

# A Conversation with Danny Werfel, Controller Office of Federal Financial Management, Office of Management and Budget

*Sound financial management is essential to the effective stewardship of taxpayer dollars and enables federal agency decision-makers to make tough choices on day-to-day and long-term management challenges. Good government; that is, government fiscally responsible to its people, has in its charge making operations more responsive, efficient, and accountable, getting rid of waste and saving money. In an era of tight budgets, this charge has taken on significance beyond the fundamentals to encompass the government-wide improvement of financial management.*

*What are the top federal financial management priorities? How does the Office of Management and Budget work to implement them? What is the federal government doing to reduce and eliminate improper payments? How is OMB working to transform the way government does business? Danny Werfel, Controller, OMB's Office of Federal Financial Management, joined me on The Business of Government Hour to explore these questions and more. The following provides an edited excerpt from our interview. – Michael J. Keegan*

## **On the History and Mission of the Office of Management and Budget**

OMB has a long history. It was called the Bureau of Budget; it moved out of the Treasury Department and became a stand-alone entity with a more direct nexus to the President. Later the management function was added and the name expanded to the Office of Management and Budget. We have roughly 500 people ... which is small by government standards; it's a place where everybody knows your name. It has a relatively flat hierarchy—given our size and need to be nimble and dynamic, it's not unusual for anyone from the highest-ranking political appointee or a GS-9 policy analyst to be meeting with the OMB director. For this reason, it's an enormously exciting place to work.

About two-thirds of our staff are on the budget side while one-third are on the management side. On the budget side, we essentially break up the government into smaller pieces



and have dedicated offices that work in those areas, so we'll have a labor branch, an education branch, or a homeland security branch. Each branch will have anywhere between six and 10 staff; they are the dedicated experts for that organization, advising the President and OMB director on all the issues that impact the policies, operations, and management of that particular agency.

Their core responsibilities involve developing the [agency] budget requests. For example, an agency will submit its proposed budget request to OMB annually in September; the examiners will evaluate that request, surface key questions for the OMB director to consider, and then make a final set of recommendations to the director and ultimately to the President on the proposed budget for that particular agency. In addition to working on the budget, OMB examiners involve themselves in a whole host of [agency] activities.

This is a good segue into the management side of OMB, which takes a much more horizontal view of the federal government. Our management offices are set up around functions such as financial management, procurement, performance, regulations, and information technology. Our responsibility is across government; we don't have a particular responsibility to dive deep into an agency. Instead our focus is on the area that we're responsible for, in my case financial management, across the whole of government. That's a quick overview of OMB; it's a very exciting and dynamic place to work.

### **On the Office of Federal Financial Management and the Duties of the Controller**

The Office of Federal Financial Management was created with the passage of the Chief Financial Officers Act of 1990. The office coordinates OMB's efforts to initiate government-wide improvements in all areas of financial management. The position of controller was created to lead this office. The controller is a presidentially appointed, Senate-confirmed position. Leading up to the passage of the CFO Act, many were pointing to fundamental lapses in how federal agencies tracked and accounted for federal funds and mitigated fraud, waste, and abuse. They looked to the corporate environment as a model. Corporations had chief financial officers and also a set of standard financial statements and an audit of those financial statements. [Replicating such a model in the federal government] would help instill some discipline and rigor around fundamental questions of how money is tracked, how assets are accounted for, how liabilities are recorded, and how these items are made transparent. This act created a chief financial officer position within all of our major federal agencies, further initiated the process of annual financial statements, and put the CFO in charge of developing systems, processes, and technologies to capture proper financial information for inclusion in auditable financial statements. The CFO Act also created the CFO Council, and the controller runs the day-to-day and longer term operations of the CFO Council; this is a mechanism to foster collaboration and a one-government approach to tackling many of the financial management challenges the federal government faces.

### **On the Administration's Federal Financial Management Priorities**

When the President talks about the work and priorities of the federal financial management community ... it's either about cutting waste or it's about building a government for the 21st century.

The Campaign to Cut Waste was launched by the President through an executive order in June 2011. We have a variety



of objectives we're trying to achieve under this campaign. They may not necessarily eliminate our deficit, but they represent dollars and every dollar counts. We can hold on to our vehicles longer; we don't need a printer on every desk; and we don't need to travel just for the sake of traveling. We put this commitment in the President's budget that all the agencies would cut 20 percent of administrative expenses, totaling \$8 billion; it's significant. In the end, we should be thinking about every penny, just like small businesses and households are thinking about every penny today. We need to do more with less; we have to innovate with less, and we have to find ways to manage our resources more effectively. There are other initiatives being pursued to eliminate unnecessary expenditures, such as reducing/eliminating improper payments and managing our real estate more effectively.

We are also focusing on building a 21st-century government. I'd like to highlight our efforts in the open government and transparency effort. This is an area that President Obama has championed for his entire federal career. When he was senator he cosponsored the Transparency Act with Senator Tom Coburn, which launched [usaspending.gov](http://usaspending.gov) in 2006; it was a seminal piece of legislation that really set the course for reporting on where federal dollars end up. Now there are efforts and initiatives underway to make even more details transparent and to make these websites even more functional and user-friendly. [Since] 2006 ... we have [created] a whole new world of data and tools for the citizen to know where the dollars are going. There's more to do as information could be more reliable, more comprehensive, and presented in a way that's easier to navigate.

## On the Financial Management Challenges facing Federal Agencies

**Declining budgets.** The most obvious challenge is declining resources—the budget cuts facing federal agencies and how they should respond. We have a dual-pronged challenge of trying to modernize and make government more efficient under budgetary constraints. Every agency has been impacted by cuts to their budget. At the same time, operating with limited budgets cannot lead to a deterioration in services or government effectiveness. This new reality creates tension. Agencies have less money to invest in information technology, personnel, reengineering business processes; but at the same time they have a pressure and an expectation from the President, Congress, and the American people to improve government. I’m working with federal agencies to define steps that they can take and investments they can make to have the highest impact; it’s about managing the tension between resources and expectations.

**Breaking old habits.** To navigate this tension, the second challenge involves breaking old habits through innovation. For example, information technology: we have an approach that we’ve taken to modernize business systems in government over the last decade. The approach has proven to be slow and expensive; if we’re going to modernize business systems in a declining resource environment, then we have to change underlying assumptions. We need to make these system modernizations less expensive, do them more quickly,

and get more performance from them sooner. In the government, we have a responsibility to the taxpayer. We need to make sure that we’re buying only what we need. Breaking old habits isn’t easy, but our current budget reality demands it.

**Creating a culture of collaboration.** The third challenge is closely related to the previous two, and it involves creating a culture of collaboration. The federal finance community has been doing this since the 1990s, but even today we have room for improvement. How do we make sure that we are zeroing in on innovations in the areas of government performance and finance? If one agency has a success, how do we create an environment where other agencies can leverage that success? Along with successes, how can agencies teach each other about their failures, so all can learn and understand what happened, what went wrong? In navigating the tension between a lower resource environment and the need to modernize and become more efficient, we are going to have to develop even more of a collaborative atmosphere than we’ve achieved today.

## On Tackling Improper Payments

I live and breathe the issue every day. There are current efforts for preventing, reducing, and recapturing improper payments. It is a pressing issue of financial management that impacts the government’s bottom line. We pay benefits to individuals, pay contractors for services, reimburse doctors for Medicare services, grants to states, all different variations of payments. Improper payments occur when funds go to the wrong recipient, an ineligible recipient receives a payment, the proper recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or the recipient uses funds in an improper manner. Though not all errors are fraud or waste, all payment errors degrade the integrity of government programs. Citizens’ trust in government is fundamental to our bottom line.

[Under the direction of the Office of Management and Budget (OMB), agencies have identified the programs that are susceptible to significant improper payments, and measured, or are putting in place measurement plans, to determine the estimated amount of improper payments. By identifying and measuring the problem, and determining the root causes of error, the government is able to focus its resources so that corrective action plans can be thoughtfully developed and successfully carried out.] The more typical improper payment occurs when we lack the ability to validate whether the payment is correct. The largest sources of error in the government are in Medicare and Medicaid; those programs make up half our balance sheet. This is a



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anomalies. In addition, we issued a memorandum on Reducing Improper Payments through the "Do Not Pay" list. [This will help agencies avoid making payments to individuals or entities who should not be receiving federal funds, such as debarred contractors or deceased federal employees. By providing a single point of access to an array of databases and using data analytics, federal agencies have new tools to stop improper payments before they occur.]

### On Lessons Learned from the Recovery Act Efforts

It was an enormous management effort to carry out the very challenging transparency and accountability requirements of the Recovery Act in real time. It required the development of a new nationwide cross-government data system; it all had to be done in a matter of months: the technology, the definition of the data, and then the training, and outreach to what turned out to be over 100,000 different recipients that were going to have to report.

very complex terrain. [In fiscal year (FY) 2011, federal agencies reported a government-wide improper payment rate of 4.69%, a sharp decrease from the 5.3% improper payment rate that was reported in FY 2010. Improper payments totaled approximately \$115 billion in FY 2011.] What we've tried to do is find the errors where we have the best chance of initiating changes to improve.

There are some promising areas where we are leveraging data, technology, and innovations to drive down these errors. We have access to so many different sources of information that federal agencies didn't have before that can help us make smarter decisions. There are databases that previously didn't have the interoperability with each other in real time, providing information that can help figure out the risk of sending a payment. We can manage data more effectively, use analytics to make better decisions, and identify

We learned so much about the federal government. Our data and accounts are not standardized. In many ways, the information that we hold in our financial systems doesn't lend itself to being produced in a way that the citizens are demanding or [that] can be well understood. We learned about some of the challenges that can take place when you rely on the recipients to report the information.

I first thought, this is great, because it takes all the pressure off us—the recipients will be the responsible party. I was wrong because when mistakes were made it ultimately fell, as I should have predicted, on the executive branch of government. The big lesson learned there is that at the end of the day you have to route everything back to the agency. The agency has to have a solid and comprehensive understanding of what it's paying out, who it's paying, and needs to manage any anomalies in the data. As we move forward on spending transparency, I think there is this debate that's going on in some circles about whether we anchor the program to what the agencies are reporting they spent or what the recipients are reporting they receive. The ultimate answer is that both



are necessary; they have to reconcile to one another, yet ultimately it's the agency that's going to be what we call the control total.

Agencies also developed robust procedures to identify anomalies in their Recovery Act reporting and understand the gaps between what was paid out and what was being reported in. Our compliance rates on the Recovery Act were north of 99 percent, so how do we harness this and apply it to other types of spending transparency? As a result, we created what we call the Schedule of Spend. It's a new statement that hadn't existed before. It would be a financial statement that would aggregate critical information on what you're spending. If you were to receive a clean audit opinion on the Schedule of Spend, then it would indicate that the information you're feeding into [Usaspending.gov](http://Usaspending.gov) is reliable and it's comprehensive. We'd like to see the Schedule of Spend be one of the principal financial statements. We think that's going to have a large impact on improving reliability over time.

### On Working to Achieve a Clean, Unqualified Opinion on Government-Wide Financial Statements

I'm extremely proud of the accomplishments of the federal financial management community. In 1990, there were no CFOs and no financial statements. Today just about every agency has a clean opinion or at least a qualified opinion. For over a decade, these financial statements were coming in six months or later after the fiscal year. Now [it's] 45 days after the fiscal year. The number of weaknesses found and concerns raised by auditors are steeply declining over time.

We only have one agency that has yet to receive an opinion on their financial statements, and that's the U.S. Department of Defense. This is the main reason why we don't have a clean opinion at the consolidated level. It's the largest and most complex organization in the world. The systems don't integrate and/or are not interoperable. To modernize these systems is expensive and difficult and doing it is exponentially more challenging for DoD than every other organization in government. This is not an excuse; they need to do it, they need to get the job done, and they have made progress, but there is still more to be done in this area. Secretary Panetta has been clear in seeking to accelerate the time-frames for the department to achieve its goals.

### On the Issues Facing the Federal CFO Community Going Forward

The number one pressing issue focuses on people, our human capital. We have a large number of federal government employees eligible to retire, but it's more than simply succession planning. We also have budget cuts that we're facing, so in many cases we're going to have to figure out how to do things with fewer staff. Another issue involves the changing needs in skill sets. In the financial management community, analytics are becoming more important. Once we put traditional accounting functions on a more stable platform, it enables us to shift into performing more analysis. It's those analytics that are going to make us smarter and make better decisions. In the end, all of this starts and ends with the workforce; we have an opportunity to bring new people in from the private sector, from schools to grow our workforce differently, and to right-size it to meet the challenges we face ahead of us; and, this is going to be the major challenge for the financial community going forward. ■

To learn more about the Office of Management and Budget, go to [www.whitehouse.gov](http://www.whitehouse.gov).



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To read the full transcript of *The Business of Government Hour's* interview with Danny Werfel, visit the Center's website at [www.businessofgovernment.org](http://www.businessofgovernment.org).