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THE EVOLUTION OF FEDERAL FINANCIAL MANAGEMENT: A REVIEW OF THE NEED TO CONSOLIDATE, SIMPLIFY, AND STREAMLINE

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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CONTENTS

	Page
Hearing held on June 22, 2005	1
Statement of:	
DeSeve, G. Edward, vice chairman, Board of Directors, National Academy of Public Administration	16
Kearney, Edward F., managing partner, accompanied by Cornelius E. Tierney, Kearney & Co.	25
Kinghorn, Morgan, president, National Academy of Public Administration	5
Letters, statements, etc., submitted for the record by:	
DeSeve, G. Edward, vice chairman, Board of Directors, National Academy of Public Administration, prepared statement of	19
Kearney, Edward F., managing partner, accompanied by Cornelius E. Tierney, Kearney & Co., prepared statement of	28
Kinghorn, Morgan, president, National Academy of Public Administration, prepared statement of	8
Platts, Hon. Todd Russell, a Representative in Congress from the State of Pennsylvania, prepared statement of	3
Towns, Hon. Edolphus, a Representative in Congress from the State of New York, prepared statement of	52

THE EVOLUTION OF FEDERAL FINANCIAL MANAGEMENT: A REVIEW OF THE NEED TO CONSOLIDATE, SIMPLIFY, AND STREAMLINE

WEDNESDAY, JUNE 22, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:44 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Gutknecht, and Maloney.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Tabetha Mueller, professional staff member; Jessica Friedman, legislative assistant; Nathaniel Berry, clerk; Adam Bordes and Mark Stephenson, minority professional staff members; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. The hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

We are going to dispense with full opening statements. But we are delighted to have our witnesses with us and apologize for keeping both them and our other guests here today waiting while the votes were proceeding on the House floor.

This hearing is the first in what will be a series of discussions on how best to consolidate, simplify and streamline the laws that govern financial management for the agencies of the U.S. Federal Government. Currently, there are more than 800 statutory pages that govern financial management, some dating back to the 1920's, and a pretty complex and challenging collection of laws over those many decades for our Federal financial managers to interpret and implicate as they go forward with their assigned responsibilities.

We have been delighted in having some discussions, and now here today with us are representatives from the National Academy of Public Administration. We appreciate this advisory panel that has come together and begun to do some research on behalf of the subcommittee and in conjunction with the subcommittee members and staff, in looking at the Federal financial management practices and how we can better streamline, eliminate duplications, eliminate things that are no longer necessary, that are really makework, as opposed to substantive and useful information. And we certainly are glad to have our witnesses here, the information you

have already shared with us, and to continue this dialog as we go forward.

I think what we will do is go forward into our opening statements. We are also, as part of this hearing, announcing the formation of the Congressional Management Caucus. That will be a bipartisan, bicameral effort focusing on financial management in the Federal Government to try to be a clearinghouse for efforts to keep this issue, or these issues, in the public limelight and emphasize the importance of these efforts to assure that we have a more efficiently run Federal Government.

We are delighted to have several witnesses with us here who have extensive experience in financial management. Representing the National Academy of Public Administration we are going to hear from Morgan Kinghorn, the Academy's president, and Mr. Ed DeSeve, vice chairman of the Academy's board of directors.

Mr. Kinghorn and Mr. DeSeve, we appreciate your being here and again appreciate your willingness to help lead the effort in this partnership as we go forward.

We are also going to hear from Ed Kearney, a certified public accountant and managing partner of Kearney & Co., and we look forward to all of your testimonies.

We will begin with roughly 5-minute opening statements and apologize again because of the time. We will try to stick to that and perhaps we can get to a good discussion.

Mr. Tierney, you are joining Mr. Kearney. I think I didn't mention that. We are glad to have you, as well, as part of our panel here today.

So with that, Mr. Gutknecht, did you have anything you wanted to say to begin? Otherwise, we are going to go right to our opening statements.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

OVERSIGHT HEARING:
FINANCIAL MANAGEMENT STREAMLINING

OPENING STATEMENT OF
CHAIRMAN TODD RUSSELL PLATTS
JUNE 22, 2005

This hearing will be the first in a series of discussions on how best to consolidate, simplify, and streamline the laws that govern financial management for agencies of the U.S. government. More than 800 pages of statutory text – some of which dates back to the 1920s – governs the daily decisions of Federal managers. The result is overlapping, and sometimes obsolete, reporting requirements and wasted effort. The right financial management reform will ensure that government managers are accountable to taxpayers in the most effective manner possible so that tax dollars are spent for their intended purpose – not to generate useless reports or pay for unneeded overhead. The driving force behind financial management should be accountability, not the generation of reports and paperwork.

The long-term goal is legislation that would simplify, streamline and enhance the laws governing agency financial management. The Subcommittee has been pleased to work with an Advisory Panel from the National Academy of Public Administration, or NAPA composed of NAPA Fellows with expertise in financial, budgetary, and performance management as well as program operations. The Advisory Panel, working with the Subcommittee, has established the key issues involving the reform of Federal financial management practices and NAPA will provide witnesses for this hearing.

There are more than a dozen relevant Federal financial management laws and regulations within the Subcommittee's jurisdiction. These laws and regulations are primarily designed to increase financial accountability, enhance agency strategic focus, promote sound management through effective internal controls, provide for effective information technology deployment, facilitate debt collection activities, and encourage better asset management.

In passing these laws Congress sought simply to enhance the accountability and transparency of the Federal government. Each of these important laws, for the most part, was enacted on a stand-alone basis. Unfortunately this has created duplicity and overlap in certain areas. The Subcommittee believes that the time has come to review the entire universe of Federal financial management laws – looking at each law to ensure its relevancy to the core mission of providing accountability for the Federal government. It is no longer acceptable, or viable to look at internal controls in one silo, auditing and financial management in another, and performance measurement in yet another. These are all interrelated management concepts, which need to be brought together under a single unified statute so that rules and regulations are clearly delineated for Federal managers.

To further this goal, we are pleased to announce the formation of a Congressional Management Caucus. This bi-partisan, bi-cameral effort will provide a forum for debate on the issues that affect agency management – issues that are often overlooked. With the support of NAPA, the Congressional

Management Caucus will serve as a resource for Members and committees with issues or concerns about management and administration. The caucus will provide accurate facts and data for decision-making and will host educational programs to advance our agenda for improving public administration.

We are pleased to have with us here today three witnesses with extensive experience in this field. Representing the National Academy of Public Administration, we will hear from Mr. Morgan Kinghorn, NAPA's President and Mr. Ed DeSeve. Mr. Kinghorn and Mr. DeSeve, thank you both for your willingness to appear before the Subcommittee again and for your work with the NAPA working group. We are also pleased to hear from Mr. Ed Kearney, a Certified Public Accountant and President of Kearney & Company. We look forward to your testimonies.

Mr. PLATTS. And, Mr. Kinghorn, if you would like to begin.

STATEMENT OF MORGAN KINGHORN, PRESIDENT, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. KINGHORN. Thank you, Mr. Chairman and members of the committee. As President of the National Academy of Public Administration, an independent, nonpartisan organization chartered by the Congress to give trusted advice, I am pleased to appear before you to provide some interim perspectives on the Academy's review concerning how we believe financial management can be approved in the Federal Government. The views presented today are my own, and not necessarily those of the Academy as an institution.

We are doing this review really in response to your request in March to the Academy, where you asked us to reflect on the current set of financial laws, regulations, procedures, and current practices, and consider how best to improve our current financial environment and, perhaps more importantly, develop a set of recommendations that would be helpful to the committee in strengthening further the financial management of the Federal Government as we move forward in the 21st century.

In your charge to us, you directed us to be wide ranging in our thinking and to include such diverse topics as benefits from consolidating the myriad of laws and regulations to methods to enhance the strategic focus of financial managers as well as nonfinancial managers. The Academy is really excited about this opportunity because after 15 years of significant progress in financial reform, we believe it is time to assess how the Federal Government can best build on the successes of the past and avoid the pitfalls.

We have developed a working group of our Academy Fellows who are thoroughly familiar with financial management practices of the Federal Government, as well as industry best practices. These Fellows have extensive hands-on experience, as well as academic acumen, and will form the core of our working group. In addition, we can draw on a great number of the other 550 Fellows of the Academy.

One of our Fellows, who is also the vice chair of the Academy's Board, Ed DeSeve, is here with me today to give you his own feedback and perspective on our discussions to date.

We have established a work plan whereby our Fellows and I will meet with a series of experts across the Federal Government to receive their input on how best to improve the elements of financial management. We will hold these informational gathering sessions at the Academy and will solicit input from entities such as the CFO Council and the CIO Council, as well as its members, the program management and program performance community, the budget community and key representatives from the private sector, including the accounting consulting professionals who are also involved in these financial improvement processes.

To date, we have held two sessions with a variety of members of the CFO community and really received a wide-ranging series of comments and suggestions from both political appointees as well as members of the Senior Executive Service. Based on the comments from these two sessions and input from other Fellows, I can share with you a few of the more significant themes that have emerged.

First, we have focused exclusively on financial accounting systems and accounting process improvements to the exclusion and detriment of better budget and program and financial performance systems. There is no doubt that financial management and reporting of the financial information has dramatically improved since the initiation of the CFO Act and three or four—several acts that are related to that act that expanded the authorities.

Most Federal agencies now receive an unqualified audit opinion, and many agencies have improved their systems so as to facilitate the preparation of financial statements and provide some better information to decisionmakers. But we have not paid similar attention to systems and processes that would bring about improved integration between the budget formulation systems and the financial accounting systems.

Similarly, the linkages between budget, cost and performance management systems have been slow to materialize as agencies have tended to put their investment moneys primarily into improving their accounting systems.

Second, in looking to the future, since the gathering of data about program performance has recently become a much more important element of government management, the linkages between program performance and budget development and accounting and cost systems need to be much clearer to government managers, both financial and nonfinancial.

With the evolution of GPRA, the creation and now the implementation of the management and program performance rating system, we have seen an increasing interest by Federal program managers that they are now more conscious of the need to stress strategic planning, the linkage between plans and budgets and the overall linkage back to actual program performance. And it is clear in many of our discussions to date that government managers, financial and nonfinancial, need to become better aware of the necessary linkage between accounting, cost information and program performance.

Third, the streamlining and consolidation of Federal management laws and regulations would be beneficial. Several CFOs observed that there are many different statutes, regulations, and OMB circulars that address the same requirements which have evolved over a period of time to address very specific problems and issues. And I think the consensus so far would be extremely beneficial to examine these requirements and consider consolidation of the directives in a more comprehensive form, perhaps a single statute and a single comprehensive circular.

Fourth, organizational placement of the CFO and other offices involved in broad financial management implementation is handled differently in each agency. There is no clear consensus yet among our group on this issue. Some argue that the management function should be responsible to one senior departmental official since there is clearly linkage among them in both program and system design and, most importantly, process implementation. One cannot develop a comprehensive budget, for example, without information and data from the budget world, the world of accounting and cost data, and the world of strategic planning and performance management. Others, however, argue that just because there is an oper-

ational linkage, organizational responsibility and performance is better achieved by having separate, focused areas of responsibility.

Others argue that all finance-related functions should be under the CFO—budget formulation and execution, as well as accounting and reporting—but that other related activities such as performance and strategic planning are best achieved and implemented separately.

The importance of Senate confirmation of departmental CFOs was discussed among our participants and the consensus to date suggests strongly that the Presidential appointment and Senate confirmation of departmental CFOs, for example, is important unless there is a governmentwide decision made to reduce the overall number of Senate-confirmed positions.

The related issue of a Chief Management Officer was discussed with one scenario being that the CMO be Senate confirmed and all other management positions reporting to the CMO would not be. Obviously, there is a wide range of organizational options available, and just as obvious, very passionate feelings about this issue; and we will have additional information and recommendations available for you when we complete the process.

Mr. Chairman, the Academy welcomes the opportunity to really review and work with you on this important subject over the next several months, and we feel confident we can provide you some value-added for the committee and bring to you some sound recommendations.

The Academy also appreciates your leadership on these issues. I know everyone at this panel. We have worked together at different times, and it is nice to have serious people interested in serious issues. And we are particularly excited about the establishment of the Congressional Management Caucus.

Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Kinghorn.

[The prepared statement of Mr. Kinghorn follows:]

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C. Morgan Kinghorn, Jr.
President
National Academy of Public Administration

Before the House Committee on Government Reform
Subcommittee on Government Management,
Finance, and Accountability
June 22, 2005

Mr. Chairman:

As President of the National Academy of Public Administration I am pleased to appear before you to provide some interim perspectives on the Academy's review of how financial management can be improved in the federal government. As you know, the Academy is an independent, non-partisan organization chartered by the Congress to give trusted advice. The views presented today are my own and are not necessarily those of the Academy as an institution.

Our review is in response to your request in March where you asked the Academy to reflect on the current set of financial laws, regulations, procedures and current practices. You asked that we consider how best to improve our nation's current financial environment and develop a set of recommendations that would be helpful to the Committee in further strengthening the financial management of the federal government as we move forward in the 21st Century.

In your charge you directed us to be wide ranging in our thinking, but as we discussed the project with your staff several preliminary, broad areas of focus evolved, including:

- Benefits from consolidating the myriad of laws and regulations
- Assessment of the long term objectives for financial management—essentially an examination of where we want to be—rather than what we should make agencies do next

- Methods to increase financial accountability, including better internal controls
- Methods to enhance the strategic focus of financial managers
- What outdated and burdensome requirements and reporting need to be eliminated
- Facilitation of new financial management systems within time lines and budget
- Training and development needs for the financial management community
- Appropriate boundaries for public/private work and collaboration
- What are the key obstacles in reducing the complexity of financial data and making such data more usable to the decision-maker?

We have developed a working group of our Academy Fellows who are thoroughly familiar with the financial management practices of the federal government as well as with industry best practices. These Fellows have extensive hands-on experience as well as academic acumen and will form the core of our working group. One of our Fellows, who is also the Vice-Chairman of the Academy's Board, Mr. Edward DeSeve, is here with me today to give you his feedback and perspective on our discussion to date.

Both Mr. DeSeve and I have served as Chief Financial Officers (CFO) in the federal government—Mr. DeSeve as a Senate confirmed CFO at the Department of Housing and Urban Development, and I served as a career CFO at both the Internal Revenue Service and the Environmental Protection Agency. Mr. DeSeve also served as the Deputy Director for Management at the Office of Management and Budget and was the OMB Controller—again, two Senate confirmed positions. In addition, both of us were Partners in major consulting firms that did extensive business with federal agencies dealing with

financial management systems and problems. I think we both bring first hand experience as do the other members of the working group.

We have established a work plan whereby our Fellows and I will meet with a series of experts across the federal government to receive their input on how best to improve the elements of financial management. We will hold these informational gathering sessions at the Academy and will solicit input from entities such as: the CFO Council and its members; the CIO Council; the Performance community; the Budget community and key representatives from the private sector, including the accounting and consulting professionals.

To date we have held two sessions with members of the CFO community and received wide-ranging comments and suggestions, from both political appointees and members of the Senior Executive Service. Based on comments from these two sessions and input from our Fellows I can share with you a few of the more significant ideas that have emerged—Mr. DeSeve will also give you testimony on additional comments we heard from our interviews. Specifically:

- **We may have focused exclusively on finance systems and process improvements to the exclusion and detriment of better budget systems and program and financial performance**.

There is no doubt that financial management and reporting of financial information has dramatically improved since the initiation of the Chief Financial Officer's Act. Most federal agencies now receive an unqualified audit opinion and many agencies have improved their systems so as to facilitate the preparation of financial statements and provide better information to decision makers. Millions of dollars have been expended in this effort and many more millions will be expended over the next few years, particularly in the Department of Defense where progress has been much slower.

However, we have not paid similar attention to systems that support the development of annual budget requests and there is very poor integration and linkage between the budget formulation systems and the financial accounting systems. Similarly, the linkage between budget systems, cost systems, and performance management systems have been slow to materialize as agencies have tended to put their investment monies into improving their accounting systems. On a day to day basis budget matters still drive decision making in the federal government – almost to the exclusion of other systems – yet, to date, we have not focused on improving the linkage between this most important process and the related data and information in accounting, cost and performance management systems.

- **Gathering data and results about program performance has recently become a much more important element of governmental management, but sometimes the linkage between program performance and budget**

development and accounting and cost systems seems unclear to government managers.

With the advent of the Government Performance Results Act (GPRA), the President's Management Agenda (PMA), and the Program Assessment Rating Tool (PART) federal managers are much more conscious of the need to stress strategic planning, the linkage between plans and budgets and the overall linkage back to program performance. The focus of these three initiatives has thrust the Program Managers to the forefront of the evaluation process since they are ultimately responsible for the success or failure of the programs administered by the federal government. But, in many of our discussion to date, it is clear that government managers need to become better aware of the linkage between accounting, cost information and program performance; between individual employee performance and the performance of the organization; and the need to demonstrate program success by the development, collection and evaluation of effective performance metrics. Our input to date suggests that the CFO, and other financial managers, need to be more aggressive in working with the program managers to achieve better integration of relevant data and information. The CFO and the financial management community now have seats at the decision making table, but they need to make their presence known so that they can add more value to the process.

- **The streamlining and consolidating federal financial management laws and regulations would be beneficial.**

Several CFOs observed that there are many different statutes, regulations, and OMB Circulars that address the same requirements which have evolved over a period of time to address a specific problem at a particular point in time. It would be extremely beneficial to catalogue these requirements and consolidate the directives into one comprehensive statute and one comprehensive Circular.

- **Organizational placement of the CFO, Budget Director and Director of Performance Management activities are handled differently in each agency.**

There is no clear consensus to date among our group on this issue. Some argue that all of these functions should report to one senior Department official since there is clearly linkage among all of these functions. One cannot develop a comprehensive budget package, for example, without information and data from the budget world, the world of accounting and cost data, and the world of strategic planning and performance management. Others argue that just because there is linkage among the functions, organizational responsibility and performance is better achieved by having separate areas of responsibility, and furthermore there is no need to have each department organized in the same manner to achieve a high performing organization.

Some argue that all finance-related functions should be under the CFO but that other related activities, such as performance and strategic planning functions, are best achieved and implemented separately. The issue of Senate confirmation was

also discussed, especially as it relates to the CFO. The consensus, to date, suggests that confirmation of a CFO, for example, is important unless there is a policy decision to reduce the overall number of Senate confirmed positions.

The related issue of a Senate confirmation for the Chief Management Officer (CMO) was discussed with one scenario being that the CMO be Senate confirmed, and all other senior management positions (for example, the CFO, CIO, Budget Director, etc.) reporting to the CMO not be Senate confirmed. Obviously there is a range of organizational options available, and just as obviously some feel very passionate about this issue.

* * *

Mr. Chairman, the Academy welcomes the opportunity to review and analyze this important subject with you over the next several months. As we continue our meetings with the budget, performance management, IG, CIO, procurement and private sector community we feel confident that we will be able to provide you and the Committee with sound recommendations to improve financial management in the federal government.

In addition, Mr. Chairman, the Academy appreciates your leadership and is very excited about the establishment of the Congressional Caucus to Improve Management and Administration. We are committed to assisting in any way we can.

I will be please to respond to any questions you may have.

Mr. PLATTS. Mr. DeSeve. And actually I apologize. My staff is making sure I am following the proper procedures. I forgot to ask all of you to stand to be sworn in for your testimony. So Mr. Kinghorn it will be after the fact for Q and A. But I would appreciate if you raise your right hands.

[Witnesses sworn.]

Mr. PLATTS. Thank you. The clerk will note that all the witnesses affirmed the oath.

And now we will continue with Mr. DeSeve.

STATEMENT OF G. EDWARD DeSEVE, VICE CHAIRMAN, BOARD OF DIRECTORS, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. DESEVE. Thank you, Mr. Chairman. I am pleased to be here today to discuss my perspective on how the Academy thinks financial management can be improved in the Federal Government. As Mr. Kinghorn noted, I am the vice chairman of the Board of Directors of the National Academy and a professor and director of the Management Finance and Leadership Program at the University of Maryland School of Public Policy.

For many years I have been a senior executive at State, local and Federal levels of government. My service in the Federal Government included being the Chief Financial Officer, at the Department of Housing and Urban Development, Controller at OMB and Deputy Director at OMB.

The views presented today are my own and not necessarily those of the Academy as an institution.

Mr. Kinghorn has discussed with you how we at the Academy have organized our work plan to review your charge to the Academy, and he has given a general framework under which we will do the work. We believe our work will lead to recommendations that will be extremely useful to your committee.

What I'd like to do today is to spend a few more minutes giving you some comments from the meetings that we have had so far. And these are some headlines. We are sure there will be more to follow.

First, generally in financial management we have managed to downplay or overlook the Department of Treasury as a major player in the financial management world. Treasury, we think, can provide strong leadership if given the opportunity.

I am told—this is an aside—I am told that there was a turf battle around the time of the CFO Act within the administration, and the decision was made to give OMB the function and not to give the Treasury the function of chairing the Chief Financial Officers Council. So there is some history here that perhaps could be revisited if legislatively you decide to open up the issue of overall organization within the Federal Government.

The discussions in our meetings have centered on several elements such as the need for the Treasury Department to provide timely data, their need to perform cash reconciliation, the need for more modern systems to facilitate the transmission of data and often, most cited, the need for the Department to operate in close coordination with OMB. It is a structural thing we think needs to be looked at.

Well within the scope of this committee is the coordination between the CFO Act and the ITMRA, also known as Clinger-Cohen. Several executives have suggested that the two acts need to be harmonized to ensure that the objectives of Congress are being met by those two laws, particularly given the CFO responsibility for financial systems. I think, again parenthetically, that people were worried that the CFO has the responsibility for implementing financial management systems and the CIO has the responsibility for implementing information systems, and if the two of them aren't working together well, that there is a potential for a problem. So there may need to be some ironing out of the demarcations of the boundaries between those two actions.

Third, the organization of financial and budget data and related information has not been uniformly useful to successful program management. Here again, I think around the time of the CFO Act, we decided to start, and almost in the way I believe Chinese writing is interpreted—that is, from the right to the left—in a sense we started at the back end of process with an audit and moved forward to the budget process itself.

We think that needs to be revisited, that the almost exclusive focus, or very heavy focus, on audited financial statements and timely audited financial statements needs to be looked at in the context of what is needed by the program managers on the front line every day.

We think that information should be useful, useful and useful—useful to the people who use it each day, useful to the people who oversee that function and, finally, useful to the Congress as they go about their business. And it may be that the information we have now does not fill that bill.

Fourth, the linkage between enhanced internal controls and performance management has greatly improved the public stewardship of government programs, but more needs to be done. Internal controls are extremely important to make sure that funds are spent wisely, that malfeasance, misfeasance and nonfeasance is avoided. But at the same time, the effectiveness of the program needs to be similarly demonstrated.

The consolidation now into performance and accountability reports is a good step forward. I believe, and either Mr. Kearney or Mr. Tierney tell me that I am wrong, but we currently have at least FFMIA, FMFIA, GPRA, the CFO Act, the IG Act and GMRA all being dealt with and perhaps well dealt within the context of performance and accountability reports.

It may be that Congress wants to look at those reports and specify the contents of these reports in general so that we have gone back and made honest people of those who have done something very creative, trying to blend all of those items.

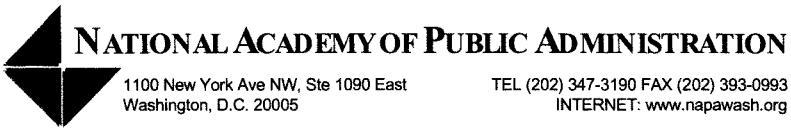
We also feel that the role of the inspector general in the 21st century needs to be reconsidered. The IG was given audit responsibility in the CFO Act and expanded in the Government Management Reform Act, and many IGs have done a very good job. Others were not well prepared for that function. They can be good partners, especially as the audit of performance information or at least the examination of performance information becomes important along the way.

As I mentioned earlier, I am pleased to be with you here today, and financial management has been my profession for more than three decades. I have functioned at various levels, and I am now teaching students who will be the financial managers of the future. So I would like to assist you in any way I can, and certainly the Academy is at your disposal in this matter.

Thank you.

Mr. PLATTS. I thank you, Mr. DeSeve.

[The prepared statement of Mr. DeSeve follows:]



G. Edward DeSeve
Vice Chairman, Board of Directors
National Academy of Public Administration

Before the House Committee on Government Reform
Subcommittee on Government Management,
Finance, and Accountability
June 22, 2005

Mr. Chairman:

I am pleased to be here today to discuss my perspective on how the Academy thinks financial management can be improved in the federal government. As Academy President Morgan Kinghorrn indicated, I am the Vice Chairman of the Board of Directors of the National Academy of Public Administration. I am also a Professor and the Director of the Management Finance and Leadership Program at the School of Public Policy at the University of Maryland. And, for many years I have been a senior finance executive at the state, local and federal levels of government. My service in the federal government included being the Chief Financial Officer (CFO) at the Department of Housing and Urban Development the Controller at the Office of Management and Budget (OMB), and then the Deputy Director for Management at OMB. The views presented today are my own and are not necessarily those of the Academy as an institution.

Mr. Kinghorn has discussed with you how we at the Academy have organized our work plan to review your charge to the Academy and he has given you the general framework under which we will work. We believe our work will lead to recommendations that will be useful to your Committee.

What I would like to do is to take a few more minutes and give you some additional comments we have heard from the meetings we have had to date as well as some of my own thoughts. Let me start with an agency that we have not addressed so far—the Department of Treasury and then move on to four other observations:

The Department of the Treasury is a major player in the financial management world and must continue to provide strong leadership.

The discussions in our meetings have centered on several elements, such as: the need for the Treasury Department to provide timely data; their need to perform cash reconciliation; the need for more modern systems to facilitate the transmission of data; and most often cited, the need for the Department to operate in close coordination with OMB. The Treasury Department has an opportunity to take a co- leadership role concerning financial management, particularly as it relates to accounting and financial reporting.

- **Inconsistencies between the CFO Act and the Clinger Cohen Act.**

Several executives suggested that the two acts need to be harmonized to ensure the objectives of Congress were being met by these two laws particularly in regard to the responsibility of the CFO for financial systems. Perhaps, as others suggested in the conversations, this is a result of tension between the agency CFO and the agency CIO's--- particularly as it relates to system implementations. Most participants agreed that system implementations have not gone well in all departments and agencies and that the cost of such systems has been quite expensive and in some instances large scale endeavors have had to be abandoned. It was not clear from our discussions, to date, if this is due to inconsistencies in

the laws or simply because of poor communication, turf battles, or other internal issues.

- **The organization of finance and budget data-- and related information—has not been uniformly useful to the success of program management.**

Simply put, there is the belief that the finance community has not packaged financial data in such a way as to entice the program managers to use such information in the day to day management of their programs. Some participants went so far as to suggest that the CFO community has failed the program management community by concentrating exclusively on financial statements, unqualified opinions and other aspects of accounting and has not to addressed the daily information needs of the user community.

- **The linkage between enhanced internal controls and performance management has greatly improved the public awareness of government programs, but more needs to be done.**

The financial management community is keenly aware of their management and internal control responsibilities. This responsibility is not just for finance and accounting but for all program areas. The scope of internal controls has been expanding in recent years and now encompasses program performance objectives in addition to the traditional financial concerns. Today, this broader scope is

expressed in the current government-wide initiative toward budget and performance integration and the recent requirements that the Government Performance and Results Act annual performance reports be combined with the agencies' Annual Financial Reports required by the CFO Act. This single report is known as the Performance and Accountability Report (PAR), and it also contains the agencies' annual management control assurances.

The PAR approach goes substantially beyond the traditional annual assurances report in which the top manager of an agency simply certified that adequate internal controls were in place in the agency. Now, the report is more substantive—demonstrating in a widely available public document- the results obtained with federal funds and the safeguards being exercised to avoid financial, ethical, performance, and other lapses or losses in the programs for which the agency has responsibility. The CFO representatives we met with expressed pride in this accomplishment, but at the same realized that additional efforts are needed to enhance further their internal control programs and to carry out their overall management responsibilities.

- **The Role of the Inspector General (IG) in the 21st century needs to be re-considered.**

During our discussions several CFO's suggested that there were structural problems and conflicting missions within the Office of the Inspector General.

Specifically, some suggested that investigations and audit need to be separated. Others suggested that the IG should be term limited to ensure more independence and fresh thinking. Others suggested that in some instances the IG's undertake projects for which they have no expertise and therefore may issue reports that are harmful and misleading. The IG can be a very supportive member of the financial and performance management communities and we need to engage them to ascertain their views and recommendations. We will be doing this during the coming months.

Mr. Chairman, I am pleased to be here with you today. Financial management has been my profession for over three decades. I have observed financial practices at all levels of government. I have consulted to all levels of government on finance issues. Now, I continue to teach public finance to students who will be the leaders of the future. I want to do what I can to improve the financial management practices in the federal government and my position at the Academy gives me renewed opportunities to make that contribution. I am very pleased that you have asked the Academy to help you in this endeavor and on behalf of the Board of Directors I promise you our full cooperation.

I will be please to respond to any questions you may have.

Mr. PLATTS. Mr. Kearney.

STATEMENT OF EDWARD F. KEARNEY, MANAGING PARTNER, ACCOMPANIED BY CORNELIUS E. TIERNEY, KEARNEY & CO.

Mr. KEARNEY. Mr. Chairman, thank you. I am the managing partner of Kearney & Co., a CPA firm. We provide audit, accounting and consulting services exclusively to Federal Government agencies.

Joining me today is Neil Tierney on my left. Neil is the author of almost every single book that has been written on Federal auditing and Federal accounting in the past 30 years.

We are pleased to have the opportunity to appear before the committee today. We think that the efforts to consolidate, streamline and promote efficiency in all of these laws are certainly needed and very, very timely.

Rather than read my testimony, I would like to just hit on a few of the high points in the interest of time.

What we see today is 23 years' worth of layered laws and directives. Each law has a unique emphasis, and despite good intentions, we believe that the stewardship reporting has lagged somewhat. If you look at the number of laws themselves and the timing of the laws over the past 23 years, we think it creates confusion in agency financial managers. We have multiple laws requiring financial audits. We have multiple laws covering systems control.

As an auditor and an accountant, we see both sides, both from the review perspective and from the side of those people that are actually performing the functions; and what we see is an uneven application of the laws and requirements varying by agency budgets and skill levels of the financial managers.

Implementation of each one of the requirements associated with the laws takes many years, and given the fact it takes many years—and very often we see agency administration turning over in as few as 12 to 18 months—it is quite possible that some of the initiatives passed in earlier years never reached fruition, or are never completed because a new administration might be emphasizing something slightly different or something new. That is one of the risks that we have seen to the layering of these initiatives over the years.

We also find that staggering the requirements over the years sometimes also creates a problem in agency officials. If we look at the Defense Department, for example, today, the Defense Department was excluded from the application of the CFO Act when it passed in 1990. But today they are working diligently to prepare auditable financial statements, and they are still several years away from completion of that effort. That is almost 15 years before they began the effort, and we are still looking at several more after that.

With the mobility of the work force, what we see as a problem moving between the civil and defense side of the businesses are just different skill levels and different understandings of the requirements as they apply to the government.

We believe the CFO Act probably had the largest impact on financial management. The audit concept is trust, but verify, and

that requires each agency, once a year, to have their financial statements prepared and audited by an independent organization.

In the years following the passage of the CFO Act, what we found in the early opinions of each one of the Cabinet-level agencies was that despite FMFIA being passed in 1982, which mandated strong structures of internal control, the reality was, many agencies had not achieved the goal; and until we attempted to verify it through audit, we just didn't see that.

The gap between the private sector and the Federal sector, we believe, is narrowing, and we think that is a good thing. The agencies are being required to prepare financial statements and have them independently audited. That is what we do in the private sector to ensure that people are honest. And there is a joke that people are basically honest, and they are even more honest if you watch them like a hawk. I am not suggesting that we have a problem everywhere, but having somebody look at things after the fact, we think, is helpful.

The Federal Government has adopted recently the internal control structure used by the private sector in the latest publication of OMB A–123. It has adopted the COSO framework, which really says that everything in internal controls in the Federal Government is what is expected in the—or what is in the private sector is what is expected in the Federal Government as well.

There still are differences between the two sectors. It is important that legislation reflect those differences. By way of example, when you pass laws that suggest, for example, that the financial statements of the Defense Department include plant property and equipment be valued in the same manner that you do in the private sector, that may not be practical. It may not be cost efficient. So we need to find other ways to get around that so it is a good common-sense application.

Correcting the systems and all of the difficulties identified during the audit process has a price, and that price is not always included in agency budgets because of the way that they are structured today. Most of the cost of financial management is really in the budget of either the IG or the CFO. It may be time to consider a levy on appropriations or major programs that makes sure that when problems are identified during the audit cycle they can be cured in a very timely manner, because today, with the way the budget structure works, it may be a year before anybody gets a chance to work on solving those problems.

The final point that I think I would like to highlight is that Federal financial managers must be homegrown. Although we are fortunate to have Mr. DeSeve on the right, who is currently teaching people in Federal financial management, at the University of Maryland, and on my left, Professor Tierney had taught, many years, government financial management, most universities do not do that. And since you don't have programs in Federal accounting and Federal auditing, we don't groom the people that we need. Everybody needs to be homegrown.

More importantly, there is no incentive for research. And since there is very little research being done in this area, with the exception of research that is done on a voluntary basis, it may be time to look at demonstration projects where we encourage agencies to

attempt to do things differently. I don't know what the vetting process would be for that, but nonetheless, it may be time to look at doing something like that.

Mr. Chairman, that is all I have to say in my opening remarks. We look forward to working with the committee. Again, we are pleased to be here. We think the efforts of this organization are very timely and very much needed. Thank you.

Mr. PLATTS. Thank you, Mr. Kearney.

[The prepared statement of Mr. Kearney follows:]

Testimony of Edward F. Kearney
Managing Partner
Kearney & Company
Before the House Committee on Government Reform
Subcommittee on Government Management, Finance and Accountability
June 22, 2005

Mr. Chairman:

I am the Managing Partner of Kearney & Company, a CPA firm that provides audit, accounting, and consulting services exclusively to the Federal government. I am joined today by Cornelius Tierney, a Director in our Firm, and the author of most of the books written that cover Federal auditing and accounting. We are pleased to have this opportunity to appear before you and provide you with our perspective on some of the issues confronting Federal financial management. The focus of your Committee's efforts on consolidation, simplification, and streamlining the laws governing financial management is timely, and very much needed.

Federal financial management is a complex and comprehensive issue comprised of several distinct disciplines: accounting, financial controls, computerized support systems, program and asset management and accountability, financial reporting, and independent audits. Over many decades, many well-intentioned laws, and numerous agency rules and regulations, and practices that have evolved, all have contributed to the current state of Federal financial management.

Our experiences support the thesis of the Subcommittee that accounting, financial reporting, performance and strategic asset management, and independent auditing should not and can not be separated from sound internal financial controls if Federal financial management is ever going to improve. In the past year, Kearney & Company conducted a study for the Association of Government Accountants. The study report, published in March 2005, is titled, Audit Federal Financial Controls: Sooner Rather than Later? Time

does not permit more than brief mention of this study assessing current state of Federal internal control and the potential impact of adopting the Sarbanes-Oxley Act to the Federal government. We have separately provided copies of the study report to the Subcommittee for its perusal as appropriate.

Federal financial management is governed today by a series of laws that for years have layered new directives and requirements on agency financial managers. Each law has a unique emphasis, although the overarching goal of all the laws is to ensure fiscal integrity, and to provide accurate reporting on program results. The legislative and regulatory history of many years has resulted in conflicted, diluted, duplicative and mixed messages to agencies about desired financial systems and the underlying systems of internal financial controls. Despite good intentions, implementation and application of desired and effective financial internal controls for the Federal government has lagged.

Parallels to the private sector and best practices are often cited as a basis for each new law. While the gap between these two sectors is narrowing, the complexities of legislative mandates and implementing regulations that impact agency financial managers creates confusion. There are also differences between the Federal government and the private sector. New laws are needed to promote accountability appropriate for Federal agencies, but must do so in a cost effective way.

As a CPA firm, we serve the Federal market as both auditor and accountant. What we see across Federal agencies is an uneven application of the laws and requirements, varying by agency budgets and the skill levels of the financial managers. Practically, the implementation of each new requirement takes years, and may span different administrations in an individual agency. If the requirements exceed the timeframe of an agency's administration, an incoming administration may be inclined to emphasize a new initiative, and the previous initiative remains incomplete. The National Academy of Public Administration (NAPA) has reported in the past, that the average tenure of a Federal appointee at the assistant secretary level and higher was about 18 months. That is the risk to layering requirements, rather than providing a more comprehensive

framework. This type of risk not typically present in the private sector where job tenure of senior executives is considerably longer. Also, requirements may affect agencies differently due to a staggered implementation of the legislation. For example, the Defense Department is today working diligently to prepare auditable financial statements. That is almost 15 years after the initial passage of the CFO Act, and the results are at least several years away. That is the risk of not applying the framework consistently across the government.

The CFO Act required that major agencies' financial statements be audited, and this legislation has had probably the largest impact on financial management in the Federal government. The audit requirement has been extended to all government agencies by the Government Management Reform Act (GMRA) and the Accountability of Tax Dollars Act. The audit concept of "trust but verify" requires each agency to annually have an independent auditor review the results of operations, and ensure that the agency is doing what it needs to do in order to achieve a clean opinion on its financials. In the years following passage of the CFO Act, it became apparent that many agencies lacked the systems and controls to prepare auditable financials. Yet eight years earlier in 1982, the Federal Manager's Financial Integrity Act (FMFIA) was intended to hold Federal managers accountable for their financial management practices and establish sound internal controls in each agency.

Annual self assessments of internal controls over Federal financial reporting, concurrent with the audit of an agency's financial statement, could provide assurance and send a message of confidence to parties external to the agency that someone cares about and pays attention to how Federal monies are committed, spent, applied, recorded and reported. The current guidance by OMB in Circular A-123 does not require a separate opinion on internal controls annually, but may necessitate one in the event that an agency's problems persist.

Consolidation of the laws covering Federal financial management is needed. There are multiple laws that require agency financial statements be audited, and there are multiple

laws covering the systems and controls of agencies. The financial management requirements should be consolidated to ensure that the rules and expectations are clear and concise. Today, there is confusion because of the number of laws, the staggered implementation dates of the laws, and the fragmented responsibilities among agency managers.

The concept of preparing financial statements and having them independently audited is the same practice used in the private sector to ensure accurate and consistent reporting. The Federal government has in the latest pronouncement by the Office of Management and Budget in Circular A-123, which guides implementation of the FMFIA, also adopted an internal control framework which closely parallels the framework used in the private sector. The private sector uses the internal control framework recommended by the Committee of Sponsoring Organizations (COSO). The end result is that each agency must adhere to the principle of preparing auditable financial statements in accordance with essentially the same internal control framework as the private sector. That means all agency managers are responsible for agency internal control. Other directives or legislation concerning financial management, internal controls, or information security as it pertains to the internal control framework can potentially result in overlapping requirements, and necessitate coordination among agency managers.

With respect to Federal financial controls, some Congressional legislative "housecleaning" is needed and has a precedent with respect to Federal financial management. For example, GAO in a report for an earlier Senate Committee on Government Operations noted that by Title III of the Budget and Accounting Procedures Act of 1950 Congress repealed 106 acts or parts of acts which were obsolete or became obsolete when this Act was passed. The Act of 1950 became the "be all and end all" of financial policy, mitigating the need to continually reference, integrate, collate, and reconcile proposed changes to financial management legislation that pre-dated the 1950 Act.

Implementing effective and efficient internal controls and correcting existing weaknesses has a price. Obtaining funding in a timely manner to finance changes and systems improvement is difficult and impedes progress. Responsibility for most of the cost of agency financial management resides in the budgets of the Chief Financial Officer (CFO) or Inspector General (IG). Their budgets are not always synchronized with the agency needs. For example, in the event problems are identified during the audit cycle, funds may not be available to address the problems until the following year. Funding mechanisms such as a levy on each appropriation and/or major agency program to cover the cost of implementing effective internal control and stewardship practices should be considered to ensure that when problems are identified, they are resolved on a timely basis. This approach has the added benefit of conveying to non-financial managers within the Federal government the notion that all managers, not just financial managers share a responsibility for internal controls. All too often, the CFO and the IG are perceived as having sole responsibility for controls at a Federal agency. Perhaps the most important message sent by Sarbanes Oxley to the commercial sector is that internal controls are the responsibility of all managers starting with the Board of Directors and flowing down to line management. Congressional initiatives should make it clear that this Sarbanes Oxley concept applies to the Federal government as well

Federal financial managers must be home grown. Colleges and universities do not teach Federal accounting and auditing, and as a result Federal financial managers must be trained by the Federal government. That means the workforce is smaller, and training must be from within. It also means very little research is done on better ways to perform the financial management functions. The research currently done is performed by a few dedicated volunteers and published by organizations such as the Association of Government Accountants or the American Society of Military Comptrollers. Maybe its time to foster and encourage new demonstration projects that lead to better ways to account and report on agency stewardship. Alternatively, if the Federal government were to adopt more private sector financial management practices, the size of the workforce would increase, and the unique training requirements would decline.

In closing, if the past is prologue, new requirements could be "layered" on top of old. But, the process would be much improved if a new law was passed, e.g., the "*Federal Financial Management Act ...of 2005*," that superseded overlapping, conflicting, duplicative, obsolete legislation of past years and required government-wide compliance with the single, new policy relating to financial management. Alternatively, OMB could be tasked with consolidating all related laws to eliminate past and future layering.

Thank you, Mr. Chairman, for allowing us to provide our observations on the statutes covering Federal financial management, and our concerns particularly as they relate to the state of federal financial controls.

We would be pleased to answer any questions you may have.

Mr. PLATTS. I understand, Mr. Tierney, you don't have an opening statement, but you are going to be available for questions.

Again, we appreciate the four of you being here, and especially the wealth of experience that each of you brings to this discussion, and not just here today, but in the months to come, and your willingness to be point persons for us on the private side in gathering information, narrowing sights and the real-world impact of some of these laws in the last several decades and what would be achieved by some of the consolidation.

Mr. Kearney, I think you just referenced in your statement, and it might have been Mr. DeSeve, about over the years all of these laws are passed, with great attention, the result is a pretty confusing myriad of laws. And if you are a new financial manager out there, not even new, but in a new position, a new level, the ability to accurately comply with all of these laws in an effective manner is going to be a little challenging.

That is certainly what this hearing is about, and this dialog that we have begun is about, is to try to streamline it to allow a more efficient process to happen and allow Federal managers to do what they are trained to do and want to do, which is to be good managers, good stewards of financial tax dollars, and help their departments and agencies to be well run.

I have a number of issues I would like to touch on. I will start with Mr. DeSeve.

In your comments and one of the items you highlighted was just the focus of managers and financial community often is about that clean audit, getting an unqualified opinion. And you specifically referenced not the daily information benefits and that if we really have at DOD a more efficient financial management system so that every day of the year the decisionmakers over there know what moneys are in what accounts and what their supplies are and what they need, that they are going to be able to more effectively fight battles and win wars.

Do you want to expand on that issue and what you—feedback you have gotten and how you think we can better get everyone to buy into not just getting that unqualified opinion, but to truly get useful information in a timely fashion?

Mr. DESEVE. The CIA talks about actionable information. I understand I am not on the Intelligence Committee, and the Representatives here may be; but we don't have actionable information in the Federal Government for program managers. So setting a standard for financial managers that says that on a real-time basis both cost and revenue information should be made available to the agency and to the people in oversight capacity.

Now, one of the things we have seen is that some agencies are starting to close their books every month or close their books every quarter, which is a good thing. Certainly, closing their books in a timely fashion, it used to be the standard, was somewhere between 4 and 6 months in order to be finished; it is now down to between 30 and 60 days for the audited financial statements to be finished. If that is possible, then real-time financial information for managers on the cost of their programs, the availability of appropriations in their accounts, and the revenues that they are generating, if it is a revenue-generating activity, is certainly a standard that

we can seek. I think that program managers will warm to that standard, will come to that standard.

My friend John Hamre, who was the—at the time, the Controller of the Department of Defense, used to tell me how useless most of the information he was getting was and how practical he felt certain other information was. So the question is, "How do we involve the program managers in understanding the practicality, the usefulness of that information to them?"

It is harder to put that in a statute than it is to put in the standard of auditing because there are groups that have spent time—the Federal Accounting Standards Advisory Board and others, that spent time setting audit standards. So it is a bit more difficult, but a congressional piece of legislation that set the goal in trying to integrate this information, make it available on a continuing basis.

When I was at the city of Philadelphia I had a daily cost report on my desk. It was broken down by major activity. It was broken down by major spending category, a daily revenue report on my desk. And I used those every day in managing the number of full-time equivalents I could allow, the ceilings and contract spending that I could allow in that circumstance. So that is what we are really talking about.

Mr. KINGHORN. Could I quickly add, I think—I mentioned before that I think the investments we have made in accounting systems—and I put one in at EPA in the Dark Ages and then one at IRS when I went there in 1990, both, I guess, successfully because they worked and gave us data.

The question is really—most of these systems, including mine, were designed for and by accountants and primarily used to, first of all, be able to develop financial statements relatively easily and efficiently with accurate data; and second, if it was a problem, to make better payments more accurately and quicker.

What we then tried to turn to, though, was, what does that mean for a program manager running a compliance program at IRS or running an air quality program at EPA? And essentially doing that part of it really meant nothing to them. They had no better information for the program than they did before. They might have had a better belief the data was accurate, but they really didn't have any better program information.

So I think what we are hearing here is that for the next 10 years we have really got to turn this focus around to involving program managers, first, in developing the reports that come out of these systems. Most of the reports that are generated by these new accounting systems were, again, designed by the accountants so they could make payments quicker, more accurately; and if they are lucky, for the budget shops who may not have been so much involved to at least have better budget information at a very gross level. But the program managers were rarely, if ever, involved.

And so, until you involve a program manager, running CMS or running Social Security, sit down with the people designing these systems and say, "Here are the six reports as the head of this program that I would like to see, they will never be built into that system." I think our focus really has to turn this around, not to lose accounting interest, but in effect, turn it around to the program manager.

Mr. PLATTS. And your comments open up a number of avenues I would like to explore, and maybe first, and I want to get to Mr. Gutknecht with questions too.

But, Mr. Kearney, you referenced that one of proposals about getting a buy-in of the program managers to this big picture—and in the levying of the expense of doing the cost of internal controls, does that get to some of what the other gentlemen have just talked about, getting program managers, if they are having to pay for it out of their own funds—that is, naturally they are going to be a little more in tune with what is being done and the benefits of it if it is coming out of their budget.

Is that the type of thing you had in mind from your testimony?

Mr. KEARNEY. It is to a point.

One of the things that I think it does, it reinforces the fact that everybody's responsible for the controls and financial management of an agency, and Sarbanes-Oxley has really reinforced that in the private sector today. So reinforcing that in the Federal sector, I think, works very very well.

But the points that were made about involving the program managers a little bit more, I also think, carry a lot of merit, especially when you look at the fact that we are implementing COTS packages today, the commercial off-the-shelf software packages that frankly need significant modification to work in the Federal arena. That may be indicative of the fact that we are doing things a little too differently from the private sector. We might need to rein it back in with the help of the program people, who are also not being satisfied with the information needs they have.

Mr. PLATTS. OK. Thank you.

Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

Thank you very much for coming today. And some of the stuff that you have presented to us, including the alphabet soup of various management agencies, some of that blew past me like a Nolan Ryan fast ball.

Mr. DESEVE. That was my purpose, sir, to confuse you.

Mr. GUTKNECHT. I do mean, seriously, thank you.

It strikes me from a management perspective there are several things at play and I think you have touched on this, and I am going to put some of it in language that at least I understand. And let me give you a specific example.

I think part of the problem we have, and not just at the Federal Government, but the Federal Government is such a large bureaucracy, I think in some respects it is endemic in every bureaucracy. But part of the problem we have is an attitudinal problem, and I will illustrate that.

I would suspect that the people at the Social Security Administration are doing a marvelous job of getting the checks out. I don't know how many checks they mail out every month, but it is a lot of checks. And I think they do a very good job of making certain that the debits and the credits all match, and that we know exactly how much money is going into or coming out of the Social Security trust fund.

But a little over a year ago, well over a year ago now, I had an inspector general from Social Security come to my office, and he

told me that it was his estimate that we are paying over $1 billion a month—well, I'm sorry—potentially up to $1 billion a month in Social Security benefits to dead people. And when I raised that issue with some of the other people at Social Security, well, again, they gave me some bureaucratic-speak. But at the end of it all, it really boiled down to, well, that is not our problem.

And I don't know how you change the attitudes in some of the agencies. I don't know how you give them a sense of mission, a sense of purpose or a sense of urgency. And I am not sure you can do that with accounting controls.

We had an inspector general come back this year and his estimate was—he said, well, it is significant, but it is less than $1 billion a month. But either way it is real money. And in the ensuing year, Social Security has done nothing that I know of to see if we can't rein in on the money that is going out to dead people.

Would any of you care to comment on that?

You know, this goes beyond accounting controls and auditing procedures. I mean, this attitude that it's not really our money is one that we have to fight all the time. And we have to figure out ways to do a better job of that. I think that's a big enough piece to chew on. Go ahead.

Mr. DESEVE. Let me try.

We went through a very similar problem with the Medicare program, and the problem is still there. The first audit of the Medicare program showed—and I am doing this from memory, and I apologize—that it was about $30 billion a year of improper payments, or unmatched payments, where you couldn't quite figure out the service that was being paid or it was too high or too low. So you would have to net some of that out.

The Secretary at that time, along with the Inspector General, worked very hard to make it everybody's problem. And I think the role that this committee can play there is to ask them to come back with a plan for doing whatever they think is right and proper, to solve as much of the problem as possible.

In the old food stamp program, when we had paper food stamps, we used to think that States did a good job if the improper issuance was less than 5 percent. I don't know what it is in the electronic area. And everybody in the oversight community agreed that a State under 5 percent was doing the best it could, that there was some breakage in the system.

So I think if you could engage with Social Security, have them develop a plan for eliminating these erroneous payments, bring it back to the committee, along with the IG, and engage a conversation.

What I tell my students is, "look, lay a plan out that you think is appropriate and then get people to agree to it. If they won't agree to it, then you've got to go back and fix the plan."

So I think in that instance, for erroneous payments, getting all the usual suspects together and having you provide the leadership and the oversight, having the IG do the work, having the CFO at Social Security—who will probably hate me in the morning for having suggested this—is very good.

But we certainly did that at HUD when we had some terrible problems in mortgages. I remember sitting with Mrs. Mikulski's

staff at the time and laying out the plan for dealing with some of the loans that had gone terribly wrong. So I would suggest that would work well here.

Mr. KINGHORN. Giving a little perspective on that, 15 or 20 years ago, before the CFO Act was passed, there were a lot of agencies, and still are some of them, who had real trouble with collections process. Education was one of them. Other agencies were involved, Social Security, Medicare and Medicaid.

And with the passage of the CFO Act and the fact that agencies took heat for not getting clean opinions, which all of those agencies had problems with in the beginning, the light was shined on those issues because they were clearly in IG reports years before. In trying to get a clean opinion, you really had to look at your financial processes and realize the reasons why you had a billion a month in certain programs.

Fast forward now 20 years later, at least my reading of the people that are on the line responsible for this, I doubt—I mean, I was very shocked that someone would say openly or tell the IG or the IG would say, they don't care. I sense they do care now.

And I would agree with Ed. I think they have better tools. They have better financial information to know not only where their problems are, but hopefully why they have problems. And I would agree. A light shined on issues constantly tends to get things improved.

And the sense is, in government, that they can wait us out. I think you can make it pretty uncomfortable to wait out on those big issues. But I would bet because of the last 10 or 15 years, Education certainly now is much more interested and has its act together on that issue, whereas 15 years ago I think they did say, it's not my problem; my job is to get money out to students and to schools. Now they say, "My job is to do that, but I realize if I am wasting a billion a month, that's a billion that could go toward those customers."

So I would really recommend shining the light on it. And through these innovations they have a better idea of the problem and what causes the problem, which they didn't have 8 to 10 years ago.

Mr. GUTKNECHT. If I could just say that—Mr. Chairman, my apologies. We are going to have a series of votes, right?

Mr. PLATTS. Apparently it's just going to be one. Previous question is what we're being told. We are checking.

Mr. GUTKNECHT. OK. But that was lots of bells.

But let me just add to that point. We, the Congress, have become enablers because when we hear about departments or agencies that can't pass their audit, that can't account for literally hundreds of millions, if not billions, of dollars. The remedy which our appropriators usually serve up the next year is, well, I guess we'll just have to give them more money. And in some respects, we do.

I think that attitude, that sometimes is fostered by us in Congress, perpetuates the problem because I have seen agency after agency that couldn't pass an audit, that had serious financial problems, and the next year their budget went up. And the law teaches. And the Congress teaches.

So, again, thank you. And this is—but I do, I think the suggestion that somehow we send a clear message that it is the respon-

sibility of the people in whatever agency to develop a plan; and it is our job to make certain that plan is implemented and reviewed. Thank you.

Mr. PLATTS. Thank you, Mr. Gutknecht.

And apparently it is the previous question, and now apparently they are going to do a roll call on the rule, not voice it, so there will be two votes.

I think we will go and get in as many questions as we can and see where we are, whether we try to have me sprint over and back, or see if we can get far enough along.

Mr. Kearney, one of your comments was, one of the challenges of the public sector is because we do things so differently and we basically have to have everybody homegrown for financial management in the Federal Government.

And you touched on, maybe we have gone too far away from the private sector and should be looking at trying to get back. And our hearing, our dialog, has begun with—about streamlining, consolidating. But by your comment, it may be that we all should be more serious about also refining not just consolidating what we have, but looking at what we should be doing differently, meaning similar to the Federal or the private sector, as opposed to the way the Federal Government's done it.

Are there examples of that you would want to highlight that we should be looking at, things that jump out that maybe—20 years ago maybe were justifiable, but today we need to rethink?

Mr. KEARNEY. Well, the concern that I was really trying to express was that there hasn't been a lot of new initiatives. There have not been a lot of changes. We still do accounting with the budgetary and the proprietary accounts, the way that we always did. And it is probably a good time to encourage some agencies to possibly work toward something simpler.

Maybe we don't need the same complexity in the budgetary and proprietary accounting accounts that we have today, and by selecting an agency or two that could be a demonstration project, maybe we could find out if there are better ways to do things.

And I mention—I mean, even in light of Mr. DeSeve's comment about the report he received every morning in the city of Philadelphia, it had basic management information that he needed to do his business that day.

We punish financial managers in the Federal Government that deviate too far from whatever the rules are. Today, we have a rules-based system that probably could lend itself to being a little more principles based, and by identifying opportunities for change, or that might foster change or new or creative original thinking, then we can go a long way to making things better.

And my comment on moving toward the private sector model is really a practical observation that would probably increase the number of financial people that we have, so they don't all have to be completely homegrown.

Mr. PLATTS. On the one hand, trying to incentivize for managers to think outside the box and be more creative: The other side of that is that in the sense of when they do things that maybe we don't want, or are not appropriate, what are the consequences for not following the various financial management laws for the last

20-some years. In the private sector there are more direct consequences—firings, demotions, stock options that aren't given, whatever it may be.

But one of the things we keep hearing in regular hearings here—and it is really a question maybe for all four of you—is, how do we convey? And a little bit of what Mr. Gutknecht said is that if you don't follow these Federal laws as internal controls under the Integrity Act, whatever the requirements are, there are consequences.

Sarbanes-Oxley is very much about consequences in the private sector. But—and an example right now is, we passed new legislation last fall that the President signed regarding the new Department of Homeland Security regarding financial accountability, that they will have an audit of their internal controls after the 2005 fiscal year and basically a 2-year lead-in—and they would like to push that back, even though the President just signed that bill, and say, well, we are not going to be able to comply; if we don't, so be it, in essence, is the way I read their response because there is not necessarily any spelled-out consequence for the Secretary or the CFO over there, if you don't do this, your pay is docked or whatever.

Is there a way to have more accountability across the board that should be part of this look of consolidation, streamlining, and that whatever our end result is that you comply or pay the consequence?

Mr. DESEVE. I am still waiting for the first person to be criminally sanctioned under the Anti-Deficiency Act. Each year I would get half a dozen anti-deficiency cases which I have thought, on their face, some of them were potentially sanctionable, and I couldn't get the Justice Department to pursue them. Now there is a sanction that is in place.

Mr. PLATTS. And we see that probably a month ago, I think it was, was it DOD and the computer, $130 million was spent. And I said, well, has anyone been demoted? Have we sought recoupment of the money that was paid for something that doesn't do what it's supposed to do?

And the answer was, not to the best of our knowledge.

I think it was actually Justice, in fact. It was not DOD; it was Justice. They said, no, not to best of our knowledge, no one's suffered any consequences for the failure to really look out for the taxpayers.

Mr. DESEVE. I think the—one way to approach it, when I was a political appointee in the Department of Housing and Urban Development, I actually had as an object lesson Judge Arlen Adams, who was sitting in Philadelphia. And there were dozens of HUD employees who were indicted by that grand jury, and several who went to prison as an object lesson. The rest of us in HUD were fairly focused at that point. That focused our attention because Judge Adams continued to sit.

I think the issue is to let the political appointees within the departments, as opposed to the career staff, know that you will be asking them to come and explain the problems that existed.

Obviously, Mr. Mueller, I am sure, explained what went on with the FBI system, but letting him know that the Assistant Sec-

retary—that the Deputy Director of the FBI, the Assistant Director of the FBI should be similarly culpable. And almost like putting a letter in their files, if you will, not quite the same thing, but having this committee have hearings and make findings that something went wrong: "it was your watch, and we want you to come and explain what happened and we are going to make that a matter of record."

That scared the hell out of me. I mean, it really did. I worried each day that there would be something in the Washington Post.

Again, it was Mrs. Mikulski at the time, and she had a clerk who was a pain in the neck, who I would name but he is a friend of mine now. And I was just terrified that they would come down and open something up and try to embarrass the Secretary.

Now they were the same party, so there wasn't quite as much incentive for that embarrassment. But I think holding people up to the light of day and asking them to explain why they didn't, on their watch—I teach the 9/11 Commission report as a case study. There's a lot of careers in the 9/11 report that are never going to be the same as a result of the findings in that report.

So that is where I would go with it, and I think only this committee or committees like it can do that.

Mr. PLATTS. Mr. Tierney.

Mr. TIERNEY. Mr. Chairman, I guess I am the only one at the table to say I am older than Ed DeSeve.

Mr. DESEVE. Excuse me. May I stipulate that Mr. Kinghorn is older than I am.

Mr. KINGHORN. I am not speaking.

Mr. TIERNEY. But this question—I chaired many years ago a Government Accounting Association committee and also one by the American Association of CPAs. Both of those led to reports that were basically a major piece of—the CFO Act came out of those reports. Both government officials and executives and people with the—at that time, it was called the Financial Executives Institute, of the private sector, Fortune 500, many of whom spent time in the Federal service. They left their careers in the private sector, did time in the Federal service.

They had the same conclusion, and it was in both of these reports that the laws, as written, made no one responsible for doing something. It was like "the head of the agency shall," and then, of course, the head of the agency changed three or four times in 3 years. And then when something went wrong, no one to blame, so there is nobody accountable either way.

So people weren't made responsible by—well, certainly not name, but by a specific position; and to hold the head of the agency responsible when they are 5,000 feet above the problem that occurred, was made almost unenforceable.

The other thing is that I appreciate what the committee is attempting to do because in preparing for this session, I took quite an interest in it, and just curiosity, looked it up; in the 1990's, the decade of the 1990's, more financial management legislation was passed than in any 10 years in the history of the country. A lot of well-meaning people, your colleagues and predecessors, tried to do things. I think what we ended up with was an overwhelming number of laws that we haven't fully digested.

So I did some other research and found that every so often, or at least once before, predecessors in Congress had faced that same thing. In fact, I speak of the Budget and Accounting Procedures Act of 1950. That law, I found, changed 106 laws that went before it over the past 40 years. The 1921 act set up GAO, the FBI Bureau, the budget; those laws were on the books and a lot of others. And in 1950 that act cleaned out 106 laws and parts of many other laws too.

So this is a challenge, but I think it is needed. I think most of what has to be said in laws has been said. It is a case of refinement, picking out the things. Ed mentioned—Ed DeSeve, Ed Kearney—about the need for audits, and trust and verify. I think that is fine. I think we need that because when you look at the CFO Act, and people point to the success of the CFO Act, the only things that have succeeded are the things that were audited.

At last count, there was about 20, maybe a couple of dozen items, in the CFO Act, financial management, that should have been done, but basically the things that were done were the things that were audited. So you can't—you know, you can't really knock the trust and verify, because the things that were done are the ones we verified.

Mr. PLATTS. Mr. Tierney, I don't want to cut you off, but if you can hold the thought, I am going to run over and get two votes in. I think I can be back in about 7 minutes, if you will bear with me. You can time me.

So we are going to stand in recess, hopefully for no more than 7 minutes.

[Recess.]

Mr. PLATTS. And for the record, if they hadn't kept the vote open for an extra 8 minutes on the first one, I would have made my 7 minutes. But politicians, promises, promises. Right? So my apologies for having you wait.

Mr. Tierney, as I ran out the door, in your comments you touched on the breadth of new laws in the 1990's and the substantive nature of those, and we are in a sense still digesting and moving forward with some of those. Is our effort at all premature because we haven't allowed the work of those new laws to be fleshed out and moved forward in a positive way? Or is it here we are in 2005, this is a good time to see, well, they are all in place, and they are starting to be implemented and better understood, so it is a good time to be looking at this from how to streamline or consolidate?

Mr. TIERNEY. No. I think the timing is just right. I think it is just right. In fact, we see—as you have heard at the table this afternoon, we have heard that if things are not followed up and that, they don't happen. A few things that happened to the CFO Act where the ones that were—the things that were audited. We have some agencies 15 years later that after a while you figure, well, maybe they just don't want to do it. Because we are not talking rocket science here, we are talking about transactions that happen every day, money is spent every day, and it is recorded somewhere. I mean, it is not that difficult.

Mr. PLATTS. Expanding on that to you and to, again, all of our witnesses. One of the specific issues—and we are getting into some more specifics as opposed to the broad big picture, but the idea that

the CFO Act, because of requiring audits, requiring a specific act forced the Department's agencies to actually respond because it was more delineated. In that bill that I referenced earlier with DHS and the internal control audit requirement that is specifically to that Department, the rest of the departments are now governed by the new regs put out by OMB where they have to review their internal controls and make an assessment and perhaps do more depending on their assessment.

Should we be maybe leaning more toward that internal control audit being more pervasive across the Federal departments and agencies, or at least the larger departments and agencies, or should we let the OMB reg circular run its course and see how that comes back?

Mr. TIERNEY. Well, I think the OMB at this point has tried to pull together the essence of the legislation. I do think that controls are a big piece of the answer, the emphasis on controls. But that gets you immediately into the details. And I say controls from a couple of standpoints.

In many agencies I will describe what I characterize what they call the fiscal controls where somebody signs a piece of paper authorizing. But historically, as we look at the Federal agencies, sad to say, many of the Federal agencies are still running with what we in the trade call the legacy systems, the old system. And with innovation, improvement and that, I think data computerization has changed the whole equation that—and I am not sure, I don't have any evidence to back it up, some evidence, but not a perfect case to make, that we haven't changed the controls to meet the automation. So I think you get into the details.

I think it is a case of controls and as well as the audit. A lot of people are trying very diligently to bring together these pieces of legislation. OMB with the 123 has basically adopted Sarbanes-Oxley except for the audit.

Mr. PLATTS. And we are delighted with OMB, I mean, in essence, that a cooperative effort, that while we would only request the mandatory internal control audit for DHS in return, in essence, for OMB being maybe more diligent through the circular approach of having this review conducted and then identifying whether any additional departments or agencies should have an actual audit done of their internal controls. I would be interested if—Mr. Kinghorn.

Mr. KINGHORN. Mr. Chairman, I think what revisions to A–123 really were is really trying to bring in this COSO approach that was mentioned, the Committee on Sponsoring Organizations, which came out actually of the Coopers & Lybrand firm that I was a partner of a long time ago. I wasn't involved in that. But the idea there is that everything an organization does is internal control. It is not just the finance piece, not just accounting, it is how you as CEO operate and what kind of culture you establish, etc. So I think we should give them a lot of credit to do that.

My guess is in their heart of hearts, many of the folks over there where several of us used to work probably would have liked to have gone further. I think if you probably scratch the surface, they might like to consolidate statutes, but my guess is from their perspective they don't see that as a short-term objective, nor is it something perhaps they want to do.

I think the value—if you look at the OMB circular 123, I think in one of the sections they themselves mention 14 incredibly broad sources where you as an organization in management can go to all the information on all the problems you have. And those 14 sources—these are broad categories—then fall back to the 20 or 30 acts.

So there is no shortage of information where you find your problems. If you go to sort of a performance report, you go to SSA, Social Security, who has a certificate of excellence from AGA—and I was actually involved in the review of the first time they got their certificate years ago—it comes out at 12 megs on the Internet to download and 240 pages. It is telephone-book-like. And it represents this enormity and complexity of what statute, what function you go to. And I think that creates enormous waste in terms of just the ability to understand.

So I think the OMB approach here was—I think what really was—consolidate some things, I think, very helpfully and really try to reemphasize, which was very popular 20 years ago. Twenty years ago when I came into this business, that is all we did was internal control reviews. We had management reviews on program. Then the CFO Act came in, and it went back to an accounting focus and financial statement focus. So this is really a return to the past. And I think if done well, with the consolidation of statutes so it is not so confusing, I think could be a good start.

Mr. PLATTS. It is, in essence, trying to reaffirm the merits of the Integrity Act of 1982 and the internal control requirements of that act 23 years later.

Mr. Kearney, did you have something else you wanted to add?

Mr. KEARNEY. I might add on the A–123, you had asked earlier about is there any penalty for not conforming to whatever the laws might call for. A–123's approach prior to doing the audit opinion on internal controls, I like what they are doing at OMB. And they are saying as long as there is not systemic or consistent problems, an audit opinion wouldn't be required. So you really are imposing a bit of a penalty on the agencies. As long as they do what they are supposed to, the audit opinion isn't required. To the extent there are recurring problems, there will be an opinion. So I think that is an approach worth——

Mr. PLATTS. So if you stay on top of it, you don't have to go through the effort and spend the money on that internal control audit incentive not to get that problematic.

Mr. KEARNEY. Correct.

Mr. PLATTS. A number of times throughout your testimonies, a number of you have mentioned, and Mr. Kearney just did, about legacy systems and technology and ability to modernize and really have the benefit of today's technology that gives us what we are looking for in information and relates to the conflict that was referenced earlier, the CIOs, CFOs, and how to better mesh those two positions. And is that something that we should be taking a close look at as part of this streamlining is to have better coordination between those two positions?

Mr. KINGHORN. I will speak for myself, because we have talked a little bit about the group, a group we have. And we haven't gotten into this, but it is one of the areas we are going to get into.

But from my experience—I was at IRS from 1990 to 1995; I was brought in from the outside to really create a controller CFO function, and it was in their second stage of failing on their major systems. And it was not for lack of trying, it was a very long-term project, but there were two systems. There was one system in 5 years that I was there that was successful in being brought up, and it was the financial system that was brought up just as the CFO Act was passing. It is not because I brought it up; it is because of the structure which we used. I was in charge of that system and funded that system in conjunction with the CIO operation, but everyone knew who was responsible. And I think that is the key.

Many of these systems have very confused management structures internally and in organizations, as some of the fellows in our group have asked, who is in charge, the CFO or the CIO? It is not an organizational issue. Someone has to be in charge and responsible that if it fails, Kinghorn is out of here. The problem—you don't see Kinghorn out of here—it is unclear even to the heads of agencies of who was in charge. So I think clarity of responsibility is key.

Second, the funding is key. And I think that was crucial.

And the final thing is that we don't give enough interest to the project management aspects of these large systems. We tend to overmanage contractors by layering upon the contractors an additional management oversight. And then I think agencies fail to manage what they should manage, which is the very high-level oversight and quality control of the contractors. So it would be an area we really should get in with you.

But I think you have to have responsibility of who is in charge. It is not an organizational issue, although I think in most cases, if it is a financial system, the CFO should be in charge of overall working with the CIO. If it is a new system for Medicare and Medicaid, the program manager of that program should be in charge and responsible, not the CIO, but it has to be in conjunction with the CIO.

Mr. PLATTS. Mr. Kearney.

Mr. KEARNEY. I might add that we have a similar problem in the private sector as well. And whenever you are undertaking a large systems effort, as we are going to suggest it, you do need one throat to grab. And if it is the CFO that is ultimately responsible, that is the person that should have a greater role in what is being done even though the CIO might be providing the technical expertise.

I think it is definitely a good area to get into just simply because of the size of the projects. And I am not sure that there is an easy solution. Many years ago when I ran Sallie Mae's Loan Accounting operations, the only way I was able to solve my systems dilemma was to have the CIO staff come to work for me until 6 or 12 months went by and I had my systems up and running, because ultimately it was me that was on the hook, and those systems supported my operations. My ledgers used to be under my desk; today they are on somebody's data base someplace, but it is still me that is responsible for the function. So I do think that it is definitely within the scope of what you are doing, and I do think you have a tiger by the tail.

Mr. PLATTS. An encouraging send-off. Well, we are glad to have you guys helping to grab hold of that tail with us.

Did Mr. DeSeve—Mr. Tierney, did you have anything on that?

Mr. TIERNEY. Not on that point.

Mr. PLATTS. OK. Mr. DeSeve, one of your points you highlighted was with the IG position and what was envisioned, and maybe the challenge of that position today, the kind of conflicting roles. And I spoke to a good number of the IGs at their annual convention this year about a month back or so in Philadelphia, and one of the things I said to them I thought was appropriate, their guy there in the place of our Founding Fathers in Philadelphia, and also in the time we are in with men and women in harm's way as we are gathered there in Iraq and Afghanistan, and, to me, the importance of IGs being courageous as our Founding Fathers were courageous, because IGs to me are—their budgets are basically handled by who they are actually supposed to be watching and the secretary and whoever their agency head is. And it is a position that if you find your wrongdoing and follow that wrongdoing in an appropriate way, you are not going to be a very popular individual within your department or agency, and all the more they need to be courageous.

One of the things you touched on was term-limiting IGs, and I was wondering if you want to expand on anything with that of how we can lessen the confusion, the confliction, the conflicting responsibilities of IGs, and really empower them as was originally envisioned by the IG Act.

Mr. DESEVE. One of my great pleasures was serving as chairman of the President's Council on Integrity and Efficiency and the agency councils below that, the PCIA as well as ECIA. And I got to know IGs pretty well, and their functions are severalfold. First, in some agencies there is a real law enforcement function, where the IG will go in and create sanctions against an individual or group who are taking money from the Federal Government. The Labor Department has a great deal of that kind of activity. That needs to be bolstered, it needs to be recognized, it needs to be understood, but it can't dominate the rest of the agency along the way.

The second thing they have or were given in the CFO Act is audit responsibility. So here we have a guy who is—or a gal who spends a lot of time worrying about who should be able to carry a gun—that is one of the things they can do, they have delegated authority to allow firearms to be used by their individuals and on the other hand is worrying about, gee, what are the new accounting standards coming out of what used to be JFMIP—I have to get that in—and the Federal Accounting Standards Advisory Board. Those are conflicting roles.

Then there is the third role, the role in the middle, where mismanagement, nonfeasance, misfeasance as opposed to malfeasance comes in.

So I think that a relook and recognizing those three roles, having this committee reauthorize almost the IG statute to go back and look at it, to open it up, and to give them a set of responsibilities that provides clarity among their roles is thing one.

Mr. PLATTS. Not necessarily separating out any of those roles anywhere else, but just better delineating within.

Mr. DESEVE. I think they are quite appropriate. The CFO can't be the auditor; he can't audit himself. If we create a separate law enforcement function, it is going to get confused, I think. And somebody has to be the overseer of good management, and so I think that the independence of the IGs is absolutely essential. And I think that, by and large—and I had to handle complaints against IGs when I was in the government. By and large the IGs have done a spectacular job of bringing integrity to the agencies, but some of them haven't had to recognize the multiple hats they were wearing; or, if they did, they didn't have an institutional sanction, they didn't have a law that said you are in the program management business, buddy; or here is the way in which you will execute the audits along the way. So I think that is No. 1.

No. 2, there is good news and bad news. President Reagan, as I understand it, fired all the IGs when he arrived in the Federal Government, then he reappointed the ones that he cared about. That certainly was an interesting precedent. The IGs still talk about it, that everybody got fired, and then some people got rehired and some people didn't.

On the other hand, other IGs believe that they have a right to the office perpetually; that to fire an IG is tantamount to firing a bishop or a cardinal. You can't do that.

So I think that the idea of term limits, if the head of the FBI can have a term limit, if the head of the FAA can have a term limit, or the head of Social Security can have a term limit, putting a term limit that overlaps a potential of the administration, it allows for reappointment for a period, makes a lot of sense because there is then an expectation that there will be turnover at some point. That there will be an evaluation, there will be either a reappointment or a termination, one or the other—they simply won't be reappointed or they will—gives a new administration some discretion across the pool of IGs so that during their 4 years they can replace some IGs who have perhaps run out of gas. That happens occasionally.

So I do favor some kind of term limit, but within the context of the delineated institutional responsibility and clarification, and engaging the IGs as to what they think about that. That is what we are really proposing is to bring the IGs in and have them talk to us about what they think their roles are.

Mr. PLATTS. Hand in hand with the term limit would be that it is also a positive affixed term, meaning you are appointed for 5 years, and so you know are there and don't have to worry about, well, if I do something the administration doesn't like.

Mr. DESEVE. That is right. Jane Garvey was the FAA Administrator for the first 2 years of the Bush administration and had been appointed by President Clinton. Greg Woods was the head of the Student Financial Assistance Program, had been appointed by President Clinton and so on. So, yes.

Mr. PLATTS. And my understanding, that is something as part of the work of the Academy and your advisory committee you have put together is to reach out to IGs and to further explore some of their ideas.

Mr. DESEVE. Yes.

Mr. KINGHORN. Let me share, if I may, I think another consideration, which would be sort of another level, is 20 years ago, 25 years ago, if you looked at the makeup and qualifications of most of the IGs, it goes a little bit to this point in a way. Most of them would be sort of like the neo-attorneys of the world: professional CPAs, accountants, really focused on the accounting function, internal control function. If you fast-forward it now, I haven't quite kept up with all they are, but I think most of them now are probably law enforcement types or of predominantly that world. And I think like any organization, neither one is right or wrong, but if you look at qualifications for Inspectors General, I think we could give some thought to what we want in that leadership.

If you have an accountant type, you are going to get an interest in accounting and internal control. If you have a law enforcement type, you are going to get that with accounting below that level. And I think some thought needs to be given, given all the other controls in government, which of those two or others that you would like to have laid out, if any, because leadership does change the focus of an organization.

Mr. PLATTS. That actually relates to a specific question. We talked a lot about the CFO Act and the qualifications or the background of individuals. Deputy CFOs have a requirement for 6 years with specific experience, and there is no such requirement for the CFO themselves. Is that something we should be looking at to—we have the Senate confirmation requirement, which hopefully then ensures more scrutiny of their qualifications and is going to lead to that, but should there be some statutory as far as what the qualifications are?

Mr. DESEVE. I seem to remember there were some more general guidelines in the CFO Act. When it was passed, there was a fairly huge debate on how specific the act should be in terms of requirements, and I think rightly so. It probably came down at the time on a more generic you had to have something in your background that looked like financial management. There were several CFOs, not to be named at the table, that came in at the very beginning who were, in my mind, less than qualified, who had something in their background about financial management, but probably weren't of a sufficient stature.

I think, since the last 10 years, 11 years, really starting probably in depth with the Clinton administration, to give them credit, the CFO quality, I think, is incredibly high. And if you look at their backgrounds—I think it would be very difficult to get through someone who did not have something that looked and smelled like a CFO background.

Well, I am sure this will come up, and it has come up a little bit in our discussion so far. I think we will have recommendations for you that, if you chose to strengthen those words, here is what might be appropriate. I would be very wary, frankly, of having an accounting requirement, because some of the best CFOs don't know anything about accounting, and some of the best ones do. So it is really more about management and structure. If you look at the CHCOs, the Chief Human Capital Officers, trying to organize now around their world just like the CFOs did, they are struggling because they think they need CHCO expertise at the most senior

leadership level. And my sense would be they really need management and leadership expertise. And if you can get them combined with your functional expertise, great. If not, I mean, my best controllers in IRS in the field were former compliance officers, who, because they went after people on taxes, they were CPAs, so it worked. But they knew the program, so they really related well.

So I would be a little wary of making it look and smell like an accounting function per se, but I think some of the qualifications will certainly have some comments from CFOs on that.

Mr. PLATTS. Mr. Tierney, and if I remember, you were involved in the work that led up to the CFO Act.

Mr. TIERNEY. Right. I might add that the—I would like you to pursue it. But having said that, I want to let you know a failure last time. Tenure for the CFOs, just like we were talking some kind of a tenure of office for the inspector generals, it honestly failed last time. You will see that in the record of the CFO Act. But it goes to something Ed mentioned with respect to systems. These are big systems. It takes a year or two to issue the contract, another 2 or 3 years to do it, 5 years or more, and Morgan's organization says 18 months is the most we get out of an appointed official, executive, senior executives who might be very qualified. But in that time span you could have three or four. There is no corporate memory. Industry—that is one thing that industry doesn't suffer as much as the government. That turnover is just enormous. And it is just difficult to get corporate memory except with the career civil servants or maybe a CFO that has agreed to do 4 years, or we were talking about 4 to 6 years in some of the proposals to Congress, the testimony. But it did not happen. It did not happen.

I think, with some of the systems and putting in the controls in place, those are long-term projects. And it is just difficult to lose the leader that had an interest and get the people energized with the next leader and the next one and the next one.

Mr. PLATTS. I have seen that as a newer subcommittee chairman in just a little over 2 years now here and in my time with a number of departments where we started working very closely with CFOs, and the turnover happens, and you are starting over. And you have a good initiative and good progress, and then you start anew, and you really lose that momentum. And I took note of that, that average turnover every 18 months is one of the challenges, is having that consistency.

Mr. Kinghorn, with the Academy's review, is there a general timeframe that you envision your efforts as you seek comments from the various individuals in the community that you think you will be ready to come back with some more detail?

Mr. KINGHORN. I think we planned with staff that we are looking at September and October as sort of the first real output. But what we would like to do is, like today's hearing, as we roll this out, share with you and your staff some of the findings. But I think what we would plan to do, the ultimate work plan was in September, October to come up with sort of the 10 or 11, whatever the number is, areas that really deserve your focus of the 500 things you could do with some specificity. And then we will have other information in addition to that, but perhaps work with you on an on-

going basis to flesh that out more specifically; you will say the first three aren't of interest to us, and we will focus on these four.

So September, October. But I think what we would try to do is to try to do this on an ongoing basis.

Mr. PLATTS. And that is the timeframe we internally have looked at of trying to, I will say, narrow the scope, because one of the challenges here is going to be how big this effort could be and what is manageable and feasible, given some of the history of some of these different acts, what was tried in the past, and are we going to fight those same battles again, or are we likely to take the approach that, well, we are not going to put the effort over there because we are unlikely to succeed, and it is more appropriate to use our resources on another part of the effort. So we certainly welcome that feedback throughout the process and then as we get more detailed in the fall.

Mr. DESEVE. Mr. Chairman, while we are doing that, may I ask you to do something for us? Would you think about the role of the appropriators as consumers of financial information, not as people who give money or withhold money? Because one of the frustrations that many CFOs have is that the process, for example, of budget preparation involves preparing the President's executive branch budget and turning around and preparing a different set of information for the appropriators, often using a different account structure. Structure is terribly difficult to do a crosswalk from the President's budget back to account structure the way the appropriators would like to have it.

The other thing that I learned—so if you could help us by thinking and maybe having some of the staff talk with some appropriations staff about how important information coming up to the appropriators could be rationalized and made a byproduct of financial management systems.

At the same time, I will tell a very quick story. The most uncomfortable testimony I ever gave in my life, I think, was before Mr. LaFalce, who had been chairing the Small Business Committee of the House, and he was an appropriator. And I learned more about credit reform in that committee than I had ever known before. I figured, why am I being called before an appropriations committee to testify about credit scoring?

Well, it was very simple. Credit scoring affected the number of small business loans that could be given out throughout America. The way we had structured our financial management process around thinking about the nature of the cost of a loan was perfectly linked to the appropriations process and the way loans were given out. Once that happened, the Small Business Administration immediately changed their procedures, changed their processes for tracking loans, tracking loan cohorts, tracking loan performance, because the industry groups were beating them up about we don't have enough loans to give out.

Mr. LaFalce—I used him only as an example—obviously was very engaged. So when the appropriators become consumers of financial information, it changes the behavior of the agencies as well, which is not to suggest that the oversight committees aren't important. You are, because you are our window to the appropriators. Often they don't listen to agencies; they have their own insti-

tutional memory which is different than anybody else's institutional memory. So if there is a way for you to help us——

Mr. PLATTS. We are certainly glad to try to share that insight and facilitate some of that dialog with the appropriator staff, especially to really get into the nitty-gritty of that data.

Mr. DESEVE. We are not trying to change anything. Although I want to applaud Mr. DeLay; we are of different parties. I thought the bold move that he and others took this year in looking at the rationalization of the appropriation committee structure was very important. I may be out of the Democratic Party for saying something nice in public about Mr. DeLay, but it was a bold move, and it is the kind of thinking that will itself improve financial management. When it is easier to present information in a rational way to a rational group, I mean by that a rationalized group, it just helps everybody.

Mr. PLATTS. Any other comments that any of you want to share before we wrap up?

I want to again thank each of you for being here as we publicly begin a process that we have had some dialogs about and look forward to continue the discussion, and having your insights is going to be very important and very helpful to this effort, and those who described trying to grab this tiger by the tail. The more assistance we have, the more likely of any success we will achieve. So we welcome your input and appreciate your patience here today in getting started later than planned, and then also having a break for the votes.

So we will keep the record open for 2 weeks for any of my colleagues for statements or any other information you want to share.

This hearing stands adjourned.

[Whereupon, at 4:28 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Edolphus Towns follows:]

Statement of Congressman Ed Towns
Subcommittee on Government Management
June 22, 2005

Thank you Mr. Chairman for holding today's hearing on the evolution of financial management practices at our federal agencies. I welcome our panel of witnesses, and look forward to their testimony.

For more than two decades, Congress has actively pursued legislation and policies intended to improve the accountability and efficiency of agency operations. Since the enactment of the Federal Managers' Financial Integrity Act of 1982, there has been significant progress made in areas such as agency accounting practices, internal control functions, and technological advances for financial management systems. The results speak for themselves, as GAO provided 18 out of 23 agencies a clean audit opinion for FY 2004 operations.

Nevertheless, there remain many issues that continue to challenge the modern agency CFO, including: the implementation of new technologies into agency financial management systems; human capital development deficiencies; severe budget constraints; and an increasing number of competing legal and regulatory requirements. Despite our

legislative efforts over the past two decades, these issues continue to plague our agencies and pose a significant obstacle to those seeking to improve upon past performance.

In addition, we continue to hear complaints from many agencies in good financial standing about the complexity of their financial management responsibilities. Some may ask, for example, why must we have multiple statutes and OMB Circulars for the purpose of regulating agency accounting systems? Would the streamlining of such statutes and rules improve compliance and efficiency throughout the agency community?

While I have no definitive answers to such questions, I do believe the streamlining of financial management laws and regulations merits further discussion in our committee. In this regard, I welcome the creation of the Congressional Management Caucus, and hope it will provide another forum for us to develop adequate proposals and responses to the emerging financial management challenges facing our agencies. Mr. Chairman, this concludes my statement.

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