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The Office of Federal Financial Management: An Overview

Introduction

In an effort to improve federal financial management, Congress established the Office of Federal Financial Management (OFFM). A component of the Office of Management and Budget (OMB), OFFM centralizes the development and implementation of financial management policies, reviews agency audit reports, and leads the Chief Financial Officer (CFO) Council, among other statutory responsibilities. Given its central role in managing financial management improvements across the executive branch, OFFM's structure and policy focus, as well as the effectiveness of its activities, may raise issues for Congress.

Origin of OFFM

The Chief Financial Officers Act of 1990 (CFO Act) was the result of five years of bipartisan effort to increase federal accountability through financial management reforms. The CFO Act sought to improve agency financial management systems to reduce fraud, waste, and abuse of government resources, and ensure agencies produce complete, reliable, timely, and consistent financial information to inform decisionmaking. Through the CFO Act, Congress statutorily vested responsibility for coordinating federal financial management practices in OMB. To implement improvements, the CFO Act established OFFM within OMB.

OFFM Roles

OMB Deputy Director for Management

The CFO Act established the presidentially appointed, Senate-confirmed role of Deputy Director for Management (DDM), who reports directly to the OMB Director and is the primary official responsible for financial management in the U.S. government (31 U.S.C. § 502). The DDM's functions include establishing government-wide policies for executive-branch agencies in the areas of financial management, program and project management, and general management (31 U.S.C. § 503).

OFFM Controller

The CFO Act also established the presidentially appointed, Senate-confirmed role of OFFM Controller (31 U.S.C. § 504). The Controller—who is the head of OFFM—reports directly to the DDM and is responsible for carrying out the DDM's financial management functions (31 U.S.C. § 504(a)). The Controller serves a four-year term intended to bring stability to the role, and provide the Controller sufficient time to implement and maintain a federal financial management program. In FY2020, the office employed 17 personnel working under the direction of the Controller.

OFFM Functions

Financial Management Implementation

The OFFM Controller's financial management functions include

- establishing financial management policies and requirements in the executive branch, and issuing policies and directives to guide their implementation;
- advising the DDM on the requirements for developing, operating, and improving financial management systems;
- leading the activities of the CFO Council, settling disputes among executive agencies around the implementation of financial management policies, and facilitating the exchange of best practices with state and local government CFOs; and
- maintaining qualification standards for CFOs and other financial management staff, and providing agencies with advice on their selection and retention.

Agency Audit Reports

Congress has required most executive branch agencies to prepare annual audited financial statements and submit them to Congress and the OMB Director (31 U.S.C. § 3515(a)). Auditors appointed by agency inspectors general must also submit the accompanying audit reports to the agency head and the OFFM Controller (31 U.S.C. § 3521(f)). In practice, these audit reports are included with the agency financial statements in an annual report.

OMB *Circular A-136* provides guidance to executive-branch agencies on the preparation of audited financial statements and annual reports (31 U.S.C. § 3515(d)). These annual reports can take the form of a Performance and Accountability Report (PAR) or an Agency Financial Report (AFR) for executive-branch agencies, and an Agency Management Report (AMR) for government corporations. OFFM reviews these annual reports to verify that they contain the required information—as documented in *Circular A-136*—in addition to compiling and tracking material weaknesses described in the annual reports.

Government-Wide Improvement Plan

OMB must annually submit to Congress a government-wide five-year plan describing how the OMB Director, the DDM, the OFFM Controller, and agency CFOs plan to improve federal financial management (31 U.S.C. § 3512(a)). The five-year plan must (1) provide a strategy for integrating agency financial management systems, (2) identify projects for bringing systems into compliance with

applicable accounting standards, and (3) contain milestones for achieving these goals while identifying the required personnel and resources, in addition to other requirements.

OMB previously published the financial management status report and government-wide five-year plan in a single document called the *Federal Financial Management Report*. Since 2009, OMB has ceased publishing a single document covering the statutory requirements, and it is unclear to CRS where the required components may be found.

Review and Revision of Circulars

OFFM provides executive-branch agencies with policy guidance on financial management topics including the preparation and audit of financial statements; financial systems requirements; and management controls through the periodic review, revision, and dissemination of OMB circulars. OFFM also serves as a point of contact for agency inquiries related to several circulars, including *Circular A-136*, which provides guidance to agencies on the preparation of financial statements, and *Circular A-123*, which provides agencies with requirements for establishing, assessing, and reporting on the status of internal controls.

OFFM Council Membership

A CFO Council consisting of the DDM, the OFFM Controller, the Fiscal Assistant Secretary of the Treasury, and 24 agency CFOs was established to coordinate agency activity on financial modernization and improvement (31 U.S.C. §901 note). The DDM serves as council chair, and the Controller leads the council's activities on the DDM's behalf. The CFO Council has several statutory responsibilities, including disseminating best practices in the areas of financial system modernization, quality of financial information, financial data standards, and internal controls (31 U.S.C. §901 note). In practice, this consultative body provides agencies' perspectives to OMB and assists OFFM with the drafting of some financial management policies.

In addition to leading the CFO Council, the OFFM Controller is also a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and the Program Management Policy Council. Pursuant to the Inspector General Reform Act of 2008, CIGIE has several responsibilities, including sharing best practices among agency inspectors general and identifying, reviewing, and discussing areas of weakness and vulnerability in federal programs (5 U.S.C. App § 11). The Program Management Improvement Accountability Act created the Program Management Policy Council, which is responsible for, among other things, coordinating and improving agency

practices related to program and project management (31 U.S.C. § 1126(b)).

Other OFFM Functions

OFFM performs additional functions peripheral to its federal financial management responsibilities under the CFO Act. For example, the OFFM Controller must work with the CFO Council and other stakeholders to incorporate "Open Data Policy" requirements into federal acquisition and grant-making processes (Executive Order 13642; see 5 U.S.C. §552 note). The "Open Data Policy," as described in the executive order, requires that new and modernized government information technology (IT) resources be machine-readable and publicly available, subject to existing security and privacy restrictions. OFFM performs various other financial management functions to support the DDM, which are not covered in detail in this In Focus.

Issues for Congress

Given the central role OFFM plays in federal financial management, Congress may evaluate the structure and effectiveness of the office. Potential issues may be grouped into two categories:

OFFM Structure and Policy Focus: Does OFFM have the appropriate number of personnel to perform its various duties? What is the proper scope for OFFM's activities? What is the proper balance between OMB and executive-branch agencies regarding financial management improvements? Can OMB find potential benefits by viewing federal financial management improvements and federal IT improvements holistically?

Financial Management Effectiveness: Should private-sector financial management practices align with agencies whose missions lack a clear profit motive? What is the appropriate frequency for publishing government-wide financial management improvement plans, and what information should they contain? Have federal financial management reforms produced more accurate data for internal and external decisionmakers?

In evaluating these questions, Congress may consider policy options that involve trade-offs in terms of financial cost and personnel allocation. These policy options may also improve the quality of financial information provided to internal and external decisionmakers.

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