Comptroller General, U.S. General Accounting Office, and G. Edward DeSeve, Controller, Office of Federal Financial Management, Office of Management and Budget.

In his testimony, Mr. DeSeve agreed that “[u]nderlying both the CFOs Act and GMRA is the need for a comprehensive set of Federal accounting standards and principles.” For this reason, he pointed out, the Federal Accounting Standards Advisory Board was established in October of 1990. “At that time, the Federal government did not have a comprehensive set of accounting standards. However, it was recognized that a comprehensive set of accounting standards was needed, and that compliance with these standards must be measured on a regular basis in order to ensure the integrity of the financial information reported to the American taxpayers, managers, elected officials, and policy makers.”

Mr. Bowsher agreed in his testimony that the CFO Act has resulted in steady progress, but also pointed out that “a great deal more perseverance will be required to sustain the current momentum and successfully overcome decades of serious neglect in fundamental financial management operations and reporting methods.” In particular, he emphasized the fact that establishing uni-

form accounting standards is only the beginning: they must be put into use and maintained throughout the government. “While the development of accounting standards as envisioned by FASAB and its three principals is very important to strengthening accountability, the benefits will come from their full implementation.” Moreover, “Financial audits have also shown that agencies often do not follow rudimentary bookkeeping practices, such as reconciling their accounting records with Treasury accounts or their own subsidiary ledgers. These audits have identified hundreds of billions of dollars of accounting errors—mistakes and omissions that can render information provided to managers and the Congress virtually useless. This situation could be much improved if more rigor were applied in following existing policies and procedures.”

In addition to encouragement for the goals of the bill, however, some reservations were expressed by OMB, among others, that certain provisions of the bill as it was introduced could be improved. The bill as introduced placed in statute the 1990 Memorandum of Understanding that established FASAB. This would have granted FASAB permanent statutory authority to prescribe accounting standards regardless of the will of GAO, OMB, and Treasury. OMB expressed concern that putting into law this voluntary interbranch agreement on the authority to prescribe accounting standards might violate the constitutional principle of separation of powers. The substitute amendment offered by Senator Brown at the markup recognized this concern and avoided any risk of disrupting the balance achieved by the 1990 MOU by instead requiring compliance with applicable accounting standards.

A second concern raised about the bill as it was originally drafted regarded incentives for compliance with S. 1130. The bill as introduced established budgetary penalties to be imposed on noncompliant agencies. These penalties were strict: in the first year of noncompliance, there would be a one percent across-the-board reduction in an agency’s budget. This reduction would increase by one percent each year until the agency’s budget had been cut by a total of five percent after the fifth year of noncompliance. Also in the bill as introduced was a provision that established criminal penalties for officers and employees of a noncompliant agency who knowingly and willingly deviated from the requirements of the Act. Because of legitimate concerns raised about the viability and effectiveness of these provisions, the markup substitute took a different approach to implementation enforcement.

The substitute requires no budget cuts and no criminal penalties. Instead, S. 1130 encourages implementation of uniform accounting and financial management practices by assigning an active enforcement role to OMB. The bill would require OMB to review each agency’s audited financial statement as well as other data in order to determine compliance. Where noncompliance is found, OMB would work closely with the head of the agency to bring about implementation as quickly as possible. Where the agency fails to remedy problems even with assistance, OMB would report the failure to Congress. The Committee believes that this process would expose poor financial management and enable both OMB and the Congress to apply significant pressure to noncompliant agencies and their financial management officers and therefore to bring

about compliance with uniform accounting standards and financial management systems requirements.

The Committee held a markup on May 16, 1996. It favorably reported the substitute to S. 1130 offered by Senator Brown by voice vote.

## V. SECTION-BY-SECTION ANALYSIS

### *Section 1. Short title*

Section 1 provides that this Act may be cited as the “Federal Financial Management Improvement Act of 1996.”

### *Section 2. Findings and purposes*

In subsection (a), Congress finds that while much effort has been devoted to strengthening internal controls and improving Federal accounting standards—through implementation of the CFO Act of 1990, for example—Federal accounting standards have not been uniformly implemented in agency financial management systems. The resulting management deficiencies have led to an inability to identify costs and liabilities and therefore an inability to assure the American people that resources are being efficiently used and safeguarded.

To overcome the loss of confidence in the Federal government, Federal agencies must incorporate accounting standards and adopt financial management systems requirements so that all the assets and liabilities, revenues and expenditures, and the full costs of programs and activities can be consistently and accurately recorded, monitored and reported. Congress further finds that FASAB, through the cooperation of Treasury, OMB, and GAO, has made substantial progress developing a comprehensive set of accounting concepts and standards. With this important step largely completed, the next step is to assure the incorporation of these standards into Federal financial management systems.

Accordingly, the overall purpose of this bill is to assure that agency financial management systems comply with applicable accounting standards and financial management system requirements in order to provide more uniform and useful financial information as required by the CFO Act. Subsection (b) identifies the separate purposes of the bill that in the aggregate add up to improved financial management.

### *Section 3. Implementation of Federal financial management improvements*

Subsection (a) directs each Federal agency to implement and maintain financial management systems that comply with (1) Federal financial management systems requirements, for example as contained in OMB Circular A-127, “Financial Management Systems,” (2) applicable Federal accounting standards, for example those recommended by FASAB and issued by OMB and GAO, and (3) the United States Government Standard General Ledger at the transaction level. These are the three levels of financial management standards. With the completion of the recommended FASAB standards, the promulgation of OMB financial management guidance, and the ongoing work of JFMIP, modern, effective, uniform

Federal financial management principles and standards will be available for implementation at each of these levels.

Subsection (b) directs each Federal agency to give priority in funding and devote sufficient resources to implement the Act. The Committee expects agencies to anticipate the costs of implementation and to prepare for these costs in budget requests as well as internal planning.

Subsection (c) builds on the CFO Act audit requirement in 31 U.S.C. 3521(e). As a part of the CFO Act audit of agency financial statements, each audit shall report whether the agency financial management system complies with the requirements of Section 3(a) of this Act. By “compliance” this Committee intends for auditors to insist on rigorous adherence to the accounting standards listed in Section 3(a). The bill initially qualified compliance by requiring “substantial compliance.” The Committee expects that the audit community will discharge this compliance function consistent with established practices of the profession and the exercise of sound professional judgment.

If an auditor reports agency systems as noncompliant, the auditor shall include in the audit report (1) the name and position of officer responsible for the financial management systems in question; (2) all facts available and relevant to the system’s failure, including the scope or extent of the failure, the primary reason for the failure (such as inadequate resources, contractor default, lack of qualified staff, etc.), any official responsible for the failure, and any relevant comments from the responsible officer or employee; and finally (3) recommended remedial actions and a time frame to implement them.

The Committee wishes to emphasize that paragraph (2)(B)(iii) is not a repetition of paragraph (2)(A). In subparagraph (A) the auditor is asked to list the name and position of any officer responsible for the deficient financial management systems. In subparagraph (B)(iii) the auditor is asked to list any official responsible for the noncompliance of these systems. This latter requirement is broader in the sense that the auditor could identify responsibility for the noncompliance at any or several levels and not simply at the point where an individual is directly responsible for the financial management systems. The Committee understands that the individuals bearing direct responsibility for financial management may not be responsible for higher decisions, such as staffing or funding priorities, that are ultimately responsible for the agency’s failure to comply with this Act. The Committee’s intent, however, is to identify all causes of deficient financial management and to hold responsible all officials who made decisions, took actions, or failed to make decisions or take actions that led to the deficiency.

Subsection (d) assigns to the OMB Director, acting through the Controller of OMB’s Office of Federal Financial Management (OFFM), the task of determining whether the agency’s financial management systems comply with the bill’s requirements. The Committee expects that the Director will scrutinize the system not only of the agency as a whole, but in the case of large agencies, the systems of distinct components within those agencies. The Controller has a definite time frame within which to make his determination: no later than 90 days after the receipt of an agency-wide au-

dited financial statement or the end of the fiscal year after the year covered by the audited financial statements, whichever comes first. The bill permits the Controller's determination to be based on any information deemed relevant and appropriate. Recognizing that this process will likely require the expenditure of considerable resources for the small staff of the Controller, the Committee urges that adequate resources be provided to carry out this mandate including from those made available under paragraph (3) of subsection (e).

The Committee believes that assignment of this function to the OFFM Controller is appropriate because it builds upon the financial management functions assigned to that Office by Section 203 of the CFO Act. From the Committee's perspective, this bill enhances the Controller's leadership on issues of Federal financial management. Although the additional responsibilities placed on the Controller may present certain challenges if executive agencies cannot themselves manage to avoid or solve problems, the solution is active intervention by the Controller's office that moves the agency toward a solution. If an agency's financial management systems do not measure up to the minimal requirements contained in this bill, the bill envisions that the Controller would actively work with the agency to help identify and develop solutions for noncompliant systems. In short, the Committee expects OMB, acting through the Controller, to bring its expertise, talent, energy, and clout to bear to identify and solve problems.

Subsection (e) details OMB's authority to obtain agency compliance with the requirements of Section 3(a). If OMB, acting through the Controller, determines that an agency's system do not comply, the head of the agency, in active consultation with the Controller, shall establish a remediation plan including the time frame and resources necessary to achieve compliance. The only limitation on the agency's discretion to fashion a remediation plan is that the time frame to achieve compliance may not exceed two years unless the head of the agency, with the concurrence of OMB, announces that the agency's financial management systems are so completely deficient that compliance cannot be achieved within two years. In this case the remediation plan must specify the most feasible date by which the agency will achieve compliance, and designate an official responsible for effecting the necessary remedial action.

Paragraph (3) of subsection (e) anticipates and answers what is often the primary cause of financial management failure: lack of resources. While this Committee defers to appropriations of Congress in setting agency budgets, paragraph (3) authorizes that up to 2 percent of available agency appropriations may be transferred to financial management systems. This provision reflects the strong sentiment in the Committee that financial management is a top priority and should be accorded such priority in allocation of funds. The Committee recognizes, however, that this provision is permissive in the sense that it depends on action by the Appropriations Committees.

Paragraph (4) of subsection (e) addresses the consequences of an agency failure to bring its financial management systems into compliance within the time frames established pursuant to subparagraph (2). Each audited financial statement will contain the audi-

tor's compliance finding, triggering the bill's compliance determination and implementation process. If an agency's financial statement auditor continues to report noncompliance with the requirements of Section 3(a) and OMB does not determine otherwise, the Director, OMB, shall report this agency to the Committees on Appropriations and Government Reform and Oversight of the House of Representatives and to the Committees on Appropriations and Governmental Affairs of the Senate. The Report is to include the names and positions of the responsible officers and employees, all available facts relating to the failure to comply, additional remedial actions needed, and any administrative actions taken with respect to the responsible officers and employees.

Subsection (f) authorizes administrative disciplinary action, suspension from duty, or removal from office for any responsible officer or employee who knowingly and willfully commits, permits, or authorizes a deviation from the requirements of the Act. This provision is modeled after a similar provision in the Antideficiency Act.

#### *Section 4. Application to Congress and the judicial branch*

This section is intended to strongly encourage the Senate, the House of Representatives and the Judicial Conference of the United States Courts to adopt the bill's financial management requirements. Effective management of the multi-billion dollar budgets of the legislative and judicial branches requires the same accurate financial information that is now required of agencies of the executive branch. Use of uniform accounting standards and financial management systems requirements across all branches of the Federal government would also permit interbranch analysis and comparisons. To this end, subsection (b) tasks the Secretary of the Senate and the Clerk of the House to complete a study together by October 1 1997, on how the legislative branch may achieve compliance with the bill's requirements. The Chief Justice shall also complete such a study by the same date regarding compliance by the Judicial Branch.

#### *Section 5. Reporting requirements*

The bill requires two separate reports. First, the Director of OMB is required to report no later than March 31 of each year on implementation of this Act. To minimize the burden, the Director is authorized to include this report as part of either of two CFO Act reports: the Financial Management Status Report or the 5-Year Financial Management Plan.

To aid congressional oversight, the bill requires the Comptroller General to report annually on agency financial management. The Committee expects that the Comptroller General's report will be summary in form. The purpose is to keep Congress advised on the availability and status of standards for Federal financial management: Is there a clearly established standard for agencies to follow at each level of financial management? Have these standards been updated? What is the status of compliance with these standards? Answers to these questions could be part of the Comptroller's report on the consolidated financial statements of the United States government.

### *Section 6. Conforming amendments*

Subsection (a) amends section 3521(f) of title 31, United States Code, so that the agency's financial statement auditor will supply a copy of the audit report to the Controller, Office of Federal Financial Management. Subsection (b) amends section 3512(a)(2) of title 31, United States Code, to include information in OMB's annual financial management status report concerning agency financial management systems that do not comply with the requirements of this bill, the period of time that they have been noncompliant, and a summary statement of remedial efforts underway.

### *Section 7. Definitions*

Section 7 contains a list of definitions. Two terms, "agency" and "Federal accounting standards" are defined by reference to the CFO Act. "[A]gency is defined by reference to the list of departments and independent agencies and commissions contained in section 901 (b) of title 31, United States Code. The definition of the term "Federal Accounting Standards" makes clear that it includes concept statements with respect to the objectives of Federal financial reporting developed [and issued] by FASAB. Section 7 also includes necessary definitions for "financial management systems," "financial and "mixed systems."

### *Section 8. Effective date*

The effective date of this Act is October 1, 1996. In other words, this Act would apply to any financial management statement initiated after this date, and an audit of such financial statement shall report whether the agency's financial management systems satisfy the bill's requirements.

## VI. REGULATORY IMPACT OF LEGISLATION

Pursuant to the requirements of paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee has considered the regulatory impact of S. 1130. The legislation is designed to improve the financial management systems of the Federal government and will have no adverse impact on the public:

- (1) Regulatory Impact.—The legislation will impose no regulations on individuals, consumers, or businesses;
- (2) Economic Impact.—The legislation will have no economic impact on individuals, consumers, or businesses;
- (3) Privacy Impact.—The legislation will have no privacy impact on individuals, consumers, or businesses; and
- (4) Paperwork Impact.—The legislation will impose no paperwork burdens on anyone outside the Federal government.



## VII. COST ESTIMATE OF LEGISLATION

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, June 13, 1996.*

Hon. TED STEVENS,  
*Chairman, Committee on Governmental Affairs, U.S. Senate, Wash-  
ington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed S. 1130, the Federal Financial Management Improvement Act of 1996, as ordered reported by the Senate Committee on Governmental Affairs on May 16, 1996. CBO estimates that enacting S. 1130 would result in no significant cost to the Federal government. Because the bill would not affect direct spending or receipts, pay-as-you-go procedures would not apply.

S. 1130 would require the 24 departments and agencies covered under the Chief Financial Officers (CFO) Act to comply with financial management procedures established by the Office of Management and Budget (OMB) under a program conducted jointly by OMB, the Treasury, and the General Accounting Office. The bill also would require the same departments and agencies to comply with accounting standards adopted by the Federal Accounting Standards Advisory Board (FASAB) and to use the United States Government Standard General Ledger to record transactions. For audits conducted after October 1, 1996, the bill would require that the auditor report whether an agency was in substantial compliance with the bill's provisions, and if not, report the names and positions of officers and employees responsible for the noncompliance, all facts pertaining to the noncompliance, a recommended course of action to correct the deficiencies, and a determination of whether those found responsible knowingly or willfully failed to comply with the law. If OMB's Office of Federal Financial Management concurs with an audit's finding of substantial noncompliance, the bill would direct it to assist the agency in developing a plan and time frame for remedying the deficiencies. If necessary, the bill would authorize OMB, subject to the availability of appropriations and to the approval of the agency head, to transfer up to two percent of available appropriations to help implement the plan.

CBO estimates that S. 1130 would not significantly increase costs to the Federal government because the bill would not increase the number of agencies covered by the CFO Act, these agencies already must comply with the bill's standards for financial management, and the bill would not appreciably increase the scope of the existing financial audits. To the extent that the bill's enforcement mechanisms increase the level of compliance with existing Federal financial laws, such as those within the Government Management Reform Act and the Government Performance and Results Act, S. 1130 could increase the quality of Federal financial information and possibly result in the better use of financial resources. CBO however, has no basis for attributing any budgetary savings to such potential effects.

S. 1130 contains no intergovernmental or private-sector mandates as defined by Public Law 104-4, and would not affect the budgets of state, local, or tribal governments.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is John R. Righter.

Sincerely,

JUNE E. O'NEILL, *Director*.

# VIII. TEXT OF S. 1130 AS REPORTED

A BILL To provide for the establishment of uniform accounting systems, standards, and reporting systems in the Federal government, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

## SECTION 1. SHORT TITLE.

This Act may be cited as the "Federal Financial Management Improvement Act of 1996".

## SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds the following:

(1) Much effort has been devoted to strengthening Federal internal accounting controls in the past. Although progress has been made in recent years, Federal accounting standards have not been uniformly implemented in financial management systems for agencies.

(2) Federal financial management continues to be seriously deficient, and Federal financial management and fiscal practices have failed to—

(A) identify costs fully;

(B) reflect the total liabilities of congressional actions;

and

(C) accurately report the financial condition of the Federal government.

(3) Current Federal accounting practices do not accurately report financial results of the Federal government or the full costs of programs and activities. The continued use of these practices undermines the government's ability to provide credible and reliable financial data and encourages already widespread government waste, and will not assist in achieving a balanced budget.

(4) Waste and inefficiency in the Federal government undermine the confidence of the American people in the government and reduce the Federal government's ability to address vital public needs adequately.

(5) To rebuild the accountability and credibility of the Federal government, and restore public confidence in the Federal government, agencies must incorporate accounting standards and reporting objectives established for the Federal government into their financial management systems so that all the assets and liabilities, revenues, and expenditures or expenses, and the full costs of programs and activities of the Federal government can be consistently and accurately recorded, monitored, and uniformly reported throughout the Federal government.

(6) Since its establishment in October 1990, the Federal Accounting Standards Advisory Board (hereinafter referred to as the "FASAB") has made substantial progress toward developing and recommending a comprehensive set of accounting con-

cepts and standards for the Federal government. When the accounting concepts and standards developed by FASAB are incorporated into Federal financial management systems, agencies will be able to provide cost and financial information that will assist the Congress and financial managers to evaluate the cost and performance of Federal programs and activities, and will therefore provide important information that has been lacking, but is needed for improved decisionmaking by financial managers and the Congress.

(7) The development of financial management systems with the capacity to support these standards and concepts will, over the long term, improve Federal financial management.

(b) PURPOSES.—The purposes of this Act are to—

(1) provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards throughout the Federal government;

(2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, to the citizens, the Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits;

(3) increase the accountability and credibility of Federal financial management;

(4) improve performance, productivity and efficiency of Federal government financial management;

(5) establish financial management systems to support controlling the cost of Federal government;

(6) build upon and complement the Chief Financial Officers Act of 1990 (Public Law 101–576; 104 Stat. 2838), the Government Performance and Results Act of 1993 (Public Law 103–62; 107 Stat. 285), and the Government Management Reform Act of 1994 (Public Law 103–356; 108 Stat. 3410); and

(7) increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities.

### **SEC. 3. IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS.**

(a) IN GENERAL.—Each agency shall implement and maintain financial management systems that comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

(b) PRIORITY.—Each agency shall give priority in funding and provide sufficient resources to implement this Act.

(c) AUDIT COMPLIANCE FINDING.—

(1) IN GENERAL.—Each audit required by section 3521(e) of title 31, United States Code, shall report whether the agency financial management systems comply with the requirements of subsection (a).

(2) CONTENT OF REPORTS.—When the person performing the audit required by section 3521(e) of title 31, United States Code, reports that the agency financial management systems do not comply with the requirements of subsection (a), the per-

son performing the audit shall include in the report on the audit—

(A) the name and position of any officer or employee responsible for the financial management systems that have been found not to comply with the requirements of subsection (a);

(B) all facts pertaining to the failure to comply with the requirements of subsection (a), including—

(i) the nature and extent of the noncompliance;

(ii) the primary reason or cause of the noncompliance;

(iii) any official responsible for the noncompliance; and

(iv) any relevant comments from any responsible officer or employee; and

(C) a statement with respect to the recommended remedial actions and the timeframes to implement such actions.

(d) COMPLIANCE DETERMINATION.—

(1) IN GENERAL.—No later than the date described under paragraph (2), the Director, acting through the Controller of the Office of Federal Financial Management, shall determine whether the financial management systems of an agency comply with the requirements of subsection (a). Such determination shall be based on—

(A) a review of the report on the applicable agency-wide audited financial statement;

(B) the agency comments on such report; and

(C) any other information the Director considers relevant and appropriate.

(2) DATE OF DETERMINATION.—The determination under paragraph (1) shall be made no later than 90 days after the earlier of—

(A) the date of the receipt of an agency-wide audited financial statement; or

(B) the last day of the fiscal year following the year covered by such statement.

(e) COMPLIANCE IMPLEMENTATION.—

(1) IN GENERAL.—If the Director determines that the financial management systems of an agency do not comply with the requirements of subsection (a), the head of the agency, in consultation with the Director, shall establish a remediation plan that shall include the resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into compliance.

(2) TIME PERIOD FOR COMPLIANCE.—A remediation plan shall bring the agency's financial management systems into compliance no later than 2 years after the date on which the Director makes a determination under paragraph (1), unless the agency, with concurrence of the Director—

(A) determines that the agency's financial management systems are so deficient as to preclude compliance with the requirements of subsection (a) within 2 years;

(B) specifies the most feasible date for bringing the agency's financial management systems into compliance with the requirements of subsection (a); and

(C) designates an official of the agency who shall be responsible for bringing the agency's financial management systems into compliance with the requirements of subsection (a) by the date specified under subparagraph (B).

(3) **TRANSFER OF FUNDS FOR CERTAIN IMPROVEMENTS.**—For an agency that has established a remediation plan under paragraph (2), the head of the agency, to the extent provided in an appropriation and with the concurrence of the Director, may transfer not to exceed 2 percent of available agency appropriations to be merged with and to be available for the same period of time as the appropriation or fund to which transferred, for priority financial management system improvements. Such authority shall be used only for priority financial management system improvements as identified by the head of the agency, with the concurrence of the Director, and in no case for an item for which Congress has denied funds. The head of the agency shall notify Congress 30 days before such a transfer is made pursuant to such authority.

(4) **REPORT OF NONCOMPLIANCE WITHIN TIME PERIOD.**—If an agency fails to bring its financial management systems into compliance within the time period specified under paragraph (2), the Director shall submit a report of such failure to the Committees on Governmental Affairs and Appropriations of the Senate and the Committees on Government Reform and Oversight and Appropriations of the House of Representatives. The report shall include—

(A) the name and position of any officer or employee responsible for the financial management systems that have been found not to comply with the requirements of subsection (a);

(B) the facts pertaining to the failure to comply with the requirements of subsection (a), including the nature and extent of the noncompliance, the primary reason or cause for the failure to comply, and any extenuating circumstances;

(C) a statement of the remedial actions needed; and

(D) a statement of any administrative action to be taken with respect to any responsible officer or employee.

(f) **PERSONAL RESPONSIBILITY.**—Any financial officer or program manager who knowingly and willfully commits, permits, or authorizes material deviation from the requirements of subsection (a) may be subject to administrative disciplinary action, suspension from duty, or removal from office.

#### **SEC. 4. APPLICATION TO CONGRESS AND THE JUDICIAL BRANCH.**

(a) **IN GENERAL.**—The Federal financial management requirements of this Act may be adopted by—

(1) the Senate by resolution as an exercise of the rulemaking power of the Senate;

(2) the House of Representatives by resolution as an exercise of the rulemaking power of the House of Representatives; or

(3) the Judicial Conference of the United States by regulation for the judicial branch.

(b) STUDY AND REPORT.—No later than October 1, 1997—

(1) the Secretary of the Senate and the Clerk of the House of Representatives shall jointly conduct a study and submit a report to Congress on how the offices and committees of the Senate and the House of Representatives, and all offices and agencies of the legislative branch may achieve compliance with financial management and accounting standards in a manner comparable to the requirements of this Act; and

(2) the Chief Justice of the United States shall conduct a study and submit a report to Congress on how the judiciary may achieve compliance with financial management and accounting standards in a manner comparable to the requirements of this Act.

#### **SEC. 5. REPORTING REQUIREMENTS.**

(a) REPORTS BY DIRECTOR.—No later than March 31 of each year, the Director shall submit a report to the Congress regarding implementation of this Act. The Director may include the report in the financial management status report and the 5-year financial management plan submitted under section 3512(a)(1) of title 31, United States Code.

(b) REPORTS BY THE COMPTROLLER GENERAL.—No later than October 1, 1997, and October 1, of each year thereafter, the Comptroller General of the United States shall report to the appropriate committees of the Congress concerning—

(1) compliance with the requirements of section 3(a) of this Act, including whether the financial statements of the Federal government have been prepared in accordance with applicable accounting standards; and

(2) the adequacy of uniform accounting standards for the Federal government.

#### **SEC. 6. CONFORMING AMENDMENTS.**

(a) AUDITS BY AGENCIES.—Section 3521(f)(1) of title 31, United States Code, is amended in the first sentence by inserting “and the Controller of the Office of Federal Financial Management” before the period.

(b) FINANCIAL MANAGEMENT STATUS REPORT.—Section 3512(a)(2) of title 31, United States Code, is amended by—

(1) in subparagraph (D) by striking “and” after the semicolon;

(2) by redesignating subparagraph (E) as subparagraph (F); and

(3) by inserting after subparagraph (D) the following:

“(E) a listing of agencies whose financial management systems do not comply substantially with the requirements of the Federal Financial Management Improvement Act of 1996, the period of time that such agencies have not been in compliance, and a summary statement of the efforts underway to remedy the noncompliance; and”.

#### **SEC. 7. DEFINITIONS.**

For purposes of this Act:

(1) AGENCY.—The term “agency” means a department or agency of the United States government as defined in section 901(b) of title 31, United States Code.

(2) DIRECTOR.—The term “Director” means the Director of the Office of Management and Budget.

(3) FEDERAL ACCOUNTING STANDARDS.—The term “Federal accounting standards” means applicable accounting principles, standards, and requirements consistent with section 902(a)(3)(A) of title 31, United States Code, and includes concept statements with respect to the objectives of Federal financial reporting.

(4) FINANCIAL MANAGEMENT SYSTEMS.—The term “financial management systems” includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

(5) FINANCIAL SYSTEM.—The term “financial system” includes an information system, comprised of one or more applications, that is used for—

(A) collecting, processing, maintaining, transmitting, or reporting data about financial events;

(B) supporting financial planning or budgeting activities;

(C) accumulating and reporting costs information; or

(D) supporting the preparation of financial statements.

(6) MIXED SYSTEM.—The term “mixed system” means an information system that supports both financial and nonfinancial functions of the Federal government or components thereof.

#### **SEC. 8. EFFECTIVE DATE.**

This Act shall take effect on October 1, 1996.

#### **IX. CHANGES TO EXISTING LAW**

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law to which no change is proposed is shown in roman):

## **UNITED STATES CODE**

\* \* \* \* \*

## **TITLE 31—MONEY AND FINANCE**

### **CHAPTER 35—ACCOUNTING AND COLLECTION**

Section 3512(a)(2):

(D) a summary of reports on internal accounting and administrative control systems submitted to the President and the Congress under the amendments made by the

Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255); **[and]**

*(E) a listing of agencies whose financial management systems do not comply substantially with the requirements of the Federal Financial Management Improvement Act of 1996, the period of time that such agencies have not been in compliance, and a summary statement of the efforts underway to remedy the noncompliance; and*

**[(E)]** (F) any other information the Director considers appropriate to fully inform the Congress regarding the financial management of the Federal Government.

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Section 3521(f):

(1) For each audited financial statement required under subsections (a) and (f) of section 3515 of this title, the person who audits the statement for purpose of subsection (e) of this section shall submit a report on the audit to the head of the agency *and the Controller of the Office of Federal Financial Management*. A report under this subsection shall be prepared in accordance with generally accepted government auditing standards.

