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Federal Financial and Budgetary Reporting: A Primer

Introduction

To improve the transparency and integrity of the federal government and its activities, Congress has established in law a still-evolving framework for budgetary and financial reporting. This *In Focus* outlines several categories of reporting and related statutory requirements for executive branch entities. Financial and budgetary reporting may help Congress, the President, and agency executives make better informed decisions about the allocation and use of government resources and guard against potential misuse and misapplication of such resources. Accordingly, the design and implementation of these laws may raise issues for Congress.

Major Areas of Reporting

Agency Audited Financial Statements

Beginning in 1990, Congress has mandated that most executive branch agencies prepare annual audited financial statements and submit them to Congress and the director of the Office of Management and Budget (OMB) (31 U.S.C. §3515(a)). At agencies with statutorily appointed inspectors general (IGs), these annual audits are to be directed by the agency IG, but in practice such audits are typically contracted by the IG to an independent public auditor. The Chief Financial Officers (CFO) Act of 1990 established the position of CFO at 24 large executive branch agencies—known since 1990 as the “CFO Act agencies” (31 U.S.C. §901(b)). Each CFO Act agency must submit an annual report to the agency head and OMB containing the aforementioned financial statements and audit reports (31 U.S.C. §902(a)(6)).

OMB provides guidance to executive agencies on the preparation of financial statements in *Circular A-136* (see 31 U.S.C. §3515(d)). These annual reports may be included in an agency’s Performance and Accountability Report (PAR) or an Agency Financial Report (AFR). OMB is then required to submit a “financial management status report” to Congress summarizing agency financial statements and audit reports (31 U.S.C. §3512(a)(2)).

Government-Wide Reporting

In addition to agency-level financial reporting, the Department of the Treasury, in coordination with OMB, is required to submit a government-wide audited financial report to Congress and the President (31 U.S.C. §331(e)(1), enacted in 1994 as part of the Government Management Reform Act). The report, known as the *Financial Report of the United States Government*, compiles information included in agency-level audited financial statements and annual reports. The Government Accountability Office (GAO) audits the government-wide report (31 U.S.C. §331(e)(2)).

Current law also requires Treasury to release annually a publication detailing government receipts and outlays (see 31 U.S.C. §3513(a)). Since 2001, this report has been called the *Combined Statement of Receipts, Outlays, and Balances of the U.S. Government*. The report includes, among other things, details of (1) receipts by source and (2) appropriations, outlays, and balances by agency and account.

Financial Management Improvement

Congress also established mechanisms to identify financial management improvements. CFOs within CFO Act agencies must include a financial management status update in the agency’s annual report (31 U.S.C. §902(a)(6)). Separately, OMB must annually submit to Congress both a report describing the status of financial management in the executive branch and a government-wide five-year plan for improving federal financial management (31 U.S.C. §3512(a)). 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.

Internal Controls Reporting

Congress has passed two pieces of legislation instituting requirements for internal controls at executive agencies. Agencies are required to establish internal accounting and administrative controls (31 U.S.C. §3512(c)(1)), a provision included in the Federal Managers’ Financial Integrity Act of 1982 [FMFIA]). Additionally, agencies must identify non-compliant accounting and administrative systems and report a remediation plan to Congress and the President annually (31 U.S.C. §3512(d)(2)). In practice, agencies include this reporting with annually audited financial statements.

Another statutory provision focuses on financial management systems and applies only to the 24 CFO Act agencies (see 31 U.S.C. §3512 note, commonly referred to as the Federal Financial Management Improvement Act of 1996 [FFMIA]). This provision requires federal agencies to implement and maintain financial management systems that comply substantially with federal system requirements, federal accounting standards (in practice, as defined by the Federal Accounting Standards Advisory Board (FASAB)), and the United States Government Standard General Ledger at the transaction level (31 U.S.C. §3512 note). CFO Act agencies and their auditors must attest to the compliance of agency financial systems with federal requirements and recommend remedial actions in annual audit reports (31 U.S.C. §3512 note). Annually, OMB must summarize

agency internal controls reports as well as identify agencies failing to comply with federal financial management system requirements in a status report submitted to Congress (31 U.S.C. §3512(a)(2)). In practice, Treasury and OMB publish this information in the *Financial Report of the United States Government*.

President's Budget Submission

The President's annual budget submission is one of the most comprehensive modes of reporting budgetary information. The President is required annually to submit a consolidated budget to Congress that must include, in part, estimated receipts, expenditures, and proposed appropriations for the next five fiscal years and actual receipts, expenditures, and appropriations for the previous fiscal year (31 U.S.C. §1105(a)). Account-level information about actual and proposed budgets is included in the *Budget Appendix* volume. The *Appendix* contains, for each account, prior year obligations, current year appropriations, and proposed appropriations, among other information.

Reporting on Federal Awards

In 2006, Congress mandated the creation of a publicly available database of all recipients of federal grants, loans, contracts, and other forms of assistance. The USAspending.gov website was established pursuant to the Federal Funding Accountability and Transparency Act (FFATA). Current law requires that award information be made available on a searchable website within 30 days of the award date (see 31 U.S.C. §6101 note). Federal award information is found at the Award Search portal on USAspending.gov. Current data sources for USAspending.gov include (1) agency financial system(s) and award system(s), (2) the FFATA Sub-award Reporting System, (3) the System for Award Management (SAM), and (4) the Federal Procurement Data System Next Generation (FPDS-NG or FPDS).

Reporting on Budget Execution

Congress has passed two separate provisions that resulted in extensive reporting on budget execution at the account level: disclosure on USAspending.gov and periodic review of the pace of federal spending via *SF-133* reports.

In 2014, Congress mandated account-level reporting on appropriated amounts and obligations, among other requirements (FFATA, as amended by the Digital Accountability and Transparency Act of 2014; see 31 U.S.C. §6101 note). This account-level view of budget execution is made publicly available at the Spending Explorer portal on USAspending.gov.

Separately, OMB established the *SF-133 Report on Budget Execution and Budgetary Resources* to fulfill a statutory requirement for the President to review the pace of obligations or expenditures at least four times annually (31 U.S.C. §1512(d)). *SF-133s* have historically provided quarterly snapshots of appropriations and obligations at the account level. These reports are posted on the OMB MAX.gov website and are populated using data submitted

by agencies to the Treasury's Government-wide Treasury Account Symbol Adjusted Trial Balance System.

Improper Payment Reporting

Congress has enacted multiple provisions seeking to reduce the incidence of improper payments. Current law requires executive agencies to, among other things, estimate the amount of improper payments for programs identified as susceptible to "significant" improper payments and implement a plan to reduce and recover improper payments (31 U.S.C. §3352(a), (c), and (d); included in the Payment Integrity Information Act of 2019). Improper payments reporting requirements are typically met via AFRs or PARs. In 2009, OMB established PaymentAccuracy.gov, where agencies with "high priority" programs must report rates and amounts of improper payments and targets for reducing improper payments, among other requirements (Executive Order 13520; see 31 U.S.C. §3321 note).

Other Forms of Financial and Budgetary Reporting

Other modes of budgetary and financial reporting have been enacted into law that are not discussed here. Examples include, but are not limited to, Congressional Budget Office reports to House and Senate Budget Committees (2 U.S.C. §602(e)) and program-level reporting such as the annual Old-Age and Survivors Insurance and Federal Disability Insurance Trustees report (42 U.S.C. §401(c)).

Issues for Congress

Congress has taken a sustained interest in financial and budgetary reporting. For the purposes of this *In Focus*, potential issues may be grouped in two categories:

1. **External stakeholder needs:** Do diverse stakeholders find currently reported financial and budgetary information useful and at the right levels of detail? To what extent do "clean" audit opinions translate into meaningful information for stakeholders and improved financial management? What options may Congress consider for transparency of government-, agency-, account-, and program-level information?
2. **Internal stakeholder needs:** Within agencies, can legacy financial and budgetary systems ensure efficient, timely, and accurate reporting? Are reporting requirements causing duplications of effort? How might data and systems be integrated? What are the consequences for non-compliance?

In evaluating these questions, Congress may consider policy options that involve trade-offs and synergies. For example, increased transparency might entail additional costs, and replacement of legacy systems and manual processes might reduce long-term costs and increase accuracy.

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