CHIEF FINANCIAL OFFICERS ACT OVERSIGHT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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CHIEF FINANCIAL OFFICERS ACT OVERSIGHT

TUESDAY, JULY 25, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 311, Cannon House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Davis, Fox, Scarborough, and Maloney.

Staff present: J. Russell George, staff director; Anna G. Young, professional staff member; Andrew G. Richardson, clerk; and Matt Pinkus, minority professional staff member.

Mr. HORN. A quorum being present, we shall begin this meeting. We thank the gentleman from Virginia for establishing that quorum.

The Subcommittee on Government Management, Information, and Technology is continuing its series of hearings on general management, and we are particularly interested in the implementation of the Chief Financial Officers Act of 1990 that was pursued by our friends in the 103d Congress, and I had the privilege of participating in those hearings. We are hoping to see what progress has been made today.

The 1994 Government Management Reform Act applied the CFO Act practices beyond revolving and trust funds to all agency resources. The laws, when fully implemented, should prepare the entire executive branch to be able to pass the first audit by the General Accounting Office, scheduled for 1997.

Agency financial statements will help our Government come clean by confronting weak controls and possible fraud or waste. For an agency's statement to be judged clean, its own house must be in order, its procedures clear and strong, its controls in place and working. Every department's goal must be not only to produce a full statement on time but also to earn from the GAO auditors an unqualified opinion or good grade on the statement.

A good agency will have no major problem in systems, no material weakness in controls, no serious nonconformance to law. Its statement, as expressed to this subcommittee by New Zealand's Ambassador Wood, will be a "transparent window through which all its facets are brought to light."

The two laws are prods toward order in agency financial systems so that auditable statements become possible. It is not working

that way, however, in every agency. For example, Defense reported 140 weaknesses in 1993, and 156 in 1994. I shudder to think what it will be in 1995. Its nonconformances went up from 245 in 1993 to 256 in 1994. Somebody over there is simply not paying enough attention. On the contrary, our goal is to be able to say, here is the Government's first set of unqualified opinion audited financial statements, a milestone in Federal financial health.

Our witnesses today include the Comptroller General of the United States, the Controller of OMB's Office of Federal Financial Management, three former OMB officials, and experts from the Financial Executives Institute and the Private Sector Council. We will also hear from Chief Financial Officer officials of the General Services Administration, the Departments of Agriculture, Defense, and Interior.

We look forward to your testimony. I might add that we will break for recess at 11:55. If we can complete the third panel, we will certainly try to do so. It might be that we will have to ask you to come back at 2 o'clock this afternoon when we will resume in this room.

I now ask the ranking minority member if she wishes to make some opening remarks.

Mrs. MALONEY. Thank you very much, Mr. Chairman.

I strongly support full implementation of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and other laws designed to upgrade the Government's ability to produce accurate financial information.

We have several pilot projects and are now moving toward auditing all Government agencies by 1997 and preparing an audited financial statement for the entire Federal Government by 1998. We must be wary of any further delays in meeting these deadlines. If some agencies still are having problems, I hope that our witnesses from GAO and OMB can pinpoint them for us so that quick action can be taken to ensure compliance with the law.

On a related subject, Mr. Chairman, I recently released a study documenting potential losses to the Government from obligations to it that remain unpaid for years. This adds up to $117 billion. It is essential not only to collect these funds but to modernize the infrastructure of financial data collection throughout the Government so that debts owed to the American people generate immediate and continued attention until they are collected.

We will have another oversight hearing next week on the role of the Inspectors General who audit agency accounts, a crucial element in achieving improvements in financial management. I commend the chairman for putting together a series of hearings on these vital and closely interrelated subjects.

Thank you, Mr. Chairman.

Mr. HORN. Thank you.

Mr. Davis, do you have some opening remarks?

Mr. DAVIS. No.

Mr. HORN. If not, as you know, the tradition on this committee is to swear all witnesses. If all of you on panels one, two, and three—or is this all panel one? I know the Comptroller General is on panel one, so are these your colleagues?

Mr. BOWSHER. Yes, these are my colleagues.

Mr. HORN. All right. Then just panel one we will swear in, if you all would stand and raise your right hands.

[Witnesses sworn.]

Mr. HORN. We welcome you, Comptroller General, and look forward to your testimony. The Comptroller General of the United States, Mr. Bowsher.

STATEMENT OF CHARLES A. BOWSHER, COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY GREGORY M. HOLLOWAY, JEFFREY C. STEINHOFF, AND LISA G. JACOBSON

Mr. BOWSHER. Thank you very much, Mr. Chairman. It's a pleasure to be here.

With me today are Jeff Steinhoff on my right; on my left, Greg Holloway and Lisa Jacobson. They have been doing a lot of the work on the audits of the various agencies, and I asked them to be with me to answer any questions.

First, let me say we are pleased to be here today to discuss this very important subject, and that is, what progress is being made with the 24 agencies of the executive branch in implementing the CFO Act and the extension that was passed last year.

I commend this committee for passing that legislation, because it is truly the key legislation that is propelling us into making progress. I have often stated that the United States did not really have good accounting in the private sector until 1929, when we suffered the great stock market crash. Then it was the congressional hearings in the early 1930's, that led to the Securities Acts of 1933 and 1934, that got us going in the right direction for annual audited financial statements in the private sector.

We did not make much progress in State and local government until, unfortunately, the New York City fiscal crisis in 1975. Since then we have made a lot of progress. Today, most of the large cities and all the States have audited financial statements; the same occurred in such industries as railroads and banks that were exempted in the 1933 and 1934 acts. As the various crises came along, we finally got the proper legislation, the proper accounting for most of those industries.

The big one that is left over, of course, is the Federal Government. As you point out, both you and Congresswoman Maloney, in your opening statements, our Federal Government is not in good shape, has not been in good shape for a long, long time, and it's awfully important that we get the Federal Government to have as good accounting as the rest of our society.

The potential benefits are quite clear. When the American taxpayers send all their taxes to the Federal Government, they expect accountability. They expect somebody to be able to account for it and to report upon it. Also, when you have large departments running very large programs here, you had better have some good cost accounting if you are going to be able to report, now with the new legislation, on the GPRA.

As one of the senior officials of Australia once explained to me, people in the Government got very interested in accrual accounting once they had to be accountable for the success of their programs and what those costs really were in those programs.

Proper accounting and financial reporting leads to much better barriers against fraud, waste, and abuse. As we have often seen all too often, the people in the Federal Government have too much temptation put in front of them, much like robbing HUD there some years back, and we had a very unfortunate case in the Navy sometime back here, where people have the temptation, the lack of controls, and they think they can get away with defaults and embezzlements.

I think, also, the entire management structure of the Federal Government, starting with the Congress, the members of the cabinet, and the people in the White House, if they don't have good financial data on all these programs and all these Government operations, it is very hard, then, to expect that the operations and the overall programs are going to be run well.

I am pleased to report today that, overall, progress is being made. The progress is not near as fast as we would hope for, but I think progress in the last 5 years has been there. I'm going to report on it today; I know other witnesses will, too.

In the 1980's when I first came into office, in 1981, we literally lost an entire decade, as far as I was concerned, by people not wanting to deal with the financial management problems of the Federal Government. But since we passed the CFO Act, I think we have made some real progress.

First, let me just talk about what that progress has been in the last 5 years. One is on audit coverage. We have actually doubled the audit coverage. As of fiscal 1994, we have 67 percent of the Government's gross budget authority actually being audited today. We would hope that eventually that would be up to the full audit by 1996, which is what the legislation calls for, and that would cover 98 percent of all the Federal funds that are expended.

Now, it should be pointed out that only a few of these agencies are getting unqualified audit opinions. So we are getting audit coverage, but we only have a few that are getting unqualified opinions, or "clean" opinions, as often people report about them. We also are getting improvements on the financial statements; the agency-wide financial statements are improving in some of these departments, and this is what we had hoped for all along.

One of the second big areas that is important is, how good is the leadership. The CFOs who are being appointed now actually do meet the qualifications of the legislation, and that's a big improvement. For a long time, I think, we had people in these various positions in the financial management area who really didn't have the qualifications. And I am very encouraged that the CFOs who are being appointed now do have the qualifications, and we are moving in the right direction there.

I am also encouraged by OMB's financial management leadership. Alice Rivlin, the head of OMB today, John Koskinen, the head of Management, and Ed DeSeve, the Controller, all are individuals who have real qualifications and real interest in doing something to improve the financial management of the Federal Government. So that's very, very encouraging.

I think, at your hearing on July 11, you were apprised of the progress that has been made with the accounting standards that will be issued here in the next few months, and that the Comptrol-

ler General, the Secretary of the Treasury, and the Director of OMB will all sign off on these standards. I think that will be a very big step forward in getting good information flowing.

Our biggest weaknesses are still in the systems. The systems are going to have to be modernized, and that is a big project that lies ahead. But I think the fact that the audited financial reports are highlighting each year where we stand in the systems area has got the agencies now starting to make progress.

Greg Holloway, who is on my left, is auditing the IRS. I think that's a good example of an agency that has not made it yet to getting a clean opinion, but has made a lot of progress. We are hoping that they will, in the next year or two, be able to have a clean opinion.

These are the important issues, Mr. Chairman. As I point out, on the qualified CFOs, 19 of the 24 CFOs have been appointed. The Deputy CFOs also have been named in 20 of the CFO agencies, and they, again, have the proper qualifications. We have a few exceptions, like the Justice Department, which does not have a Presidentially appointed CFO, and in EPA and SBA where both positions are unfilled. So there are still some areas that have to be achieved, but we have made good progress.

I would just like to say, in summary, that we are making progress, not as fast as we would like. The legislation has absolutely been key. I would like to urge the Congress to continue to have annual oversight hearings. What we really need is a sustained effort in the next 2 years so that we can get the audit coverage up there by 1996, and then eventually modernize and get all the systems in good shape, and get clean opinions.

I think the FEI, which is going to testify after I do, is absolutely right. The Government would not stand for this kind of lax financial management when they review the private sector whether it's the IRS looking at individual tax returns, whether it's the SEC looking at companies' records, or the bank regulators when they are looking at the banks. It is long overdue that the Federal Government get its financial house in order, and I hope that we can continue this progress.

We would be very pleased to answer any questions, Mr. Chairman.

[The prepared statement of Mr. Bowsher follows:]

Statement of Charles A. Bowsher
Comptroller General of the United States

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the progress executive branch agencies have made in implementing the Chief Financial Officers (CFO) Act. This act establishes a solid foundation for greatly needed, comprehensive reform of federal financial management. I want to commend the Subcommittee for holding this hearing; sustained congressional attention to implementation of this landmark legislation will be important in instilling greater accountability throughout the federal government and helping better control the cost of its operations.

Only through effective implementation by the government's 24 major agencies covered by the CFO Act can the executive branch hope to attain the full range of benefits intended by the act. The potential benefits include the following:

-- giving the Congress and agency managers much more reliable financial, cost, and performance information both annually and, most important, as needed throughout the year to manage programs and make difficult spending decisions.

-- dramatically improving financial management systems, controls, and operations to eliminate fraud, waste, abuse, and mismanagement and properly safeguard and manage the government's assets.

-- establishing effective financial organizational structures to provide strong leadership extending into the next century.

Achieving these goals is central to not only putting the government's financial house in order but also realizing broader management improvements.

Overall, progress is being made. But the remaining problems are difficult, and much remains to be accomplished to successfully implement the CFO Act--especially to improve the quality of financial information and the underlying financial systems and controls, which are in serious disrepair today. My statement today will outline key areas where progress is being made and discuss critical implementation issues that need to be fully confronted.

First, during the past 5 years, financial statement preparation and audit coverage have more than doubled and, for fiscal year 1994, reached 67 percent of the government's gross budget authority. However, only a few of the 24 CFO Act agencies have received unqualified audit opinions on financial statements for their entire operations. Within the next 2 years, financial statement preparation and audit coverage is expected to increase to 98 percent of the government's gross budget authority, as executive branch agencies work toward producing the agencywide financial statements now required by law and subjecting these statements to audit. Moreover, I hope that, eventually, the requirement for

audited financial statements would be extended to the legislative and judicial branches so that these could be included in audited governmentwide consolidated financial reports to the American taxpayers.

While few agencies have been as yet able to prepare auditable agencywide financial statements, the process of preparing and auditing annual financial statements continues to strengthen the reliability of financial information. The process also provides a more complete view of agencies' financial conditions, highlights control weaknesses and high risk areas that need to be resolved, and identifies actual and potential savings. But, as I will discuss later, to meet the CFO Act's ultimate goals of providing reliable, useful financial information, CFOs must overcome serious financial reporting and system weaknesses and the Inspectors General (IGs) must better position themselves to perform required financial audits.

Second, Chief Financial Officers with the right qualifications are being placed in leadership positions within the agencies, as well as at the Office of Management and Budget (OMB), as mandated by the CFO Act. At the same time, agencies have a shortage of financial management expertise, and upgrading the qualifications and training of financial management staffs remains a key challenge.

Third, the government is on the threshold of having comprehensive accounting standards. When these standards are implemented, which must be a top priority, they will provide useful financial information to meet the unique needs of those who manage and oversee the federal government. Such information will encompass budget execution, the cost of operations, performance measurement, and the government's stewardship of its assets.

Fourth, agencies have a critical need to greatly improve and modernize financial management systems, which across government, are in abysmal shape today, and, in doing so, to reengineer financial management processes, while at the same time implementing new accounting and financial reporting standards.

The past 5 years have been pivotal to proving the value of audited financial statements and other concepts in the CFO Act--in other words, to changing the long-standing view that good financial management and reporting were not important for the federal government. The next few years must be marked by concrete results in improving financial information and systems.

In the short term, financial statements must be prepared and audits performed. This will require agencies to make sound investments immediately to upgrade the qualifications of financial management staff, fix rudimentary bookkeeping problems, and make existing financial systems work better. At the same time, agencies must

concentrate on developing performance measures and cost accounting systems, which are almost universally lacking in the federal government today, and emphasize integrating budget, accounting, and management data.

Let me now address each of the key areas where progress is being made and discuss critical implementation issues related to each area.

PROGRESS IN PREPARING AUDITED FINANCIAL STATEMENTS

Preparing and auditing annual financial statements is essential to improving the usefulness, consistency, and reliability of financial information. Audited financial statements provide an annual scorecard as to where an entity stands financially. Equally as important, they provide the discipline needed to improve the quality of financial information available day-to-day to help managers deal with the range of difficult spending and accountability issues they face.

State and local governments began preparing audited financial statements in the early 1980s in the wake of disclosures such as (1) the poor accounting practices that nearly caused New York City's bankruptcy and (2) the lack of accountability for the financial aid provided to states and localities that led to the Single Audit Act of 1984. State and local governments found that

their financial systems and controls dramatically improved as a result, and basic financial information was, therefore, readily available and could be relied upon.[1] The challenge to federal agencies under the CFO Act is to be in a position to prepare auditable financial statements as a normal by-product of an integrated system that pulls together credible financial, program, performance, and budget data into reports that are useful to executive branch decisionmakers and the Congress in its oversight role.

Agencies' CFOs and IGs are progressing in their efforts to meet the CFO Act's audited financial statement requirement. However, agencies must sustain, and in many cases enhance, the progress being made to prepare and audit financial statements to meet the new legislatively established timetable for covering all 24 CFO Act agencies for fiscal year 1996.

Audited Financial Statement Coverage Is Growing

Before 1991, entities subjecting their accounts to audit covered less than one-third of the government's gross budget authority, which now amounts to over $2 trillion. This coverage included primarily government corporations and agencies that voluntarily prepared audited financial statements for their entire operations,

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[1]Single Audit: Refinements Can Improve Usefulness (GAO/AIMD-94-133, June 21, 1994).

such as the Departments of Agriculture, Labor, the Air Force, and Veterans Affairs (VA), the General Services Administration (GSA), and the Social Security Administration (SSA).

Following passage of the CFO Act in November 1990, financial statement audit coverage increased to about 50 percent of the government's gross budget authority. This legislation required agencies to prepare and have audited financial statements for revolving and trust funds, as well as for certain types of commercial activities beginning with fiscal year 1991. Additionally, 10 cabinet departments and large agencies were designated to participate in a 3-year pilot program to test the usefulness of financial statements and audits for their entire operations.[2] As we testified[3] last year, this pilot program was highly successful and demonstrated considerable value in helping to stimulate financial management improvements in the participating agencies.

As a result of the success of the CFO Act's pilot program, financial audit coverage was legislatively expanded last year to cover virtually the government's entire gross budget authority.

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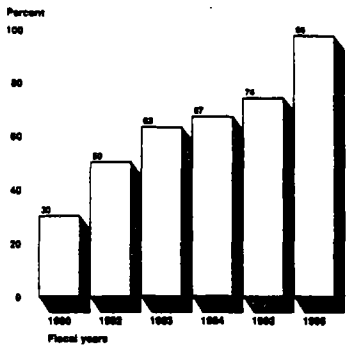
[2]The 10 cabinet departments and large agencies that the CFO Act designated to participate in the audited financial statement pilot program were the Departments of Agriculture, Labor, Veterans Affairs, Housing and Urban Development, the Army, and the Air Force, the Customs Service, GSA, the Internal Revenue Service, and SSA.

[3]Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD-94-149, June 21, 1994).

The Government Management Reform Act of 1994 expanded on the CFO Act to establish an annual requirement, beginning with fiscal year 1996, that all 24 CFO Act agencies prepare and have audited financial statements disclosing the results of their entire operations. In fiscal year 1994, these 24 agencies accounted for over 98 percent of the government's budget outlays or over 92 percent of its gross budget authority, as shown in attachment I. The 1994 expansion of the CFO Act also established a requirement for annual consolidated executive branch financial statements beginning with fiscal year 1997 and gives GAO the responsibility to audit them.

Figure 1 depicts the growth in the extent to which the government's gross budget authority was subject to audit in fiscal year 1990, prior to passage of the CFO Act, and each fiscal year from fiscal year 1992, when the CFO Act audits began to be phased in, to fiscal year 1996, when all CFO Act agencies will be required to have financial statements.

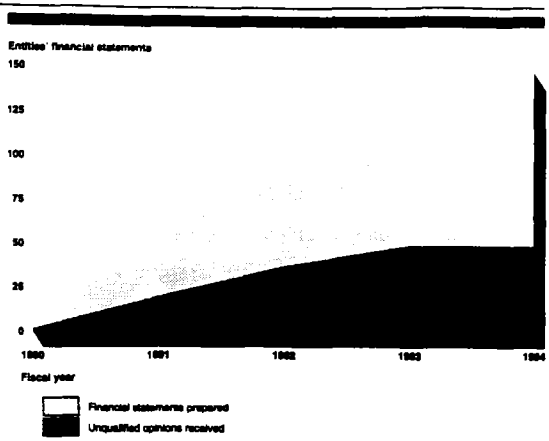
F 1: Growth in Audit Coverage of the Government's Gross Budget Authority



Fiscal years 1995 and 1996 represent planned coverage.

Also encouraging, as figure 2 shows, was the rate of agency progress in receiving unqualified audit opinions for financial statements required by the CFO Act. These unqualified opinions have been steadily rising, increasing from 1 for fiscal year 1990 to 48, or almost 47 percent, of those audited for fiscal year 1993. However, the preponderance of these opinions was for specific trust and revolving funds and commercial activities. In only 4 cases (SSA, GSA, the Nuclear Regulatory Commission, and the National Aeronautics and Space Administration), have unqualified opinions been rendered on financial statements for an agency's entire operations.

Figure 2: CFO Act Entities Preparing Financial Statements and Receiving Unqualified Opinions



Fiscal year 1994 unqualified audit opinions are shown at the same level as those received for fiscal year 1993 because fiscal year 1994 audited financial statements for several entities have not yet been submitted to OMB

For fiscal year 1994, the number of entities for which financial statements were prepared increased to 145. While audited financial statements have not yet been finalized for several of these entities, we anticipate that the number of unqualified opinions for that fiscal year will closely parallel the rate achieved in the preceding fiscal year.

Audited Financial Statements Continue to Demonstrate Their Value

As first demonstrated during the CFO Act pilot program, audited financial statements continue to provide a much clearer picture than any that has ever existed of the government's true financial condition. These audited statements will help to ensure that more reliable and useful information is available to help make critical decisions on spending and the overall direction of government programs. Information being disclosed in audits of financial operations for fiscal year 1994 includes (1) previously unidentified or unverified costs that the government can expect to incur in the future, (2) questionable estimates of costs associated with government programs, (3) the failure to ensure that all revenues are collected, and (4) poor management practices resulting in program losses. Examples include the following:

-- The Internal Revenue Service's (IRS) reported revenue of $1.3 trillion for fiscal year 1994 could not be verified or reconciled to accounting records maintained for individual taxpayers in the aggregate and amounts reported for various types of taxes collected could not be substantiated.

-- The audit of the Health Care Financing Administration's (HCFA) fiscal year 1994 financial statements identified potentially billions of dollars of previously undisclosed amounts payable to

state governments for medical services provided to Medicaid recipients.

-- The fiscal year 1994 financial audit of the Customs Service disclosed continuing problems, specifically, that Customs (1) cannot reliably detect improper duty refund claims and, thus, cannot prevent duplicate and excessive refund payments, (2) needs to improve controls to ensure that goods entering into the commerce of the United States, or being exported, do so with proper assessment of duties, taxes, and fees and in compliance with trade laws, and (3) does not have adequate controls to ensure proper accounting for all revenues.

-- The fiscal year 1994 financial audit of the Air Force identified almost $28 billion of previously undisclosed contingent liabilities for items such as contract appeals and civil law and litigation claims.

-- The fiscal year 1994 financial audit reports of the Farmers Home Administration, Federal Housing Administration (FHA), Federal Family Education Loan Program (FFELP), and the Small Business Administration reveal that these agencies' estimates of the subsidy costs of their loan and loan guarantee programs, required by the Federal Credit Reform Act of 1990, are not accurate. Also, FFELP continued to base its $15.2 billion

estimate of liabilities for loan guarantees and related program costs on unreliable historical loan data.

-- Financial audits continue to highlight poor underwriting and servicing practices in the Department of Agriculture's farm loan program. The IG estimated that, as a result, for fiscal year 1994, (1) borrowers will be approved for unauthorized benefits totaling about $73 million because of loan applications that contain inaccurate and/or incomplete information and (2) delays in servicing delinquent borrowers will increase program losses by about $149 million.

In addition, financial audits are continuing to find material internal control weaknesses at the agencies under audit. Based upon the fiscal year 1994 financial audits completed to date, internal control weaknesses were reported for more than 100 of the 145 entities. The financial audits for fiscal year 1994 also continued to provide a much needed discipline in pinpointing operational inefficiencies and weaknesses; highlighting gaps in effectively safeguarding the government's assets and preventing possible illegal acts. Examples include the following:

-- Education did not have systems or procedures in place to ensure that individual billing reports submitted by guaranty agencies and lenders were reasonable. For fiscal year 1994, these billings paid were estimated to be $2.5 billion.

-- HCFA's fiscal year 1994 financial audit disclosed inadequate or no documentation supporting over $100 million of Medicare receivables under contractor supervision, making collectibility questionable. Similarly, the Coast Guard could not provide detailed supporting records for almost $100 million of accounts receivable reported for the Oil Spill Liability Trust Fund and the associated $65 million estimate for uncollectible accounts.

-- Financial audits identified information security weaknesses that increased the risk that sensitive and critical computerized data and computer programs will be inappropriately modified, disclosed, or destroyed. For example, financial audits disclosed that (1) IRS continues to lack sufficient safeguards to prevent or detect unauthorized browsing of confidential taxpayer records, (2) student loan data maintained by Education could have been modified for fraudulent purposes because users had the ability to override controls designed to prevent such actions, and (3) FHA has continuing weaknesses in systems, including those that process sensitive cash receipt and disbursement transactions.

Further, financial statement audits have continued to identify potential and actual dollar savings. In addition to billions of dollars in potential savings, which will accrue to the government as long-term corrective measures are implemented and better financial information is regularly available to decisionmakers,

financial audits have identified specific savings which could be attained immediately. These savings include the recovery of millions of dollars in overpayments to Department of Defense (DOD) contractors, the collection of receivables, the recoupment of payments incorrectly made to government intermediaries and employees, and reductions in the cost of operations that are excessive.

Financial audits also have shown that agencies often do not follow rudimentary bookkeeping practices, such as reconciling their accounting records with Department of the Treasury accounts or agencies' subsidiary ledgers. These audits have identified hundreds of billions of dollars of accounting errors--mistakes and omissions that can render information provided to managers and the Congress virtually useless. This situation could be much improved if more rigor were applied in following existing policies and procedures. The CFOs and IGs have reported that the process of preparing and auditing financial statements brings much needed discipline to accounting and financial reporting and highlights where the real problems are. They also expressed their view that the full benefits are yet to be achieved.

Finally, we are seeing long-term benefits at agencies where financial statements have been prepared and audited for several years, such as at SSA, Labor, GSA, and VA. Financial statements are prepared and audited more quickly and efficiently as these

agencies have gained experience over several years. This enables audited statements to be available much earlier during congressional deliberations on the budget and the effectiveness of agency operations.

AGENCIES NEED TO MEET LEGISLATIVE TIMETABLE FOR FINANCIAL AUDITS

The annual public scorecard financial statements provide has given the visibility necessary to get the attention of top managers and has provided the impetus for them to begin fixing the problems financial audits have disclosed. This has clearly been a key motivating factor for agencies, such as DOD and IRS, which have serious financial management weaknesses, to give much higher priority than ever before and to seriously begin to tackle long-standing, significant financial management problems that impede their ability to prepare financial information that can withstand an audit.

We believe that meeting the legislative timetable for agencywide audited financial statements is essential so all CFO Act agencies will begin to gain the benefits demonstrated by those agencies that have already successfully undergone full-scale financial audits. Meeting this schedule is absolutely critical to put the federal government on a par with the private sector and state and local governments, which have already made the necessary investment in financial management.

Agency Readiness to Prepare Financial Statements

In response to a request from OMB and GAO for a self-assessment of their ability to prepare auditable financial statements, 17 of the 24 CFO Act agencies reported in December 1994 that they would be ready to prepare accurate agencywide financial statements for fiscal year 1996. Regarding the other seven agencies:

-- DOD said that its underlying financial systems and operations were not designed to produce auditable financial statements and that continuing systems problems are a serious challenge that will require a number of years to correct.

-- The Department of the Treasury will have to address the serious financial weaknesses identified in financial audits of its major revenue bureaus--IRS and the Customs Service.

-- The Department of Justice said that while several of its components were preparing financial statements, others have not yet begun, and its overall readiness was doubtful due to such factors as the need to complete ongoing efforts to modernize its financial systems.

-- The Department of State said that its financial management systems were not capable of producing the information needed to prepare accurate and timely financial statements because they

are not integrated, are poorly documented, lack sufficient controls, and do not meet applicable accounting requirements.

-- The Department of Transportation reported, for example, that the Coast Guard will be unlikely to produce financial statements that are accurate.

-- The Federal Emergency Management Agency and the Agency for International Development reported problems similar to the agencies discussed above.

While these seven agency assessments represented the CFOs' initial views late last year, we are very concerned that more progress needs to be made as quickly as possible. Of special concern is the monumental financial management weaknesses at DOD, which represents almost 20 percent of the government's fiscal year 1994 gross budget authority. The Secretary of Defense and DOD's CFO have forthrightly acknowledged the magnitude and severity of these problems, which will require intensified efforts if DOD is to turn this situation around before the turn of the century, as now projected by the Department. It is, however, critical for DOD to be ready to prepare accurate financial statements in accordance with the legislative timetable.

We will continue to work with the agency CFOs and OMB to determine the impediments to, and to help start the process of, preparing

financial statements in accordance with the legislatively mandated timetable. This will require agencies to devise means to identify problems and to concentrate on short-term solutions until longer term systems modernization efforts can be put in place.

IGs Readiness to Audit Financial Statements

Shifting now to the audit side, since the CFO Act was passed in 1990, we have had a proactive strategy to work with the IGs to build their financial audit capacity. Our strategy included conducting initial financial audits at IRS, Army, Air Force, Navy, Customs, and Education, in conjunction with or with the assistance of the cognizant IG. While we are continuing to perform the IRS financial audit and are working with the Naval Audit Service to perform a financial audit of the Navy, we have now transitioned the financial audit responsibility at the other agencies to their IGs.

In working with the IGs, we have also provided technical assistance by making our audit manuals and training available to agency IG staff. Initially, we helped provide training to over 2,000 IG staff. We also assisted the IG Training Institute in developing financial audit training, which it is now providing to the IG community.

A number of IGs have put forth a good effort in embracing their new responsibilities under the CFO Act and now have several years of

financial audit experience. They have worked to train their staffs and arranged for contractor support as needed on these audits.

Based on agencies' self-assessments in December 1994, 20 IGs said they were prepared, or would be ready by fiscal year 1996, to perform an agencywide financial statement audit. However, most conditioned this level of readiness upon continuing to receive current levels of funding. Moreover, at least 17 IGs currently plan to use contractor support to perform financial audits, which will also require sustained funding.

The four IGs who reported that their organizations would not be ready were the Departments of Education, Justice, and Health and Human Services (HHS), and the National Science Foundation. These agencies reported staffing and resource limitations as the primary reason for being unprepared to meet the required timeframe.

Over the next several years during government downsizing, IGs will undoubtedly face resource constraints as they undertake agencywide financial audits. But, in our view, many such limitations can be overcome and should not be a reason not to meet the agencywide audit requirement. The Department of Housing and Urban Development (HUD) IG, for example, faced budgetary and staffing pressures which the IG overcame, in part, by redirecting much of its internal audit work. This has enabled HUD's IG to meet the financial audit responsibilities without seeking additional resources.

We will continue to work with IGs to explore opportunities and creative solutions for surmounting barriers to meeting the fiscal year 1996 statutory timetable. This will be very important, not only to ensure the full and prompt implementation of the agencywide financial audit requirement, but also because the ability of IGs to conduct high-quality and timely financial audits will be key to our audit of the consolidated executive branch financial statements beginning with fiscal year 1997, as required by law. To accomplish this new responsibility, GAO, OMB, and Treasury have been working closely with agency CFOs and IGs to develop a strategy and plan for preparing and auditing these first-ever consolidated executive branch financial statements.

PROGRESS IN ESTABLISHING FINANCIAL MANAGEMENT LEADERSHIP AND ORGANIZATIONAL STRUCTURES

The CFO Act, recognizing the importance of strong financial management leadership, established top-level financial management positions in OMB and the 24 major agencies to better manage financial management operations across government. Together with the CFO Council, which the CFO Act also created, agency CFOs and Deputy CFOs, along with OMB's support, are central to overcoming the long-standing problems hampering effective financial management and accountability. Consequently, sustained progress in establishing effective financial management leadership and

organizational structures is key to achieving the financial management reform the CFO Act envisions.

CFOs and Deputy CFOs and Their Qualifications

The CFO Act prescribes that agency CFOs and Deputy CFOs are to be well qualified and have extensive financial management experience. Today, CFOs have been appointed in 19, and nominated in 2, of the 24 CFO Act agencies. In addition, Deputy CFOs have been named at 20 of the CFO Act agencies. In general, we have found that the CFOs and Deputy CFOs meet the qualifications outlined by the CFO Act and OMB guidance. For example, collectively, 13 of the CFOs and Deputy CFOs have degrees in accounting; 27 of the CFOs and Deputy CFOs have advanced degrees covering a wide range of disciplines, including business administration, public administration, finance, and economics; and 15 of them are certified public accountants. Together, these CFOs and Deputy CFOs have a wealth of experience in federal, state, and local government financial management, as well as in the private sector.

While credentials such as these are necessary to effectively carry out CFO Act responsibilities, additional attention by the Congress and the administration will be necessary to complete the CFO leadership structure the act prescribes. Promptly filling CFO vacancies is essential so that top-level financial managers can institute needed financial management reforms. For example,

Justice has never had a presidentially appointed CFO. At the Environmental Protection Agency and the Small Business Administration, neither CFOs nor Deputy CFOs have been named, and the responsibilities of these positions is currently being carried out by acting CFOs and acting Deputy CFOs. Also, Deputy CFOs have not been named for GSA and the Office of Personnel Management, nor have people been named to fill these positions in an acting capacity.

CFO Responsibilities

The CFO Act and OMB's implementing guidance[4] establishes a full and comprehensive range of CFO financial management authorities and functions for agency CFOs. Overall, the CFOs generally have been given responsibilities consistent with these authorities, including (1) budget formulation and execution, (2) financial operations and analysis, and (3) information resources management, at least as it relates to financial management systems.

In addition, CFOs are being given other closely related responsibilities. For example, CFOs are actively involved in the implementation of the Government Performance and Results Act of 1993. At least 11 agencies have given the CFO lead responsibility for implementing the act. This role is consistent with, and will

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[4]Guidance for Preparing Organization Plans Required by the Chief Financial Officers Act of 1990 (OMB, M-91-07, February 27, 1991).

further provide impetus for implementing, the CFO Act's requirement for information to measure performance.

The CFO Act provides that CFOs are to oversee all financial management activities relating to the programs and operations of the agency. In this regard, we have noted three issues related to CFO organizational structures and responsibilities that deserve attention: (1) the need for all CFOs to have responsibility for both budget formulation and execution, (2) while many agencies have formed internal CFO Councils, the need for establishing stronger relationships with financial managers at agency component operations, and (3) the need to ensure that CFOs are not overburdened with ancillary duties that can detract from their primary financial management functions.

Regarding the first issue, the CFO Act requires, at a minimum, that CFOs monitor budget execution and develop and maintain systems which provide for the integration of accounting and budget information. Because of the interdependency of the budget and accounting functions in meeting this requirement, 19 of the 24 CFO Act agencies have included both budget formulation and execution functions under the authority of the CFO.

However, at the Department of Agriculture, HUD, and the Agency for International Development CFOs do not have responsibility for either budget formulation or budget execution. At Education and

Labor, CFOs have responsibility for budget execution but not for budget formulation. We believe each CFO Act agency should recognize that both these functions can best be integrated with the agency's other financial activities by delegating responsibility for them to the CFO.

Regarding the second issue, OMB's guidance to agencies for establishing CFO responsibilities provides that the CFOs are, at a minimum, to have a formal role in hiring and evaluating the performance of the financial leaders in agency components. The CFO does not have this role at 12 of 17 agencies where financial management responsibility rests with the CFO but is carried out by the financial leaders at the agencies' components.

The CFO Council has studied the issue of the CFO's role in ensuring that financial personnel in component organizations are full partners in achieving agency financial management objectives. The Council suggested that agency CFOs (1) forge relationships with the heads of financial management in agency components, (2) take a very active role in the recruitment of senior CFO personnel at agency components, (3) have a proactive role in senior financial management personnel selections, and (4) exercise a meaningful role in assessing the performance of component CFOs and be a partner in preparing their annual performance evaluations. OMB is currently reviewing the CFO Council's suggestions for possible adoption as governmentwide requirements.

Regarding the third issue of CFOs having ancillary duties, at 14 agencies CFOs are responsible for operational functions in addition to those directly related to agency financial management. For example, the CFOs at the Departments of Treasury and Justice are responsible for personnel and procurement functions; the CFOs at Education and HHS are responsible not only for procurement but also for grants management; and at Interior, the CFO is responsible for all of these ancillary functions. While these responsibilities can provide opportunities for much needed integration of different functional areas, they also have the potential to distract the CFOs from concentrating on financial management issues throughout the agencies. This area needs close attention and further inquiry given the serious financial management problems confronting these agencies.

Improving the Quality of Financial Management Staff

The CFO Act gives the CFO responsibility for recruiting and training financial management staff. CFOs must address the serious problem of attracting and retaining well qualified financial management personnel and work to upgrade their skills, which is of ever-increasing relevance in the current trend to downsize government, as opportunities to expand existing financial staff may be limited in the future.

In June 1992, the Association of Government Accountants made 30 recommendations covering all facets of the financial personnel challenge, from recruiting talented staff to reducing turnover. The CFO Council's Human Resources Committee is working to implement these strategies through such activities as coordinating efforts to provide low-cost, effective financial management training and developing a plan for establishing core competencies and standards for all CFO-related positions.

Investments must be made in training to ensure that financial management personnel increase their professional skills to keep pace with emerging technology and developments in financial management. However, financial management training is an often neglected aspect of ensuring high-quality financial operations. At 19 of the 24 CFO Act agencies, formal training programs to enhance the skills and knowledge of financial management staff have not been established 5 years after the CFO Act was passed.

Upgrading staff skills and knowledge is a fundamental practice that would involve such elements as a training plan and standards for the type and level of skills necessary to effectively carry out financial management functions. The Department of Energy, for example, has established a training program for financial managers that all of its CFO offices are required to implement and that is based on employees' individual development plans. Also, the

Department of Education requires its financial personnel to complete 40 hours of continuing professional education annually.

We have called for financial management personnel to be required to participate in a minimum amount of continuing professional education.[5] Government auditors are required to attend 80 hours of continuing professional education every 2 years, and this requirement has helped enhance audit quality and professionalism.

OMB's Leadership Support Is Important

In addition to agency CFOs, the CFO Act created within OMB a Deputy Director for Management and established the Office of Federal Financial Management (OFFM) headed by a Controller. The act also places with OMB broad authority and responsibility for directing federal financial management, modernizing government financial systems, and strengthening financial reporting.

The current OMB Deputy Director for Management and the Controller are both highly qualified. For example, the Deputy Director for Management has over 20 years of private sector experience, which includes installing new financial and management information systems to restore stability to large troubled business enterprises. The Controller is very familiar with federal financial management issues, having served as HUD's CFO, and has

[5] Financial Management Issues (GAO/OCG-93-4TR, December 1992).

extensive experience in dealing with complex financial systems and problems in state and local government and the private sector.

During the CFO Act's first several years, OFFM provided central direction and guidance in a number of areas, including prescribing the responsibilities for agency CFO organizations, establishing CFO and Deputy CFO qualification standards, providing financial statement form and content guidance, and setting financial audit requirements. Also, for the first time in 1992, OMB issued the annual federal financial management status report and 5-year plan, as required by the CFO Act, This document has been updated annually. Further, the OFFM staff have worked closely with agencies as they began to establish CFO organizations and prepare financial statements.

More recently, in an effort to better integrate budget and management oversight, OMB realigned its activities, including its financial management functions. The new organization, known as OMB 2000, consists of five new Resource Management Offices (RMOs) that are responsible for budget and management functions of their assigned agencies. The RMOs will be staffed with former members of the budget program divisions as well as some staff from the general management and statutory offices, with 21 of the 41 OFFM staff positions reassigned to the RMOs.

As part of this reorganization, policy development was retained in the statutory offices, but some agency liaison responsibilities for the statutory functions were shifted to the RMOs. Currently, OMB expects the reorganized OFFM to leverage resources of, and place more reliance to implement policy through, the RMOs, the CFO Council, and other interagency groups.

There are potential benefits to better integrating OMB's budget and management functions. We stated in our 1989 management report[6] of OMB that "the budget and management staffs must work together as a team if OMB is to more effectively oversee agency efforts to deal with long-term management issues." Also, the CFO Act calls for integration of budget and financial management information.

The overall impact that the reorganization will have on CFO implementation, as well as other OMB responsibilities, will depend in large part on how the reorganization is carried out. At this stage, it is too early to tell. We are monitoring the reorganization implementation to assess its impact on CFO Act implementation and other OMB management responsibilities.

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[6]Managing the Government: Revised Approach Could Improve OMB's Effectiveness (GAO/GGD-89-65, May 1989).

The CFO Council Is Working to Improve Financial Management

The CFO Act created a CFO Council to advise agencies and coordinate their activities on such matters as consolidation and modernization of financial systems; improved quality of financial information, financial data and information standards; internal controls; and legislation affecting financial operations and organizations. In concert with OMB, the CFO Council, which is comprised of senior OMB and Treasury officials and the CFOs and Deputy CFOs, is working to establish sound financial policies and services governmentwide and to facilitate effective communication.

The CFO Council's role has significantly evolved. The Council now meets monthly, with the meetings attended by both the CFOs and the Deputy CFOs, as well as the Deputy Director for Management and Controller in OMB, Treasury officials, and representatives of other groups such as the IGs and GAO. The CFO Council has formed 15 committees and actively undertaken a wide range of projects to improve financial management across government. The following are examples of the Council's projects:

-- The Financial Systems Committee is involved in projects, such as coordinating OMB's annual financial management systems status report.

-- The Legislative Activities Committee has ongoing activities to promote financial management legislation, such as that involving debt collection, and to provide liaison with congressional staff on financial management matters.

-- The Report Streamlining Committee has the goal of simplifying and streamlining governmentwide reporting requirements through reports consolidation, like that called for in the Government Management Reform Act.

-- The Internal Controls Streamlining Committee disseminates information on streamlining management control programs and activities under the Federal Managers' Financial Integrity Act.

Also, the CFO Council has developed a vision and goals for the financial management community and federal managers, which was issued in July 1994. In May 1995, the CFO Council established the following as its highest priorities for the coming year: (1) the improvement of financial systems, (2) the implementation of the Government Performance and Results Act, and (3) the development of auditable financial statements and accounting standards.

Further, the CFO Council, along with OMB, has developed a series of financial management indicators to track financial management performance, show agencies progress toward achieving financial management goals, and help focus management's attention on areas

requiring further oversight. These indicators, which are published in OMB's annual financial management status report and 5-year plan, provide information on the status of financial management in the 24 CFO Act agencies and document the status of agency progress toward meeting critical financial management goals.

Overall, the CFO Council's work is essential to provide a forum to exchange ideas and consider issues of common interest to improve financial management across government--issues that are central to meeting the CFO Act's requirements and objectives. Consequently, the Council serves as a link to surface and collectively help to resolve problems that impede the development of effective financial information, systems, and controls.

COMPREHENSIVE FEDERAL ACCOUNTING STANDARDS NEARING COMPLETION

Establishing new accounting and financial reporting standards is central to achieving the CFO Act's objective of providing relevant and useful financial information for managing government operations. To ensure the relevancy of federal accounting standards, the Director of OMB, the Secretary of the Treasury, and I agreed to a cooperative approach to the standard-setting process by establishing the Federal Accounting Standards Advisory Board (FASAB) in October 1990. By the fall of this year, FASAB will have introduced new financial reporting concepts and completed most of

the supporting financial and cost accounting standards necessary to meet the federal government's special needs.

As we testified[7] before this Subcommittee on July 11, 1995, new financial statements are being considered to meet the unique needs of those who manage and oversee the federal government's budgets, operations, and stewardship. In addition to ensuring basic accountability for the proper use of budgetary resources, these reports should address (1) the full costs of achieving program results, (2) the value of what the government owns and what it owes to others, and (3) the government's ability to detect and correct problems in its financial systems and controls.

The standards FASAB is now recommending will provide a sound foundation for federal financial statements that are relevant to the budget formulation process and the need for operating information. The successful implementation of these standards will depend on support both from agency leadership and management as well as the Congress itself. We have been pleased by the support the Congress in general and this Subcommittee in particular has provided for these initiatives and hope to continue working with you on these important issues.

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[7] Managing for Results: Strengthening Financial and Budgetary Reporting (GAO/T-AIMD-95-181, July 11, 1995).

BUILDING SOUND FINANCIAL MANAGEMENT SYSTEMS

Seriously inadequate automated financial management systems are currently the greatest barrier to timely and meaningful financial reporting, including the preparation of annual auditable financial statements. Agency systems are old and do not meet users' needs. In March 1995, OMB reported that 39 percent of agency systems were originally implemented over 10 years ago and a little over half (53 percent) need to be replaced or upgraded within the next 5 years.

Existing financial systems have not been designed to provide meaningful financial, cost, and performance data or support the preparation of required financial reports. Further, systems that account for related information, such as inventory and purchasing systems, are not integrated. These problems diminish not only an agency's ability to prepare auditable financial statements, but, more importantly, the reliability, usefulness, and availability of all agency financial data. As a result, inadequate systems decrease an agency's ability to measure and manage the cost of its programs, efficiently carry out its operations, and protect the assets and resources for which it is responsible.

Because of these problems, the CFO Council has designated financial management systems as its number one area of emphasis. The need for this high priority is underscored by the results of self-assessments by the 24 CFO Act agencies, which showed that most

agency systems are not capable of readily producing annual financial statements and are not in compliance with current system standards. Equally as important, managers do not have reliable, timely financial data throughout the year to help manage effectively.

Agencies reported that only 29 percent of their financial management systems were part of the single integrated financial management system that the CFO Act requires each agency to establish. For example, DOD reported that it had over 250 financial management systems in operation but that only 8 percent of these systems were part of the department's single integrated system. Further, agencies reported that only 33 percent of their core financial systems comply with the Joint Financial Management Improvement Program's (JFMIP)[8] Core Financial System Requirements, as required by OMB, and only 46 percent of their systems comply with individual agency data standards.

Efforts to Improve Information Technology Management

The continuing poor condition of agency financial systems is a symptom of a much broader issue--the federal government's overall inability to effectively manage its investments in information

[8]JFMIP is a joint cooperative undertaking of OMB, GAO, the Department of the Treasury, and the Office of Personnel Management to improve financial management operations throughout the government.

technology. Many agency system development projects have been poorly planned and managed and, as a result, have cost much more than anticipated and have not provided intended benefits.

There is a growing recognition throughout government that fundamental information technology management problems need to be addressed, and a number of initiatives are underway to do this. For example, our May 1994 executive guide[9] on the best information management practices of leading organizations has been enthusiastically received, and several agencies are actively attempting to implement its tenets, which focus on strategic information management. We testified before this Subcommittee on the key practices outlined in this guide.[10]

We have developed several tools to assist agencies in taking a strategic view of their information resource management practices and maximizing their information technology (IT) investments. Our Strategic Information Management (SIM) Self-Assessment Toolkit,[11] for example, has been used by several agencies, including IRS and HUD, to take the important initial step of assessing their own practices. Additionally, we are currently working with OMB to

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[9]Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology (GAO/AIMD-94-115, May 1994).

[10]Managing for Results: Steps for Strengthening Federal Management (GAO/T-GGD/AIMD-95-158, May 9, 1995).

[11]Strategic Information Management (SIM) Self-Assessment Toolkit (Version 1.0, October 1994 Exposure Draft).

finalize its Information Technology (IT) Investment Guide, which is intended to provide agency managers a systematic and objective means of reducing the risk and maximizing the return associated with planned IT investments.

Further, the Congress is taking steps to improve federal IT management. Earlier this year, the Congress passed amendments to the Paperwork Reduction Act, which the President signed into law on May 22, 1995. The amendments are intended to improve the management of IT resources and institute stronger controls over IT investments. Other legislative proposals to strengthen leadership and accountability for managing and improving systems are being considered. These proposals include ideas such as establishing Chief Information Officers in federal agencies and changing system planning and acquisition practices.

Financial System Improvement Efforts

In addition to general IT management improvement initiatives, there are improvement efforts specifically aimed at financial systems that are either underway or needed. For example, over the past few years, available guidance on financial system design standards has been expanded and improved. This should help agencies ensure that their new or redesigned systems perform required accounting functions and produced needed data.

In particular, JFMIP is developing a set of Federal Financial Management System Requirements, which provide guidance in determining the functions that agency systems should be able to perform. Since 1988, JFMIP has issued guidance on a number of areas, including general ledger systems, personnel and payroll systems, and inventory systems. In the fall, JFMIP plans to issue guidance on cost accounting systems, which will help to implement the cost accounting standards recently issued by FASAB.

Also, in January 1995, JFMIP published a model for establishing and maintaining integrated financial management systems to support management and federal program delivery. This document, entitled Framework for Federal Financial Management Systems, is an important step in providing the guidance agencies need. GAO is developing detailed system review guides to assist agency managers and auditors in implementing and assessing agency compliance with federal guidance, including the JFMIP criteria.

When implementing improved system design criteria, agencies need to take a fresh look at their financial operations to determine how they can best take advantage of information technology to increase efficiency. Operational improvement gains resulting from such reengineering efforts can result in savings that help offset new system costs. Also, it is essential that agencies upgrade and make the most of the financial system expertise available within federal agencies and take full advantage of private sector expertise.

One way to maximize agency expertise would be to expand the practice of cross-servicing, where one agency provides financial management software and processing support to another agency. According to OMB, 16 of the 24 CFO Act agencies currently engage in some type of cross-servicing, covering approximately 20 percent of personnel/payroll systems and 6 percent of travel systems. We believe that this practice could be expanded significantly.

Also, agencies could pool their resources to establish interagency centers for managing financial system development projects. Establishing centralized, governmentwide computer operations centers or establishing private/public sector partnerships to resolve major problems and test innovations, would be other possibilities. Such practices could result in systems being developed faster by fewer personnel and could facilitate accounting for and managing the cost of system development and operations.

Further, in light of the government's long-standing poor track record in systems development, it may be appropriate to consider contracting with private businesses to take over large segments of federal automated operations. Many private firms have turned to this practice, known as "outsourcing," because it allows them to concentrate on their core businesses and improve customer service rather than expending effort on their information technology infrastructure. Costs may be lower because (1) they are, in effect, shared with the vendor's other customers, (2) the number of

computer support staff can be dramatically reduced, (3) vendors may do the job better because computer service is their primary business, and (4) state-of-the-art technology could be acquired faster.

Since the benefits of long-term efforts to improve agency systems often require years to realize, agencies need to make their existing systems work better in the interim. An important aspect of this is to ensure the validity of existing data and to implement the routine controls needed to keep these data reliable, such as reconciliations to identify, research, and resolve discrepancies. Such efforts will improve the reliability of current financial reports and help ensure that data transferred to new systems are reliable.

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Through the CFO Act, the Congress has set the foundation to provide much needed accountability and gain financial control of government operations. Over the 5 years since the act's passage, important progress has been made and the CFO Act's provisions have begun to take root. This momentum needs to be sustained and enhanced. Much more needs to be done to fully achieve the act's financial management reform goals and attain the type of accountability and effective management the American taxpayers expect and deserve. We

look forward to working with the Subcommittee and others to help make the CFO Act's goals a reality.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions.

 ATTACHMENT I

AGENCIES REQUIRED TO HAVE ANNUAL AUDITED FINANCIAL STATEMENTS
($ in billions)

Agency/Department	1994 Outlays	Percent of Total	1994 Gross Budget Authority	Percent of Total
HHS	278.9	17.6	370.4	17.4
Defense	299.0	18.9	408.0	19.1
Treasury	307.6	19.4	340.2	15.9
SSA	345.8	21.8	360.1	16.9
Agriculture	60.8	3.8	89.6	4.2
Labor	37.0	2.3	48.9	2.3
OPM	38.6	2.4	79.1	3.7
Veterans Affairs	37.4	2.4	43.1	2.0
Transportation	37.2	2.3	47.1	2.2
Education	24.7	1.6	33.6	1.6
HUD	25.8	1.6	36.5	1.7
Energy	17.8	1.1	24.9	1.2
NASA	13.7	0.9	15.3	0.7
Justice	10.0	0.6	13.3	0.6
Interior	6.9	0.4	11.2	0.5
EPA	5.9	0.4	7.0	0.3
AID	2.5	0.2	6.5	0.3
State	5.7	0.4	6.9	0.3
FEMA	4.2	0.3	6.9	0.3
Commerce	2.9	0.2	5.4	0.3
NSF	2.6	0.2	3.2	0.2
SBA	0.8	0.1	3.5	0.2
GSA	0.3	0.0	10.2	0.5
NRC	0.05	0.0	.5	0.02
Total CFO Entities	1,566.15	98.8	1,971.63	92.3
Non-CFO Entities	18.23	1.2	163.55	7.7
Total Government	1,584.38	100.0	2,135.18	100.0

(913730)

Hearing on the Implementation of the Chief Financial Officers Act
Follow-Up Questions

1. **You state that requiring continuing professional education has helped enhance audit quality and professionalism. Please describe the GAO model of training and continuing education requirements for accounting professionals.**

   GAO Response: Training is a high priority at GAO. GAO is committed to supporting continuing professional education for all its employees. This commitment is reflected in the Government Auditing Standards issued by the Comptroller General (the "Yellow Book"), which requires auditors to complete, every 2 years, at least 80 hours of continuing professional education (CPE), with at least 24 of the 80 hours in subjects directly related to the government environment and to government auditing.

   In accordance with the Yellow Book, GAO employees that perform audits or evaluation studies, are required to comply with these standards. To help GAO employees meet these requirements, GAO established a Training Institute. The Training Institute's "Training and Education Catalog" presents training curriculums, with structured training programs outlined for staff, senior, management, and executive levels and provides detailed information on the training resources available to GAO staff. In addition, GAO developed a separate financial auditor curriculum which requires specific technical accounting and auditing courses depending on an individuals experience level. Copies of our training catalogue and financial auditing curriculum are attached. In addition to training delivered by the Training Institute, employees are encouraged to attend industry specific training - from professional associations, other federal agencies, and colleges and universities - to stay current in their profession.

2. **Do you think that model should be adopted by the agencies?**

   GAO Response: Yes, or a similar model that requires a minimum level of CPEs and specific courses in various technical areas.

3. **Should there be a monitoring system to ensure compliance with the continuing education requirements, and if so, what?**

   GAO Response: Yes, there should be a monitoring system to ensure compliance with the continuing education requirements. At GAO, each employees training is monitored. Our training system allows for a report to be generated on the training each employee has participated in. The report is periodically generated for each employee and is monitored to ensure that all employees meet the CPE requirements.

4. **Do you think that the fact that OMB and the CFO Council are jointly preparing the Federal Financial Management Status Report and Five-Year Plan impairs the ability of OMB to provide Congress with an objective assessment of agency implementation of the CFO Act?**

GAO Response: Particularly in view of OMB's limited resources, I do not think that the fact that OMB and the CFO Council are jointly preparing the Federal Financial Management Status Report and Five-Year Plan necessarily impairs the ability of OMB to provide Congress with an objective assessment of agency implementation of the CFO Act. In addition, since OMB's plans need to be consistent with the individual agency plans, having the agency CFO's, who are responsible for preparing the agency plans, involved in developing the OMB plan will help to ensure that consistency. Also, OMB gets input from the agency Inspectors Generals (IGs). OMB reviews IG reports and has regular dialogue with agency IGs. We also understand that OMB reviews individual agency plans and thus, should have a good understanding of the status of financial management in each agency.

5. **You stated that you hoped that, eventually, the legislative and judicial branches of the government would also have a requirement for audited financial statements. How long do you think that would take? If we drafted legislation tomorrow, what timetable would be workable?**

GAO Response: Currently, the six major legislative branch components all vary in their audit coverage. GAO has been producing audited comprehensive statements on an annual basis for several years. The Government Printing Office produces audited comprehensive statements, but does so only once every 3 years as required by 44 U.S.C. 390 (d). GAO has advocated that GPO receive an annual audit to be conducted or arranged by its Inspector General, similar to the CFO requirement for executive agencies. The House of Representatives attempted to produce its first audited comprehensive statements this year. The three remaining components -- the Senate, Architect of the Capitol, and the Library of Congress -- have not yet prepared comprehensive statements, although each has produced audited statements for parts of their operations.

The first step for getting audited financial statements for the legislative branch is getting a commitment from each component for a plan to produce and audit financial statements covering their entire operations. If these plans were completed shortly, it may be possible to have the entire legislative branch under audit beginning in fiscal year 1997. This would put the legislative branch ont he same time frame as the audit for the consolidated financial statements of the federal government as required by the Government Management Reform Act of 1994.

The judicial branch has taken actions which could serve as the first steps in obtaining a comprehensive financial statement audit. Our sense is that the judicial branch could also produce audited comprehensive statements beginning in fiscal year 1997, provided, of course, that judicial branch leadership made the necessary commitment.

We believe that legislation requiring the legislative and judicial branches to produce audited comprehensive statements would help to ensure greater accountability and restore public confidence in government. Moreover, legislation would help to underscore the Congress' commitment to sound financial management throughout the federal government by putting legislative and judicial branch requirements on more of a par with executive branch requirements.

6. **If agencies contracted out work to certified public accounting firms, how would they ensure that the auditors paid adequate attention to what they considered important?**

GAO Response: The CFO Act currently gives the responsibility for performing financial statement audits to the Inspectors General[1]. GAO believes that the auditing standards contained in the Yellow Book and OMB's auditing standards established for CFO Act audits provides sufficient guidance to ensure that proper attention is paid to the important areas. In addition, GAO has issued guidance on procuring audits services from a certified public accounting firm.

We are aware of discussions about shifting the responsibility for obtaining a financial statement audit to the chief financial officers in the agencies. GAO believes that the current responsibility as assigned under the CFO Act is the most appropriate delegation of responsibility and provides the best safeguards for independence. Additional safeguards could be established by the creation of audit committees at the agencies.

7. **If certified public accounting firms were asked to report on management assertions on, for example, internal controls or compliance with laws and regulations, these engagements would not necessarily be done under generally accepted auditing standards but under the new standards for attestation engagements, which would require the agency to determine what it wants examined and specify what procedures should be included in the engagement. Who would negotiate such contracts? Who would monitor them?**

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[1]The Comptroller General may, at his discretion, elect to perform these audits.

GAO Response: If management's assertion is made as part of the financial statement audit, the IG who has responsibility for those audits would negotiate and monitor the work that is done on management's assertion. Otherwise, management could separately negotiate and monitor such a contract, but the attestation standards would require the auditor to report whether work performed was less in scope than an examination of management's assertion would have required.

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
AUDITING									
Introduction to Financial Auditing (28)	X								
Government Auditing Standards (8)	X								
Introduction to Federal Financial Management (8)	X								
Preparing Workpapers (6)	X								
Approach and Methodology Selection Workshop (20)		X							
Applied Sampling Workshop (28)		X							
Economy and Efficiency Reviews (20)		X							

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Budgeting in Review (24)		X							
Referencing Financial Management Reports (7)			X						
Fraud Awareness (12)			X						
Topics in Auditing (TBD) (Note 1) (Note 3)			X						
Workpaper Review (4) (Note 1)			X						
Evidence: Standards and Applications (12)				X					
Introduction to Procurement and Contracts (24)				X					
Advanced Financial Auditing (32) (Note 1)				X					

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Testing Compliance with Laws & Regulations (TBD) (Note 1)				X					
Budget Controls (TBD) (Note 1)				X					
Approach and Methods Overview (UD)								X	
Budgeting in Review for Executives (5)								X	
ACCOUNTING									
Principles of Budgetary and Proprietary Accounting (24) (Note 1)	X								

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Accounting and Auditing Update (16)	X	X	X	X	X	X	X	X	X
COMMUNICATION									
Intermediate Writing Workshop (16)		X							
Producing Organized Writing and Effective Reviewing (16) (Note 1)			X						
Advanced Interviewing (UD)			X						
Preparing Effective Presentations (24) (Note 1)				X					
Report Writing and Message Development (24) (Note 1)					X				

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Writing Seminar (8)					X				
Advanced Presentation Techinques (UD)						X			
Report Review (12)						X			
Executive Summary Workshop (16)						X			
Strategies for Overcoming Writers Block (8)						X			
New Instructor Training (16)						X			
Writing Testimony (16)						X			
Managing Writing (16)							X		
Instructor Training Advanced (16)							X		

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Executive Briefing Skills (16)								X	
Media Communication for Managers (16)								X	
Delivering Testimony (16)									X
Media Communications for Executives (8)									X
MANAGEMENT									
Workplace Relations & Communication (20)		X							
Skills and Strategies for New Supervisors (24)			X						
Preventing Sexual Harrassment (4)			X						

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Management Briefing: EEO Responsibilities (4)				X					
Workshop Series									
Managerial Assessment and Planning (UD)						X			
Situational Leadership (10)						X			
Problem Solving and Decisionmaking (UD)						X			
Advanced Communication and Negotiations (24)						X			

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Managing Involvement (12)						X			
Managing Interdisciplinary Teams (UD)						X			
Managing for Productivity (28)						X			
Valuing Workforce Diversity (16)						X			
Managing Multiple Responsibilities (UD)							X		
Managing Organizational Change (14)								X	
GAO, Congress, and the Environment (20)								X	

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Human Resource Management Series (Note 2)									X
Emerging Issues Workshop (Note 2)									X
Executive Speakers Program (Note 2)									X
MICROCOMPUTER COURSES									
DOS 5.0 (6)	X								
WordPerfect Introduction (14)	X								
Lotus 1-2-3 Introduction (14)	X								
Windows Intro. Version 3.1 (7)		X							

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
ABC Flowcharting (7)		X							
IDEA (7)		X							
OTHER COURSES									
Introductory Evaluator Training (56)	X								
Senior Level Promotion Program (16)					X				
Management Level Promotion Program (12)							X		
Executive Candidate Development Program (Note 2)									X
Information Resource Management and Technology (UD)									X

TABLE I

GAO FINANCIAL AUDITOR CURRICULUM									
	Band I Developmental		Band I Full Performance		Band II		Band III		SES
Courses (CPEs)	New	Exp.	New	Exp.	New	Exp.	New	Exp.	All
Total Hours (excluding courses under development)	180	165	83	112	64	174	60	87	40

Legend:

UD - Under development; CPEs to be determined

TBD- To be developed

Note 1 - Strongly encouraged for individuals who are in bands above the recommended level and have not yet taken the course. Optional for SES.

Note 2 - Scheduled on an as needed basis

Note 3 - 4 to 8 hour seminars on topics such as accounts receivable, fixed assets, revenues, estimates, etc.

Mr. HORN. Well, I thank you very much. Let me ask a couple questions.

One of the things that concerns me, as I read the various statements and I listened to the hearings conducted very ably by Representative Spratt last year, and now look at the situation this year, is the following, and I would like to know if you or your staff have a feeling on it.

What difference, if any, have you found between those who are full-time Chief Financial Officers and those who are simply part-time Chief Financial Officers and either Assistant Secretaries for Management or Administration? Have we found a fundamental difference? And I would also be interested in, if we haven't, where are the weaknesses we see in those agencies? Is it in the tie-in between financial and budget, or what?

Mr. BOWSHER. Well, I think a Chief Financial Officer for one of these large 24 agencies of the Federal Government is a full-time job. So anytime that you have these ancillary duties given to them, I think it takes away from the time that they can spend. When you think about it, the CFO of these agencies is not the CFO of a well-run system in good shape. They've got a lot of tough, hard work to do, as the CFO, to get things in good shape.

So I think that the CFO should really be concentrating on that job and not have some of these administrative Assistant Secretary type responsibilities. As you are aware, Mr. Chairman, I served as a Chief Financial Officer of the Navy 25 years ago. I know the job very well, and at that time I only had the budget, the auditing, the systems, and accounting, and it was very much a 12-hour day trying to stay on top of that. So I am very, very strong in recommending that you have the major financial management functions in the job and get rid of the rest of it.

Mr. HORN. In your prepared testimony you identified four Inspectors General who said that they would not be able to perform agency-wide financial statement audits. The Inspectors General in question are at Education, Justice, Health and Human Services, and the National Science Foundation. These Inspectors General claim that they lack the staffing resources to meet the required timetable.

I note that most Inspectors General seem to be able to assist the CFOs to comply with the law. So when Inspectors General perform the financial statement audit, I assume the cost of the audit is borne by the Office of Inspector General. At agencies where the IGs are not performing these audits, should the CFOs be able to hire contractors on their own, and should the Office of Inspector General budget be reduced to pay for these audits?

Mr. BOWSHER. Well, I think if the IGs do not have the resources, I think that the agency should hire an outside firm to do it. I strongly believe that. Whether it would be done and how the bookkeeping would be done—but I am a little concerned about the CFO selecting the auditors, because I think that's what we had in the private sector 30 and 40 years ago, and we got away from that; we got to audit committees represented on the board. I would like to see more independence.

Before the legislation went through, I recommended audit committees for the various agencies, the 24 largest. I still think it's a

good idea if we had that, like we had in New York City. There was an audit committee created there which worked very, very well, with some private sector people serving on the audit committee in addition to others.

The important thing is to get the audit done. I would hope that if the IGs can't see their way to assign their resources to get the job done, then there's no reason why they can't go out and hire another firm, a CPA firm, or something like that, to get the job done. That's what we found in the States. In other words, when we put through the Single Audit Act, some States did it with their own audit resources; others hired the big accounting firms.

Mr. HORN. I now yield to an expert on New York City, the ranking minority member, Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman.

I recently released a report based on information collected from 100 Federal agencies, some with the help of CFOs, and in that report it documented that individuals and organizations owe the Government more than $50 billion in delinquent, nontaxed debt. And these debts range from unpaid student loans, farm loans, defaulted housing, oil pollution fees, fines, a whole range of areas.

When past due Federal income taxes are added, Federal delinquent debt rises to $117 billion and is projected to reach $125 billion by the end of 1995. That's a lot of money that could be used. I just came from a meeting on housing. They are cutting the housing budget by 25 percent. The Americorps program has been cut, the healthy baby program, Head Start. These dollars could be used to restore some essential services. Personally, I think it's an outrage that these dollars are out there, and should be brought into the budget and used for needed programs.

In your statement you noted that "Financial statement audits have continued to identify potential and actual dollar savings." What do you think, Mr. Bowsher, Government could do quickly and efficiently to ensure that these dollars owed the American people are brought into the Treasury?

Mr. BOWSHER. I think it's a very important point, because when we first started doing these financial management audits, what we found is that the receivables weren't even aged; they weren't even, half the time, really good receivables. They just kept building up over the years. That was true, like at the IRS and some of the others.

By going through these audits, the agencies are actually getting their receivables into a position that they can get audited. Then they can start really going after that money.

Jeff Steinhoff, on my right, has worked in this debt collection area quite a bit, and I would like him to expand on that. But I think it's an area where there is big money to be achieved, and it's the importance of putting people with good information that they can actually go out and get that money. As you are relying on bad information, then people come back and say, "Well, you can't get it," you know, "The people have no money," and things like that. That's what you have to sort out in your information system.

Go ahead, Jeff.

Mr. STEINHOFF. My background in this goes back to the late 1970's, when there was no accounting at all for these funds. So, in

that respect, the Government has made strides. I think there are several things, one being just fully using all the tools in the Debt Collection Act of 1982. Those tools have not always been fully used, although they are used to a great extent today.

Mrs. MALONEY. What are the tools of the 1982 Debt Collection Act?

Mr. STEINHOFF. Things such as using private sector collectors, referring to credit bureaus, and fully using offset provisions.

Mrs. MALONEY. Why isn't it implemented? I mean, this is $150 billion of taxpayers' moneys, or, rather, moneys that are owed the Government, sitting out there that could be used for good causes. Why aren't we using private collectors? Why aren't we going out after those dollars?

Mr. STEINHOFF. Many of those things are being done today. There have been billions of dollars collected using those tools. They oftentimes aren't fully used, and I think part of the issue is getting on top of the debt at a very early stage, making a proper loan, assuring that due diligence is followed all the way through.

There are some important tools that aren't always there, such as a clear identifying number for a person, a business identification number, or a Social Security number. You might make a student loan, and the person's name might change a couple times through marriage. So you have to have that full range of tools there.

Mrs. MALONEY. By the way, the chairman and I are working on legislation that would have an identification number that would make your job easier.

Mr. STEINHOFF. Yes.

Mrs. MALONEY. When you mentioned earlier that you don't have it in a form to be written off, do you have any uniform procedures on how you treat collected debt, how old it is?

Mr. STEINHOFF. Yes.

Mrs. MALONEY. How many attempts have been made to collect it?

Mr. STEINHOFF. Yes.

Mrs. MALONEY. Do you have any procedures where you decide when it is written off as just totally uncollectible?

Mr. STEINHOFF. There are various due diligence procedures. Now, I'm talking about nontax debt. Tax debt is a totally different thing.

Mrs. MALONEY. Yes.

Mr. STEINHOFF. But on nontax debt there is a set of procedures, requirements. I think the Government has come a long way in knowing what is there, what is due, how old it is.

Mrs. MALONEY. At what point do you write it off? Is it after a series of years or after a series of attempts? When do you decide to write it off?

Mr. STEINHOFF. It's based on a number of factors: attempts, years. If you can actually find the debtor, you might make a determination as to the collectability from them. In the case of many of these, they do represent farm loans; they represent student loans; they represent housing loans where someone has walked away from a piece of property. So you have to make that determination on a case-by-case basis, based on that debtor.

Then, once you have decided to write off that loan, what is required is that an IRS 1099 form be filed, and that becomes income to that person. So, at that point in time, the IRS can go after them for the percentage taxes that might be due on that.

I think an important factor, too, to all of this is for people to decide up front when they are actually proposing a budget. That's what credit reform was all about. Decide up front what will be my expected cost or losses from this, so that the Congress has a very good idea each year—let's take, for example, the student loan program—what are the anticipated losses, and what is the nature of those losses?

You will find that losses manifest themselves in certain areas, and you can analyze them in that manner.

Mrs. MALONEY. And then, possibly, the management should be improved in those areas up front.

Mr. STEINHOFF. If you can really zero in, like on student loans—not to digress too much—a thing like proprietary schools; you have massive losses there. You do not have many losses in 4-year colleges. So you can really pinpoint where your costs or losses are and zero in on those. You always are going to have some losses, though.

Mrs. MALONEY. Do you think it would help to centralize collections so that there is an agency that focuses on and works on collecting what is owed the Government? Oftentimes, in the various agencies, you have different pressures on you, responding to various crises often, and tremendous, really, cutbacks in the agencies, that maybe the personnel is not there to do the collections. Obviously, it's much cheaper to do collections in-house than to contract them out where they take sometimes 20 percent, 25 percent, 30 percent of the revenue.

Mr. STEINHOFF. Yes.

Mrs. MALONEY. Do you think to centralize it would be a good idea?

Mr. STEINHOFF. Yes, and they are working in that way. There are four or five major credit agencies today. There are proposals, as part of the omnibus bill that you referred to, to have Treasury do certain things on offset and other centralized functions. But there's lots of merit in the major credit agencies—there are only four or five of them—working together, developing centralized centers or centralized systems, and really looking to leverage best practices. There's lots of opportunity there.

Mrs. MALONEY. May I ask one last question, Mr. Chairman, or is my time up?

Mr. HORN. Certainly. And we can get back to you, but go ahead.

Mrs. MALONEY. OK. I would like to ask Mr. Bowsher, in your statement discussing audited financial statements, you say that the audits are useful in determining that some agencies fail to collect all of the revenue which is due to the Government under the law.

With respect to the IRS you say that, "The Internal Revenue Service reported that revenue of $1.3 trillion"—we could close the deficit, the debt, with this—"for fiscal year 1994 could not be verified to accounting records maintained for individual taxpayers in the aggregate, and amounts reported for various types of taxes collected could not be substantiated."

Can you report on that $1.3 trillion that's sitting out there, Mr. Chairman? I mean, we could really make a dent in the deficit with that.

Mr. BOWSHER. No, it's not necessarily sitting out there. Greg Holloway is our auditor in charge of the IRS. Let me have him explain that to you.

Mrs. MALONEY. And the complaints I get from my constituents, by the way, on the IRS going after them, I mean, maybe we should start focusing on the IRS and their business practices themselves.

Mr. HOLLOWAY. Well, I will tell you, Congresswoman Maloney, in terms of the $1.3 trillion, that is the amount that IRS reportedly collected in taxes.

Mrs. MALONEY. It collected in taxes.

Mr. HOLLOWAY. And the issue in the audit is that they cannot reconcile their detailed taxpayer account records to the amount that they report. In other words, they have no support for that amount that could be verified as to the accuracy of whether or not whatever they collected, in fact, got posted to taxpayer accounts.

So it's really a question more of, you paid your taxes; did you get the proper credit for it included in that amount that is reported? It wouldn't be available for deficit reduction as possibly their tax receipts would be.

Mrs. MALONEY. So it's their own mismanagement.

Mr. HOLLOWAY. I think it's a case of just having poor records and poor accounting practices, in terms of just fundamental recordkeeping and performing reconciliations of detailed records to summary accounts to assure yourself that you have accounted for everything.

Mrs. MALONEY. How do you think we should achieve proper recordkeeping in the IRS?

Mr. HOLLOWAY. I think a very critical aspect of that is hearings like this and others, in terms of congressional oversight. Unlike the private sector where you have a profit-driven motive, it seems that more often than not, in the Federal Government, congressional interest and oversight seem to be key.

While IRS certainly has its share of issues that they need to resolve, they would probably be as good as many Federal agencies, in terms of responsible financial management, which is why I think it's all the more important to have these kinds of hearings to impress on people how important it is to Congress so that it is prioritized.

Mrs. MALONEY. How much is owed the IRS, roughly, do you know?

Mr. HOLLOWAY. Right now, IRS projected this year that they had gross accounts receivable of $70 billion, of which they projected that $35 billion was collectible. Based on our testing, we were not able to attest as to whether or not that was for certain the right or wrong amount. Now, all that means is that we did some tests of the statistical sampling they did of their receivables population.

And I know it sounds like a lot of accounting "technicalese," but the problem with it is, in most corporations in the private sector you wouldn't have to rely on statistical accounting; you would have detailed subsidiary records that itemized who owed you money, so that you would know readily who owed you money.

And that goes back to the things the Comptroller was talking about earlier, about the importance of having the good records so that you readily know who owes you and how old it is, and what efforts have been made to collect it. The biggest problem with taxes has been the untimeliness in the pursuit of collecting it.

Mrs. MALONEY. Thank you very much. And I thank Chairman Horn. We have had several conversations on this issue ourselves and hope to work jointly on trying to work with Government in improving the whole area of collections and accounting.

Mr. BOWSHER. Yes. And we would like to work with you, if we can be of any help on this issue. It's a very important issue, and there's big money there.

Mr. HORN. The offer is greatly appreciated. I will give my colleague a "Dear Colleague" letter this afternoon, which she is free to edit in any way she would like, and we will send it to the other 433 Members and see if we can't get a majority to introduce the bill.

We think what the CFO Council, with OMB and GAO participating, and the Treasury have done, in particular with this debt collection legislation, is long overdue, and we would hope to get that accomplished in this Congress. If not, and we lose, it will be known as the Maloney-Horn bill rather than the Horn-Maloney bill. In either case, we will work on this together.

In 1997, the GAO will audit the consolidated financial statements of the Government. You stated in your formal testimony you will use the Inspectors General to help you with this. Is there any estimate at this point as to what this effort will cost in staffing time, and will you have sufficient staff to perform these audits? Do you plan to contract out a lot of them?

Mr. BOWSHER. No, we expect to be able to do that, Mr. Chairman. We will do some contracting out, as we do when we do some of the individual audits, but overall that's a role that GAO will do. Although we are coming down in size and I worry about losing too many of our good people, we expect to be able to play that role, and it's an important role for us to play.

Mr. HORN. You mentioned the cross-servicing where one agency provides financial management software-processing support to another agency. Should the agencies be encouraged to charge a service fee to the agency being served? Are agency cost-accounting systems sufficiently developed so that the charges could be based on cost reimbursement? And how long would it take the agencies to get these systems up and running?

Mr. BOWSHER. I think that's an important issue. The question is, do you want all these individual agencies to design and build their own modern accounting systems, or can you do some consolidation and then just have people cross-charge?

At the General Accounting Office, we have moved most of our accounting down to the Finance Center that the Agriculture Department runs in New Orleans, as have quite a few other agencies. I think there's real potential there. I know that Ed DeSeve and the people at OMB are looking at this as a possible plan of action, you might say, in the future here. I think it should not take too long.

I think that in a rather few years here you could have several of those come up and be developed, and then I would think you

would gain great efficiency in going that way. I think the cost accounting could easily be put in place. It certainly has been down in New Orleans, and we receive those charges and pay them.

Mr. HORN. Very good. There are a number of other questions I have, but, if you don't mind, we will submit them to you in writing, and at this point we will have your answers.

Mr. BOWSHER. We would be pleased.

Mr. HORN. I now yield to the gentleman from Pennsylvania, Mr. Fox.

Mr. FOX. Thank you, Mr. Chairman.

Comptroller Bowsher, when would you be able to provide us with information about the OMB2000 reorganization's impact on CFO Act implementation and other OMB management responsibilities?

Mr. BOWSHER. I would think sometime next year is what we would probably do. We're studying the area right now, and I would think sometime next year.

Mr. FOX. One final question: If Congress established an independent commission to monitor agency progress in improving systems, who should be appointed to such a committee?

Mr. BOWSHER. Well, my own recommendation would be that you consider having audit committees of the 24 largest agencies, the ones that are going to be required to have the audit, and that this committee continue to be the oversight committee and hear, on an annual basis, what progress is being made.

If you went to such a committee like that, I would think then you would want to make some kind of a selection of this committee, the Governmental Affairs Committee in the Senate, and some people from the private sector.

Mr. FOX. Thank you.

Mr. HORN. I thank you very much, and we appreciate you and your colleagues coming and giving the usual very thorough, detailed testimony. We are most grateful for the monitoring you are doing under this program. We think it's an absolutely essential tool of Government to know where the money is and might be, and to be able to show the President of the United States, Congress, and the taxpayers that we are responsible fiscally.

Thank you for coming.

Mr. BOWSHER. Thank you very much, Mr. Chairman.

Mr. HORN. The next panel is the Honorable Edward DeSeve, the Controller, Office of Federal Financial Management, Office of Management and Budget.

Mr. DeSeve, if you will raise your right hand, we will swear you in.

[Witness sworn.]

Mr. HORN. The witness affirmed.

We will be delighted to hear your testimony. How long will your summary go? As you know, the full statement is put in the record. Five minutes? Ten minutes?

Mr. DESEVE. Mr. Chairman, I am aware of the chairman's objective for 5 minutes, and we will be well within that. Thank you.

Mr. HORN. If you can, fine. If you can't, don't worry. With key witnesses such as yourself and the Comptroller General, we try to give you leeway.

STATEMENT OF G. EDWARD DESEVE, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. DESEVE. Thank you very much for the opportunity to appear here today.

I have previously submitted more extensive formal testimony for the record which addresses the subject before us today. At this time, I would like to make a brief statement regarding the implementation of the CFOs Act, and in doing so, I would like to look forward to the plans that are being made around the CFOs Act.

In particular, I would like to cite the work of the Chief Financial Officers Council. This is a dedicated group of professionals who represent the best of career Federal service working side-by-side with congressionally confirmed Presidential appointees.

Later you will hear from several individual CFOs. While I have worked with them in their individual agencies, I have also worked with them as members of the council. They have taken on assignments beyond their formal responsibilities to make financial management across the Government better. They have served as a conscience, a goad, and a reality check for the central agencies, including OMB.

At this point, it is unlikely that OMB would contemplate issuing guidance affecting financial management without seeking the views of the council. But this was not always the case. Not more than a year ago the council was a house divided. The career Deputies were not members of the council; rather, they formed a subsidiary council operations group. The council had no vision or objectives. It had no operational charter and leadership structure. It could not lead; it could only react.

In contrast, last week the chairman, the ranking member of this subcommittee, and the chairman of the full committee met with the full membership of the council. What they found was that in more than just 1 year the council has reorganized itself; laid out a thoughtful vision and objectives; established priorities, which I will refer to later when discussing the Federal financial management status report and 5-year plan; and had crafted a statute to improve debt collection which is being reviewed by members of this subcommittee for introduction.

Too often we hear about the failures in Government. In this case, it is important to recognize a success. The council will make no small plans. It intends to be accountable for improving financial systems, implementing the Government Performance and Results Act, developing financial statements and accounting standards, providing agencies with skilled financial managers, improving debt collection, streamlining reports, and implementing electronic payments government-wide.

OMB recognized the strength of the council and asked them to participate in the joint development of the statutorily required 5-year plan for 1995. At its March and April meetings, the council discussed its participation and then devoted virtually its entire May retreat to establishing the priorities noted above.

Each committee of the council established milestones for progress during the year, and the council and OMB expect to monitor progress together during this upcoming year. The council believes

that if it expects others to be accountable for performance, it should be accountable itself. The 5-year plan will be published by the end of this month, and it reveals that although much progress has been made, much needs to be done.

The results in the status report are uneven across categories of the plan and across agencies. In the financial management systems area, we find progress in that there are 7 percent fewer systems and 9 percent fewer applications than 2 years ago.

We also note that 63 percent of the systems meet the standards for agency computing environments. However, we find that 39 percent of the systems are over 10 years old, and 31 percent are planned to be replaced within 4 years. That will require significant commitments of talent and senior management attention, as well as congressional cooperation.

A disturbing trend is the failure of agencies to embrace more fully the use of commercial, off-the-shelf software. The utilization of such software has declined from 13 percent in 1992 to 10 percent in 1994. Working with GSA, OMB is upgrading vendor options available and intends to encourage more cost-effective approaches using this software.

A recent report by the CFO Council, entitled "Implementation of the Government Performance and Results Act," pointed out that 61 percent of the CFOs who responded also have responsibility for implementation of GPRA within their agencies. This makes them the group predominantly responsible for GPRA implementation.

While GPRA is following the statutory timetable and is still in its early stages, several trends are becoming clear. First, as pointed out in the CFO Council report, GPRA must be more closely linked to budget formulation and execution. OMB is in the process of examining its budget guidance to see how this can be accomplished.

However, OMB cannot accomplish this alone. Help will be required from the council, from this subcommittee, the full committee, and its counterparts in the Senate. Even when integrated with the executive budget process, if GPRA is not accepted and used by authorizing and appropriating committees, in lieu of the current voluminous justifications, it will be just another accretion in an already burdensome process.

At some point, I would like to return to this subcommittee and ask that you join in an effort to reengineer the budget process to enable all of us to connect resources to results.

In the area of accounting standards, again, the 5-year plan shows progress on financial statement development and submission of audited financial statements. The Federal Accounting Standards Advisory Board is nearing the end of its initial work to provide comprehensive accounting standards for the first time in the Federal Government's history.

When FASAB completes its initial work, OMB will update its guidance to the executive branch on the form and content of financial statements as well as on reporting requirements. The standards and this guidance will be available in time to be used for reporting fiscal year 1996 results and will serve as the basis for government-wide audited financial statements currently scheduled by GAO for fiscal year 1997.

The CFO Act required audited financial statements from 10 pilot agencies, and the revolving funds and trust funds and commercial activities within 10 other agencies. The requirement was extended by the GMRA to cover all operations of 24 Federal agencies, representing 98 percent of budgetary outlays.

From 1990 to 1993, the number of entities receiving clean opinions on their financial statements has increased from 33 to 46 percent. However, two problems continue to inhibit the provision of reliable audited financial statements. The first is lack of adequate systems. The second is the inability of agencies to produce statements in a timely manner. The second is clearly related to the first, but also demonstrates the greater need of agencies to take the process of preparing and auditing information, on a timely basis, seriously.

This month OMB received a statement from one CFO Act agency, more than 22 months after the end of the fiscal year to which it applied. If financial information is going to be useful to program managers and in budgeting, timely audited financial information is essential.

Considerable variation exists in CFO organizational responsibilities and staffing patterns. George Munoz, Treasury CFO and chairman of the CFO Council, asserts that the first requisite for the CFO is that he or she be a key player at the decisionmaking table. This is critical to the success of agencies in implementing sound financial management practices.

The ideal CFO organizational structure, as Interior CFO Bonnie Cohen has noted, combines both budget formulation and budget execution with accounting and financial systems development. The large majority of the agencies have this configuration, and OMB continues to urge those that do not to consider adopting it.

The subcommittee is already familiar with the debt collection legislation that the council is proposing. We appreciate your efforts toward sponsorship. In the area of modernizing payments and business methods, the council is promoting new ways to engage in electronic commerce, make benefit payments, and transfer funds electronically. This effort is central to the ability of agencies to meet streamlining and reengineering goals.

The council is also working with the President's Council on Integrity and Efficiency, that is, the IGs, as well as OMB, to improve management accountability. Just like performance, program integrity must become a part of the everyday management process in agencies. The council and OMB will keep the subcommittee informed of progress in these efforts.

The CFO Act has been a major success in moving agencies toward better financial management, but moving toward is not the same as arriving. Over the next 2 to 3 years, I hope to be able, periodically, to report progress as well as problems to the subcommittee, and I look forward to your active participation as a partner in better management.

Thank you very much.

[The prepared statement of Mr. DeSeve follows:]

G. Edward DeSeve

Controller, Office of Federal Financial Management

Office of Management and Budget

Mr. Chairman and members of the Subcommittee, Thank you for the opportunity to appear before you today. I have previously submitted more extensive formal testimony for the record which addresses the subject before us today. At this time I would like to make a brief statement regarding the implementation of the CFO's Act.

Role of the CFO Council

In particular, I would like to cite the work of the Chief Financial Officers Council. This is a dedicated group of professionals who represent the best of the career Federal service working side by side with Congressionally confirmed Presidential appointees. Later you will hear from several individual CFOs. While I have worked with them in their individual agencies, I have also worked with them as members of the Council. They have taken on assignments beyond their formal responsibilities to make financial management across the government better.

They have often served as a conscience, a goad and a reality check for the central agencies, including OMB. At this point, it is unlikely that OMB would contemplate issuing guidance affecting financial management without seeking the views of the Council. But this was not always the case. Not much more than a year ago, the Council was a house divided. The career Deputies were not members of the Council; rather, they were formed into a subsidiary Council Operations Group.

The Council had no Vision or Objectives. It had no operational charter and leadership structure. It could not lead. It could only react. In contrast, last week, the Chairman and ranking member of this Subcommittee and the Chairman of the full committee met with the full membership of the Council. What they found was that in just more than one year, the Council has reorganized itself; laid out a thoughtful Vision Statement and Objectives; established Priorities (which I will refer to later when discussing the Federal Financial Management Status Report and Five-Year Plan); and crafted a statute to improve debt collection which is being reviewed by members of this Subcommittee for introduction.

Too often we hear about the failures in government. In this case it is important to recognize a success. The Council will make no small plans. It intends to be accountable for improving financial systems, implementing the Government Performance and Results Act (GPRA); developing financial statements and accounting standards; providing agencies with skilled financial managers, improving debt collection, streamlining reports, and implementing electronic payments government-wide.

The Federal Financial Management Status Report and Five Year Plan (Five Year Plan)

OMB recognized the strength of the Council and asked them to participate in the joint development of the statutorily required Five Year Plan for 1995. At its March and April meetings, the Council discussed its participation and then devoted virtually its entire May retreat to establishing the Priorities noted above.

Each Committee of the Council established milestones for progress during the year and the Council and OMB expect to monitor progress together during the coming year. The Council believes that if it expects others to be accountable for performance, it should be accountable itself.

The Five-Year Plan is expected to be published by the end of this month, reveals that although much progress has been made much needs to be done. The results in the status report are uneven across categories of the Plan and across agencies. In the financial management systems area, we find progress in that there are seven percent fewer systems and nine percent fewer applications than two years ago. It notes that 63% of the systems meet the standards for agency computing environments.

However, we find that 39% of the systems are over ten years old and 31% are planned to be replaced within four years. This will require significant commitments of money, talent and senior management attention, as well as Congressional cooperation. A disturbing trend is the failure of agencies to embrace more fully the use of commercial off-the- shelf software. The utilization of such software has declined from 13% in 1992 to 10% in 1994. Working with GSA, OMB is upgrading the

vendor options available and intends to encourage more cost-effective approaches using this software.

Implementation of the Government Performance and Results Act(GPRA)

A recent report by the CFO Council entitled *Implementation of the Government Performance and Results Act* pointed out that 61% the CFOs who responded to the Council's survey have responsibility for implementation of the GPRA within their agencies. This makes them the group predominately responsible for GPRA implementation. While GPRA is following the statutory timetable and is still in its early stages of implementation, several trends are becoming clear.

First, as pointed out in the CFO Council Report, GPRA must be more closely linked to the budget formulation and execution process. OMB is in the process of examining its budget guidance to see how this can be accomplished. However, OMB cannot accomplish this alone. Help will be required from this Subcommittee, the full Committee and their counterparts in the Senate. Even when integrated with the executive budget process, if GPRA is not accepted and used by authorizing and appropriations committees in lieu of current voluminous justifications, it will be just another accretion on an already burdensome process.

At some point, I would like to return to this Subcommittee and ask that you join in an effort to reengineer the budget process to enable all of us to connect resources to results.

Accounting Standards and Financial Statements

Again the Five-Year Plan shows progress in financial standards development and submission of audited financial statements. The Federal Accounting Standards Advisory Board (FASAB) is nearing the end of its initial work to provide comprehensive accounting standards for the first time in the federal government's history. When FASAB completes its initial work, OMB will update its guidance to the executive branch on the form and content of financial statements as well as on reporting requirements. These standards and this guidance will be available in time to be used for reporting on Fiscal Year 1996 results

and will serve as the basis for the Government-wide audited financial statements currently scheduled by GAO for Fiscal Year 1997.

The Chief Financial Officers' Act (CFO Act) required audited financial statements from 10 pilot agencies and the revolving funds, trust funds, and commercial activities within 13 other agencies. This requirement was extended by the Government Management Reform Act (GMRA) to cover all operations of 24 federal agencies, representing 98% of budgetary outlays. From 1990 to 1993, the number of entries receiving clean opinions on their financial statements has increased from 33% to 46%.

Two problems continue to inhibit the provision of reliable audited financial statements. The first is the lack of adequate systems. The second is the inability of agencies to produce statements in a timely manner. The second is clearly related to the first but also demonstrates the greater need of agencies to take the process of preparing and auditing information on a timely basis seriously. This month OMB received a statement from one CFO Act agency more than 22 months after the end of the fiscal year to which it applied. If financial information is going to be useful to program managers and in budgeting, timely audited information is essential.

CFO Organization and Staffing

Considerable variation exists in CFO organizational responsibilities and staffing patterns. George Munoz, Treasury's CFO and Chairman of the CFO Council, asserts that the first requisite for the CFO is that he or she be a key player at the decision making table. This is critical to the success of agencies in implementing sound financial management practices.

The ideal CFO organizational structure, as Interior CFO Bonnie Cohen has noted, combines both budget formulation and budget execution with accounting and financial systems development. The large majority of the agencies have this configuration and OMB continues to urge those that do not to consider adopting it.

The true strength of the CFO organizations has been getting good people to serve as CFOs and Deputy CFOs and from their making sure that adequate staffing and training is available through out the organization. The Clinton administration has been committed to getting good people to serve as CFOs and has filled all CFO slots. As turnover occurs, the Administration is committed to continuing to fill these key positions.

The CFO Council has outlined standards for competency through out CFO agencies. The Joint Financial Improvement Project (JFMIP) is reviewing these standards to determine how they might be implemented.

Other Priorities

The Subcommittee is already familiar with the Debt Collection legislation that the Council is proposing and we appreciate your efforts toward sponsorship. In the area of modernizing payments and business methods, the Council is promoting new ways to engage in electronic commerce, make benefit payments and transfer funds electronically. This effort is central to the ability of agencies to meet streamlining and reengineering goals.

The Council is working with the President's Council on Integrity and Efficiency as well as OMB to improve management accountability. Just like performance, program integrity must become an every day part of the management process. Misfeasance, malfeasance and non-feasance all serve to undermine public confidence and impede program performance.

Under the authority provided by GMRA, OMB and the Council are seeking Accountability Report pilots agencies who will create prototype Accountability Reports for Fiscal Year 1995 that can serve as models for other agencies. These reports will integrate information from the CFO Act financial reports with GPRA required performance information and results of assessments required by the Federal Financial Managers' Integrity Act.

The Council and OMB will keep the Subcommittee informed of the progress of these efforts.

Summary

The CFO Act has been a major success in moving agencies toward better financial management. But moving toward is not the same as arriving. Over the next two to three years, I hope to be able to periodically report progress as well as problems to the Subcommittee and I look forward to your active participation as a partner in better management. Thank you.

HEARING ON THE IMPLEMENTATION OF THE CHIEF FINANCIAL OFFICES ACT OF 1990

FOLLOW-UP QUESTIONS

Hearing Date: July 25, 1995

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1. Describe OMB's process for reviewing audited financial statements and transmitting them to Congress.

Agencies send financial statements to the Office of Federal Financial Management (OFFM). OFFM maintains a control log for statements received. OFFM distributes the statements to analysts in OFFM and the appropriate Resource Management Office (RMO). OFFM and the RMO simultaneously review the statements with OFFM providing comments to the RMO for inclusion in the Director's letter transmitting the financial statements to Congress.

2. What can be done to reduce the time it takes to submit the audited financial statements to the Congress?

As agencies gain experience in preparing and auditing financial statements, they are issuing these reports earlier. For example, the Social Security Administration issued their 1994 audited financial statements on January 10, 1995, and the General Services Administration issued their 1994 audited financial statements on February 1, 1995.

OMB has taken steps to expedite the submission of reports to Congress. The first step was to ask agencies to submit financial statements to the appropriate committees at the same time they submit financial statements to OMB. OMB will ask agencies to follow this same practice in submitting 1995 and subsequent year's financial statements, including those included in annual accountability reports authorized on a pilot basis by the Government Management Reform Act. This should accelerate the Congressional receipt of the financial by thirty to sixty days.

3. What impact do you anticipate the planned downsizing of the Federal Government will have on the ability of agencies to comply with GMRA, specifically the requirement to prepare and have audited agency-wide financial statements for FY 1996 and thereafter?

At this time, the effect downsizing will have on the agencies' abilities to implement the financial statement requirements of GMRA cannot be anticipated. Notwithstanding the planned downsizing, agencies have a statutory responsibility to provide an annual accounting through the issuance of financial statements and to have an audit of those financial statements. However, downsizing obviously could have an adverse effect.

With respect to the ability of the Inspectors General (IG) to comply with the audit requirements of GMRA, OMB will work with the IGs to find ways to use the financial statement audits to complement other aspects of their audit program. For example, information about risks gained from the assessment of an agency's internal controls made in connection with an agency-wide financial statement audit can be used by the IG to focus scarce audit resources on areas of greatest vulnerability. OMB will also work with IGs and CFOs to ensure that the audits are done in the most efficient and effective manner. If that involves considering the use of contractors to complement the work of the IGs, OMB working with the IGs and CFOs will pursue that option.

4. GMRA gives the Director of OMB the authority to grant waivers for financial statements required for fiscal years 1996 and 1997. Does OMB plan to grant waivers?

At this time, OMB does not plan to grant any waivers from the GMRA requirements to prepare and audit agency-wide statements for FY 1996 and 1997.

5. Does OMB support the use of audit committees to focus attention on the adequacy of financial statements and audits?

OMB is cognizant of the critical role audit committees play in private sector companies, state and local governments, and not-for-profit organizations. However, there are significant differences between the management structures of the Federal Government and non-Federal organizations. Audit committees are normally comprised of members of an organization's board of directors or similar governing bodies. Federal agencies do not have similar governing bodies as a source for members for an audit committee.

OMB supports the use of an oversight group to focus attention on critical management issues. OMB's revised Circular A-123, "Management Accountability and Control," suggests that agencies establish "senior management councils" to address agency management accountability issues. It may be appropriate to define clearly the role of agencies' "senior management councils" to include the duties and responsibilities of an audit committee, including those associated with reviewing the adequacy of financial statements and audits and management audit follow-up actions.

6. Is OMB's approval needed before agencies can implement reorganizations which impact the duties of an agency's Chief Financial Officer?

On February 9, 1993, Director Panetta issued a memorandum to agency heads subject to the CFOs Act indicating that any proposed changes to their CFO organization would need to be submitted to OMB for approval. Attached to that memorandum was OMB Policy Memorandum 91-07, "Guidance for Preparing Organizational Plans required by the Chief Financial Officers Act of 1990 (CFOs Act)."

During the past 2 1/2 years, several reorganization proposals have been approved by OMB. Most recently, OMB approved reorganizations at the Small Business Administration and the Federal Emergency Management Agency. Usually, OMB staff

consult with agency staff prior to formal transmittal of reorganization plans so that any questions or concerns can be informally resolved, permitting the agency to move forward with implementation more efficiently.

7. What has been the impact of OMB 2000 and future personnel cuts on the ability of OMB to carry out its responsibilities under the CFO Act?

OMB 2000 has in strengthened OMB's abilities to carry out its responsibilities under the CFOs Act. The Resource Management Offices (RMOs), the Office of Information and Regulatory Affairs (OIRA) and the Office of Federal Procurement Policy (OFPP) all work together to achieve the goals of the CFOs Act.

OFFM and the RMOs are partners in achieving CFOs Act goals. OFFM takes a leadership role with respect to policy development and coordinating the activities of the CFOs. The RMOs take a lead role in dealing with specific agency requirements with respect to financial management activities. OFFM assists in this activity as necessary; and RMOs provide input to the development of policy initiatives. We work well together.

A similar relationship exists with OIRA and OFPP. For example, OFFM works with the OIRA to define policy for agencies' financial systems and with OFPP to facilitate the implementation of electronic commerce.

OFFM staff resources have remained constant at 20 FTE. Our FY 1996 level will be determined after appropriations have been finalized. OMB is confident that it can appropriately fulfill its mandate under the CFOs Act.

8. How has the timeliness or lack of timeliness of appointments to CFO-mandated positions affected compliance with the act? How long have positions in your agency or organization been open as a result of delays in the process of confirmation?

Generally, CFO appointments have been made in a timely manner. And in those instances where a CFO position may have been vacant for a period of time, there was usually a strong Deputy CFO in place that maintained an agency's momentum towards financial management improvements.

With respect to OMB's Controller, the position was recently vacant for 15 months prior to Mr. DeSeve's nomination by the President. The President nominated Mr. Deseve on October 12, 1994 and his nomination was confirmed by the Senate on May 25, 1995.

9. How can Congress help ensure that the CFO Act and the Government Management Reform Act are fully implemented by the agencies?

The Congress can help ensure that the CFO Act and GMRA are fully implemented through several avenues:

- **Oversight.** Schedule regular oversight hearings which result in more clearly articulated Congressional vision, goals and objectives for Federal financial management; ask a wide range of agency staff to testify, including program managers so that there is a fuller understanding that financial management is an integral aspect of running a successful program.

- **Performance and Feedback.** Respond to the financial management policies and priorities articulated in the government-wide and agency financial management status report and five-year plans and other selected reports mandated by the CFOs and other Acts; provide a sense of the performance and the results the Congress expects; use several forums for feedback, such as the recent meeting with the CFO Council.

- **Resources.** Monitor more closely the resources required to effectively operate, maintain and improve Federal financial management and establish specific commitments to long range and short range initiatives. The cognizant oversight committees should work closely with the Appropriators to adhere to these commitments.

- **Organization.** Review and make recommendations periodically on an optimal organizational structure to carry out the CFOs Act mandate; provide statutory backing only when necessary; focus on organization flexibility and include CFO organization oversight as an integral part of oversight hearings and other Congressional review processes, such as the CFO confirmation process.

- **Avoid Micromanagement.** At times, Congress inserts Appropriation language that may inhibit an agency's ability to improve financial management. Minimize narrow interpretations and encourage bold ideas of how to make things work faster, better and cheaper; allow pilots to try out these innovations.

10. Please provide us with a list of the staff working on NPR reinvention activities, with a short description of the projects they are involved with. Please estimate the amount of their time that is spent on these activities.

Some of OMB's management and program agenda is built upon, or parallels, NPR recommendations. OMB staff work closely with agency and NPR staff to fulfill the full range of initiatives resulting from the Vice President's NPR reports. While OMB has no staff member who works full-time on NPR reinvention activities per se, OMB staff are frequently involved in NPR matters. One example: many OMB staff have participated in both REGO I and II activities, advising agencies and OMB senior staff

on proposals to reinvent government operations and processes. As another example, OMB staff have supported the NPR initiative to improve Customer Service. The list of staff working on NPR matters from time to time changes, depending upon the NPR matter that is being developed or implemented at a particular time. The amount of staff time spent on NPR activities also varies considerably, depending upon how active the NPR is at any particular time.

11. What is OMB's position on amending the Single Audit Act?

OMB strongly supports and has been actively involved in efforts to amend the Single Audit Act of 1984. The Act has been very successful in improving management of Federal awards administered by State and local governments. While a complete overhaul of the Act is not necessary, OMB believes that certain refinements to the Act are urgently needed. These refinements would make the single audit process more efficient and effective in light of the knowledge gained over the past decade conducting these audits and recent reports of the President's Council on Integrity and Efficiency and the General Accounting Office.

The most significant revisions OMB believes are necessary to improve the Act include:

1. Expanding the coverage of legislation to include non-profit organizations, including universities, that receive Federal awards;

2. Increasing the dollar threshold for audit from $25,000 to $300,000;

3. Permitting a risk-based approach for determining major programs (major programs receive the most audit focus);

4. Shortening the report due date from 13 months to 9 months; and

5. Simplifying single audit reports and streamlining the single audit reporting process.

Based upon comments received by OMB from Federal program managers, auditors, and recipients, there is a general consensus for the need to amend the Act and widespread support for the proposed revisions listed above. OMB encourages the Congress to amend the Single Audit Act as soon as possible.

12. How were costs of implementation listed in the August 1994 Federal Financial Management Status Report and 5-Year Plan developed? Will cost estimates be included in the August 1995 report? Please provide us with estimates of (1) the costs of preparing the financial statements and (2) of auditing the financial statements, for all the agencies under the CFO Act. Does OMB or GAO review the cost calculations of the agencies to determine whether they are reasonable?

OMB obtains information on the resources requested for financial management activities by CFOs Act agencies through the agency budget submissions, specifically OMB Circular A-11 Exhibit 40. The August 1994 Federal Financial Management Status Report and 5-Year Plan listed FY 1994 budget made requests in the President's Budget for three areas: accounting and reporting (including financial statement preparation and audits); financial management systems; and credit management and debt collection. The 1995 report was produced in July 1995 and provides total FY 1995 budget authority requested for all financial management activities, including the three areas reported in 1994 plus other activities such as cash management, property and inventory management, and budget.

At one time, OMB collected information on resources for preparing financial statements separately, but these figures were generally considered to be unreliable since it is difficult to segregate the costs of preparing financial statements from other costs associated with accounting and reporting. Federal financial management systems policy in OMB Circular A-127 requires single entry of financial transactions which are then classified, processed, and summarized in agency financial management systems for a variety of reporting purposes, including financial statements. Accordingly, OMB now includes preparation of financial statements in the category of accounting and reporting on the Exhibit 40.

In the August 1st IG oversight hearing, the Subcommittee also asked Valerie Lau, Treasury Inspector General, to provide information on the costs of auditing financial statements on behalf of the President's Council on Integrity and Efficiency. OMB is working with the IGs on this data collection effort to update the information contained in the Exhibit 40. The information is expected to be available in a few weeks.

OMB does not review the cost calculations of the agencies to determine whether they are reasonable. OMB compiles these amounts from Exhibit 40 of the agency budget submissions, but does not attempt to verify them. Agencies are instructed to ensure that amounts provided are internally consistent and to submit revised Exhibits to reflect final budget decisions.

13. If agencies contracted out work to certified public accounting firms, how would they ensure that the auditors paid adequate attention to what they considered important? If certified public accounting firms were asked to report on management assertions on, for example, internal control or compliance with applicable laws and regulations, these engagements would not necessarily be done under generally accepted auditing standards but under the new standards for attestation engagements, which would require the agency to determine what it wants the CPAs to examine and to specify what procedures should be included in the engagement. Who would negotiate and write these contracts? Who would monitor them?

Agencies can control the focus of an audit to ensure that the auditors address matters which the agency considers important by specifying those matters in the audit contract.

The IG in turn should review the work of the auditor periodically to ensure the auditor is satisfactorily addressing these matters.

With respect to the standards appropriate for addressing internal controls and compliance in a financial statement audit, OMB currently requires all financial statement audits to be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. These Standards incorporate generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA), by reference. Under these standards, the independent auditor establishes the audit procedures necessary to meet the audit objectives. Management, including the IG, may ask for additional audit procedures beyond those deemed necessary by the independent auditor. These additional procedures would be described in the audit contract. The IG is responsible for monitoring the auditor's work under the contract.

While OMB has not made a decision on the use of the Standards for Attestation Engagements, issued by the AICPA, to guide an auditor's assessment of internal controls and compliance, if a decision is made to use these standards, an auditor would report on management's assertions on internal controls and compliance. These standards provide for several levels of work in assessing management's assertions. One level is agreed upon procedures, which are prescribed by management and leads to a report which includes a listing of the procedures performed and findings. The other level is sufficient work to render an opinion on the management's assertion. The attestor establishes the scope of the examination necessary to render an opinion.

The contract for attestion engagements would be written and negotiated by the contracting officer with assistance from the Contracting Officer Technical Representative (COTR) who typically represents the organizational entity hiring the attestor. Under the CFOs Act, the Inspector General is responsible for hiring the auditor or attestor in case of attestation engagements. In addition, the Inspector General is also responsible for monitoring the contractor's performance.

Mr. HORN. Thank you.

I now yield to the gentleman from Pennsylvania, Mr. Fox, to do the questioning.

Mr. FOX. Thank you, Mr. Chairman.

Mr. DeSeve, how many fiscal year 1994 CFO reports have you received to date and from which agencies?

Mr. DESEVE. I don't have those statistics with me. I can look them up, if you want, and get them back to you.

Mr. FOX. OK. That would be fine.

Mr. DESEVE. I can give you an approximation in terms of percentage. We're approximately 66 percent through, in terms of receiving them—67 percent—and that's about 70 out of 109 at this point, in terms of the entities that have requirements, and I want to state that approximately. But I will get the exact numbers back to you.

Mr. FOX. Sure. How long does the process of reviewing these CFO reports take?

Mr. DESEVE. It will depend very much on the agency. For those even large agencies who have good reports with clean opinions, they can be reviewed internally in OMB very quickly, in a matter of a very few days. If there are serious material weaknesses within the reports, if the auditor expresses either no opinion or a limited opinion, then it takes longer, because you have to look behind each of the material weaknesses. It could take a couple of weeks.

We review them both within the resource management organizations, that is, the budget side or OMB, as well as within OFFM.

Mr. FOX. What percentage of your time do you think is spent on CFO-related matters?

Mr. DESEVE. One hundred percent of my time.

Mr. FOX. How many OMB staff are working on a regular basis on NPR reinvention activities, and how much time do they spend on these activities?

Mr. DESEVE. I don't know that there are any full-time staff devoted to NPR reinvention activities at this point. What we have tried to do, especially since the REGO–2 process, as we call it, is, we've tried to take a portion of some of our budget examiners' time and use that to look at the major budgetary proposals that you're seeing now coming from agencies such as Energy, and GSA, and OPM, and HHS, and others that the President has been announcing.

But, as far as I know, there are no full-time OMB staff working on NPR.

Mr. FOX. I have no further questions.

Thank you, Mr. Chairman. Thank you, Mr. DeSeve.

Mr. HORN. Thank you very much.

You heard the question I asked the Comptroller General—I would also welcome your opinion—that is, the degree to which a Chief Financial Officer should be devoting 100 percent of his or her time to that effort versus splitting responsibilities between other administrative tasks in an agency and being Chief Financial Officer. What is your reaction?

Mr. DESEVE. I think the ideal configuration for a CFO office is to have budget formulation and execution, financial systems and accounting, and any other collateral or ancillary duties in that

agency, such as oversight of debt collection, if it is a credit-related agency, for example. I think that other duties, such as personnel administration, procurement, that sort of thing, should properly be housed in an administrative area and should not be part of CFO duties.

We will urge agencies, as they consider reorganizations, to consider that organizational model. It is difficult at this point, with agencies with long traditions of a particular organizational configuration, to cause them to break up that configuration.

Recently, we have worked on the other side of the equation, which is also true, in trying to encourage agencies to add budget formulation. There are currently five CFO organizations that don't have budget formulation, and we have been encouraging them to add budget formulation to the CFO's responsibilities.

Mr. HORN. When you use the phrase "budget formulation," isn't that primarily a policy role, as opposed to an accounting and auditing role, or do you differentiate between the preparation of the budget and the policy values that go into it? Are you saying they just should prepare the basic budget information and tie it into the financial system?

I want to make sure I am clear.

Mr. DESEVE. Some of each, in the sense that it's hard, in a progression, to separate the preparation of the financial information and now the preparation of the performance and evaluation information from the ultimate policy judgment. You can certainly make a distinction, but they tend to be a continuum.

The hope is that, with program managers under GPRA being required to produce better information, with, in many agencies—again, about two-thirds of the agencies—the CFO folks are designing the process by which that information comes up and is used in decisionmaking.

I would argue that the CFO should have a place at the table, because the CFO understands the financial information and now has the best handle on performance information, and ultimately can make a great contribution to the policy that is made along the way; should not be determinative of that policy, but should be a major contributor.

Mr. HORN. Well, I agree with that definition, that you prepare the basic data to make sure they are working from a sound data that are tested in the experience of the agency.

Mr. DESEVE. Exactly.

Mr. HORN. It's just the question of how far beyond that. We've known, in private industry, sometimes a controller is running a company from the controllership. As a chief executive, a former one, I don't feel that's the proper role for a controller.

Mr. DESEVE. It's a very bad idea.

Mr. HORN. Yes. It's happened, and I want to see where that differentiation is in the executive branch.

We have a number of other questions. If you don't mind, we will submit them to you, and if you would be so kind as to answer them, we will insert question and answer at this point in the record.

We thank you very much for coming.

Mr. DESEVE. Thank you very much, Mr. Chairman. It's good to see you again.

Mr. HORN. Panel three, come forward: Mr. Riso, Mr. Mazur, and Mr. Steinberg. If you would raise your right hands.

[Witnesses sworn.]

Mr. HORN. All three witnesses affirmed.

We will begin with Mr. Riso, a member of the National Academy for Public Administration, former Associate Director for Management and Chief Financial Officer of the Office of Management and Budget, a rich experience in public administration.

STATEMENTS OF GERALD R. RISO, FELLOW, NATIONAL ACADEMY FOR PUBLIC ADMINISTRATION, FORMER ASSOCIATE DIRECTOR FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER, OFFICE OF MANAGEMENT AND BUDGET; EDWARD J. MAZUR, VICE PRESIDENT FOR ADMINISTRATION AND FINANCE, VIRGINIA STATE UNIVERSITY, AND FORMER CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; AND HAROLD I. STEINBERG, FORMER DEPUTY CONTROLLER/ACTING CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. RISO. Thank you, sir.

I appear here, as you note, as a fellow, representing NAPA, but the views I express today are my own. My views on the CFO Act and the status of implementation really are shaped by three kinds of experiences.

Prior to the enactment of the CFO legislation, I had been the Assistant Secretary at Interior for Policy, Budget, and Administration. I was also the departmental CFO. Then, in 1987 through the beginning of 1989, I was the Associate Director for Management at OMB, and, as you note, I was also the administratively appointed CFO. That was the position later put into legislation.

Then, in the latter part of 1992, because I had participated on a NAPA study of financial management at HUD, for 6 months I was counselor to the Secretary for Financial Management, after the CFO Act was passed. So my views take place from a department point of view, having been the U.S. CFO, then having worked in the department once the CFO Act was passed.

I should note that prior to 1990 there had been a lot of emphasis given throughout the executive branch to financial management improvement, sparked, in part, by interest from the private sector and the commitment internally of GAO, OMB, Treasury, and operating departments.

The summary of our activities really is reflected, more recently, in the 1988 management report to Congress by the Reagan administration, entitled "Management of the U.S. Government for 1990," which lays out all of the priorities prior to the enactment of the legislation. I will leave that with you, sir.

Despite our satisfaction with the progress at the end of 1988, we, collectively, in the financial management community were worried about several things as we went to a transition to a new administration of either party. We felt the need for legislation, because the commitment to having a CFO rested within an administration and

that could waver. So we thought legislation was needed. We recognized, absolutely, the need to appoint qualified people.

The issues we dealt with at that time were: where should the leadership role rest, and the choice was OMB or Treasury; the kinds of resources, both in terms of kind of people and numbers of people; and the authority of that office when it was established.

Once I did leave Government, I and others worked with Members of the Congress on drafting different forms of legislation. I, among others, was extraordinarily surprised when it was passed in 1990. We didn't think it would happen.

It is my judgment that the CFO Act has an extraordinarily positive effect on financial management. There has been consistent emphasis on priorities, as you have heard, particularly in the systems area. I am delighted to see the systems improvements continue, although I must confess, the pace has become slower that I thought necessary. I find it somewhat discouraging to hear about the state of systems, as we sit here in 1995, when back in 1988 our schedule called for completion by 1993. We were unrealistic, perhaps, but the schedules tend to get attenuated.

The increase in audited financial statements is highlighting, absolutely, the inadequacy of these systems and the inadequacy of management controls. There clearly have been qualified appointments to CFO positions in the departments, much better than they were before the act. And the CFO Council, as the previous witness just testified, has become a very positive force in improving financial management.

Having said all of that, I have five observations as we sit here in 1995. It is my judgment that the issue primarily is of interest to financial management people. The witnesses today have all been from financial management areas. I would like to balance our views of the progress with that of a program person who could give you a sense of whether his or her ability to run the program has been enhanced by the effort expended in financial management. We tend to be people practicing our profession, as contrasted to, perhaps, delivering better service; a concern.

The second one, a serious one, and I'm sure not everyone agrees with me, I am genuinely worried about the capacity of OMB to provide the leadership that is inherent in that act. Two concerns: One, I am told that the current staffing of the Office of Federal Financial Management within OMB numbers 20 people. If you look at the 1995 systems plan, it begs the issue: Can 20 people, divided into a number of functions, provide the kind of leadership needed to get the kind of improvement that is implied in these plans?

Second, I am concerned that the way in which OMB2000 has been structured. There has been an increase, substantially, in the ability of OMB to focus on agency management issues during internal budget deliberations. I think OMB paid a price in that. I believe they have lost the capacity to influence, on a day-to-day basis, the kind of management improvements in the operating departments that are inherent in the kind of government-wide improvement program that we have been talking about in financial management.

A third area of concern is that we have talked about enhancing the role of the CFO with budget and accounting responsibility; I

support that. But we should do so recognizing that, as we elevate a particular function, we are beginning to fragment, substantially, the authority in the position of an Assistant Secretary for Management in the departments.

While financial management is important, it is not the only management dimension of running a large cabinet agency today. I would suggest to you, today, with downsizing, early retirements, the need to deal with employee retirements, I could probably make a case for elevating the human resources person to the equivalent of a CFO. And I could, in some departments, justify elevating someone in the information technology area. At what point do these fragmented pieces get pulled together?

I know the common statement is, we will rely upon the Deputy Secretary. The Deputy Secretary has many other things to do than simply worry about agency management. So it's an issue. I'm not sure the CFO Act anticipated that as an issue.

A fourth area is recent legislation, the Performance and Management Reform Acts. By virtue of that, Congress has really embraced such items as strategic planning, program measurement, development of program measures, development of cost per program, the integration of these in audited financial statements, and the need to elevate the attention to management controls far beyond anything we have done to date, because your ability to produce in these areas is dependent upon the quality of your management controls.

Who integrates those? If the assumption is that OMB will do this, those 20 people can only work so long, and the leadership that is there now—I should say, there is leadership to do this now—is completely dependent upon the outcome of these elections and the turnover. I would simply note that, since 1988, we have had five different OMB Directors. Since the 1989 HUD Management Reform Act, we have had three different incumbents at the HUD CFO job and I don't know how many months of vacancies.

So this necessary integration needs leadership, and to rely upon two or three political leaders within OMB I think is—no matter how talented they are—unrealistic.

Finally, I have some reservations, sir, about audited financial statements. I have no quarrel with them; I endorse them in certain agencies. I am uneasy about parts of it, however.

I don't know that the product to date is as valued as the process the agencies have gone through. They have been extraordinarily valuable in identifying control problems, systems breakdowns, and I applaud that. I am not sure, at this point in time, whether agency managers would say the product is of much value to them.

Second, and this is just a question: To what extent have the financial statements, where they do exist, affected budget deliberations within the department, at OMB, or on the Hill? I don't know that; I just raise it as a question.

A third reservation is simply the cost and time of preparing these statements. You did hear certain of the IGs indicate they could not meet the schedules because of conflicting demands for their resources. I am sympathetic to that. In Washington you get to live with two or three top priorities, but at some point, when is enough

enough, in terms of how many multiple top priorities any agency can pursue?

So I would suggest some sense of, what is this effort costing, what is the time, and what is the value, not in terms of making the financial professional happy, but reinforcing the ability of program people to do their jobs?

With that, sir, I would be delighted to take any questions. Thank you.

[The prepared statement of Mr. Riso follows:]

GERALD R. RISO

FELLOW

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. Chairman and Members of the Subcommittee:

I am Gerald R. Riso, a former associate director for management in the Office of Management and Budget (OMB) and a fellow of the National Academy of Public Administration.

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION (NAPA)

The Academy is not a stranger to this Subcommittee. As you know, we are an independent, nonpartisan, nonprofit organization chartered by Congress to identify emerging issues of governance and to provide practical assistance to federal, state, and local governments on how to improve their performance.

To carry out this mission, the Academy draws on the expertise of more than 400 fellows, who include current and former members of Congress, cabinet secretaries, senior federal executives, state and local officials, business executives, scholars, and journalists. In preparation for this hearing we assembled more than a dozen experts, including fellows of the Academy and other senior current and former government financial executives, to share views on how the Chief Financial Officers (CFO) Act has functioned. Therefore, while this testimony is my own, I believe it generally reflects relevant work performed by NAPA and the views of those with considerable recent federal experience in financial management.

MY PERSPECTIVE

My perspective on the CFO Act of 1990 has been shaped by several experiences over the past decade.

(1) My tenure at the Department of the Interior where I served as the assistant secretary for policy, budget and administration (1985-1987). As the assistant secretary, I also was the chief financial officer of the department.

(2) My service at OMB from 1987 until early 1989, where I also held the position of chief financial officer of the United States. I was appointed administratively to that position in July of 1987.

(3) My assignment at the Department of Housing and Urban Development as counsellor to the secretary for financial management from July 1992 to January 1993.

I was involved in financial management at the departmental level before the CFO Act was passed, having served as the first CFO at OMB, and then in an operating department after the Act was in effect. These experiences have led to several general conclusions about the Act and the progress that has been made once the Act was passed.

SIGNIFICANT STEPS TO IMPROVE FINANCIAL MANAGEMENT WERE BEING TAKEN PRIOR TO THE 1990 ACT

Concern over the status of financial systems and credit and cash management was shared by the General Accounting Office, OMB, and the Department of the Treasury and other departments prior to 1990. A number of accomplishments reflect the efforts that were made prior to 1990 to improve the situation. This concern also led to widespread support within the three agencies and the financial community for the passage of chief financial officer legislation. These accomplishments included:

(1) The Joint Financial Management Improvement Program (JFMIP) developed functional requirements of a standard federal accounting system. Their work resulted in the issuance on January 12, 1988, of the Core Financial Systems Requirement by the director of OMB, the secretary of the treasury and the comptroller general of the United States. This work built upon the efforts of several major departments in improving their primary accounting systems and was a significant milestone in standardizing federal financial systems.

(2) The executive branch had for several years been committed to improving financial

information and systems in four key areas:

- establishing standards to ensure consistency of data and processing function in all systems,

- installing a single primary financial system in each major agency to aggregate budget and accounting information for all management levels,

- eliminating redundant systems through system consolidation and promoting cross servicing agreements through which some agencies would purchase accounting and related services from other agencies with more efficient and better performing systems, and

- promoting the use of commercial off-the-shelf software to keep system development costs and schedules to a minimum.

These were key elements in Reform 88, the major management initiative of the Reagan Administration.

(3) A chief financial officer within OMB was administratively designated in July 1987.

(4) Agencies were requested in November 1987 to designate chief financial officers and did so.

(5) A Chief Financial Officers' Council was then established in December 1987.

(6) We were also committed to installing a comprehensive cash management system which emphasized the time value of the government's then $2-trillion annual cash flow.

(7) We continued to struggle with achieving compliance with the requirements of the

Federal Managers Financial Integrity Act of 1982.

Our progress in these areas was due to the extensive day-to-day cooperation and collaboration between OMB and Department of the Treasury staff. In addition, OMB financial management staff were instructed that OMB was responsible for taking the lead in setting ambitious program objectives and schedules and then had to work directly with individual departments to make sure that implementation objectives and schedules were met. Our financial management staff at that time only numbered between 20-25 people. Our work could not have been done without the day-to day involvement of Treasury staff, particularly those of the Financial Management Service (FMS).

In 1988, those of us who had been involved in these efforts realized that the CFO structure needed to be made permanent through legislation. We also sought at the time to ensure that key finance positions in the government were filled with highly qualified individuals. The Management Report of the President which accompanied his 1990 Budget said it succinctly, "A permanent organization structure for the CFO is necessary to provide critical continuity of financial operations and improvement programs and provide a sufficiently high level of policy and leadership from the Executive Office of the President to assure long term success." (pages 3-18). Therefore, I and many others supported CFO legislation in 1990.

I should concede that my advocacy of CFO legislation could impair my ability to provide Congress with fully objective and dispassionate views on the results of the Act. Other advocates of the legislation may have the same inability to be objective. Therefore I suggest that the subcommittee also obtain the views of departmental staff on whether their ability to manage their programs has been constructively affected by the CFO Act.

THE CFO ACT HAS BEEN POSITIVE

Since 1990, the CFO Act has served to improve federal financial management in many agencies.

(1) The priorities of 1886, 1987, 1989 and 1990 have generally remained priorities over the past five years. I applaud this. Consistent attention and continuity is paying off.

(2) System improvement continues. However, I believe the pace of implementation is not as aggressive as we perceived the need to be in 1987 and 1988. I regret this.

The tendency among financial management staff is to proceed with system improvements in an orderly and rational manner. This trait, while usually admirable, invariably led to extended, perhaps even comfortable, implementation schedules. The schedule in 1989 called for completion of systems improvement by 1992-93. That same schedule today extends over the next 5 to 10 years. A sense of urgency in getting on with the task is needed to overcome the resistance, inertia, and lack of continuity that characterizes financial management operations in many agencies.

It is extremely difficult over the long term to sustain momentum on management improvements of any kind because of the frequent changes that keep occurring in key leadership positions. For example, since the fall of 1988, just seven short years ago, there have been five different OMB directors. Each has had different priorities and perspectives. Attenuated system development schedules invariably become hostage to such personnel changes in central agencies and cabinet departments. Each new group wants to review and revise. Delay is inevitable.

(3) There has been a dramatic increase in the number of audited financial statements in the agencies. The preparation of these statements has given much-needed emphasis to improved financial systems and strengthened management controls in the agencies.

(4) Top-notch appointments to the CFO positions in OMB and in the departments have been made. The cadre of CFOs and their deputies is impressive. As noted subsequently, the combination of the CFO and assistant secretary for administration positions in some departments simply reverts to pre-1990 circumstances.

(5) The Chief Financial Officers Council was incorporated in the 1990 legislation. That Council has been reenergized. Today, it is a cooperative and collaborative force in helping to promote improved financial management throughout the government.

SEVERAL MATTERS SHOULD NOT BE IGNORED

Despite this commendable progress and continued commitment to improved financial management on the part of many individuals in many departments, there are several situations and circumstances which need to be noted. These items should not detract from my generally positive assessment of the progress that has been made since 1990. On the other hand, they should not be ignored if continued progress is desired.

OMB Leadership

A central premise of the CFO Act of 1990 was that leadership would come from OMB in promoting and, if necessary, forcing progress in implementing departmental financial management improvements. I am uncomfortable whether current staffing levels in OMB can provide the leadership among the agencies that was the foundation of the 1990 Act.

OMB is not now well staffed to provide sustained government wide leadership in financial management to operating departments. The collegial setting of the CFO Council is a useful device to enlist the support and cooperation of the operating departments. However, I do not believe the council can be as useful in compelling fiercely independent bureaus and departments to be cooperative and comply with overall plans and schedules. Several illustrations may help make this point more specifically.

(1) In 1985, at Interior, I started the consolidation of 13 disparate and generally dysfunctional accounting systems into a single department-wide system. We at Interior did most of the work but OMB staff was at our side at each critical point helping, tugging or pushing to make sure we kept going. OMB committed the staff and the time to this function. More importantly, they regarded our progress an essential part of their

success.

(2) In 1987-1988, at OMB, my staff and I, with the invaluable support and assistance from the Department of Treasury, held frequent progress meetings with most cabinet departments on their system improvement plans. We regarded the quality and realism of their plans to be as much our responsibility as theirs. We met with OMB budget examiners to help assure that the resources required by these departments to implement their plans on schedule were included in their budgets. The implementation schedule was a government-wide schedule, not simply a composite of each agency's schedule.

(3) By contrast, in 1992 while at HUD as the counsellor to the secretary on financial management, I made several strategic decisions on when and how a major financial systems modernization project would proceed despite the resistance of several program offices. I never had a discussion with anyone in OMB during this period on this subject. I also met with OMB staff on the need to reinforce the CFO concept in HUD by assigning the accounting and budget functions to the CFO. However, OMB did not participate in the departmental debates on this topic.

My concern is not whether OMB cared. I know that OMB was vitally interested in HUD CFO performance. My concern is whether OMB is staffed to give to the departments the time, attention, and support they need. Please note that the bulk of the work yet to be done in financial systems improvement is within the agencies. If left to themselves, some will perform, others will not. As others have noted in other hearings on the subject of OMB, the budget process is becoming increasingly time-consuming and is excluding management issues beyond OMB. Resources are becoming scarce and the core of management staff has been somewhat depleted or redistributed among budget groups. That situation is not what was envisaged in 1990 when the leadership role for financial management throughout the government was assigned to OMB.

Fragmented Agency Management

The CFO Act has contributed inadvertently to the continued fragmentation of agency management capabilities and a dilution of the position of assistant secretary for management. As noted earlier, in some agencies, the assistant secretary has been made the CFO with the understanding that a strong financially-oriented person would be the deputy. Frankly, that is the circumstance that existed in many agencies before the passage of the CFO Act in 1990. Thus, what change has really taken place in some departments because of the Act?

More important is the growing concern that the legitimate need to elevate key management functions in departments such as finance, information technology, procurement and human resources is resulting in a dilution of the position of assistant secretary for management and an unworkable fragmentation of management processes below the Office of the Deputy Secretary. Last year, NAPA conducted a study at HUD and recommended that the fragmentation in management functions that was occurring because of the existence of a separate CFO and assistant secretary for administration could be overcome through the creation of an under secretary for management within the department. HUD rejected that recommendation and asserted that necessary coordination and leadership of the management functions would be handled by the deputy secretary and the HUD CFO. Interestingly, only several short months later both of the incumbents had moved on to other positions.

Integration of Planning, Budgeting and Accounting Activities

In 1993 Congress passed the Government Performance and Results Act and then, in 1994, passed the Government Management Reform Act. In essence, Congress endorsed strategic planning, the development of program performance measures, comprehensive reporting of program results, the development of improved data in support of agency budget requests, the preparation of audited financial statements on a government-wide basis and the integration of budget and accounting systems.

These different activities have a sequential relationship that starts with strategic planning

and ends with audited financial statements. They need to be integrated with attention to this relationship. Responsibility for this integration rests within OMB. Do they have the resources for this responsibility beyond formulating broad policy guidance? Will the senior OMB individuals who are spearheading integration remain in office long enough to accomplish this objective? Past history suggests otherwise. Is it realistic to expect that the President's Management Council can accomplish the job without sustained attention from a well-staffed OMB? I do not think so. We run the risk of damaging several useful management concepts that could improve the information base for effective decision-making by Congress and the executive branch because staff are not available.

Audited Financial Statements

I support, with several reservations, the preparation of audited financial statements in agencies. My reservations are as follows:

(1) Agency people who have prepared such statements universally maintain that going through the process has been infinitely more valuable than the end product. The process unearthed system and control deficiencies that the agency either did not know about or was reluctant to face.

(2) I am skeptical about the value of rolling up bureau statements into department wide statements and then into government-wide statements. The aggregation of data from widely disparate operations in some departments would be an interesting technical exercise. I am not sure that these aggregated data would be truly helpful in making better policy choices.

(3) I wonder what impact the statements have had on the budget process for agencies that have completed such statements. Are their budgets better documented, are their policy choices any clearer, has decision-making been enhanced? I would like to see some information on that question.

(4) Some people assert statements are useful because needed program information is included. The statements should include program data. However, the primary vehicle for reporting program information should not be the financial statement. The accountability report that OMB is considering strikes me as a more timely and more appropriate vehicle for providing Congress, OMB and others with current information on how well programs are performing.

(5) Preparation of these statements, when they are done well, is taking time and consuming resources. Are they worth an OIG deferring equally necessary program audits and inspections? Are they worth delaying needed systems improvements? In a period when resources are being curtailed, how many number-one priorities can any department support and at what cost?

(6) Finally, I am concerned that the audited financial statements provide essentially a retrospective view of the government. As such they are likely to be of more interest to the federal financial community than program managers, budgeteers, and Congress. The budget is concerned with the future and future directions and choices. Political debate and discourse is on budgeting priorities, the deficit and overall spending limits. Audited financial statements can add much to the quality of the debate by providing better and more accurate data. But they are not likely to be available at the right time with current information.

Again, I support the preparation of audited financial statements. But I am also concerned about antiquated accounting systems that cannot produce accurate data, defective management controls, disconnected budget and accounting systems, ineffective cash management procedures, and unrealistic credit management policies and accounting. I believe it unwise to have fixing these problems take a back seat to the preparation of audited financial statements.

That concludes my remarks. I would be happy to answer your questions.

GERALD R. RISO
AUGUST 22, 1995

HEARING ON THE IMPLEMENTATION OF THE CHIEF FINANCIAL OFFICERS ACT--FOLLOW-UP QUESTIONS

1. SHOULD THE OFFM BE MOVED OUT OF OMB AND COMBINED WITH OTHER PARTS OF GSA AND OPM INTO AN OFFICE OF FEDERAL MANAGEMENT

Yes, if an OFM is established. The rationale for moving OFFM is not that OMB is an inappropriate site for the function. The issue is whether an OFM, separate and apart from OMB, is warranted. I have slowly and reluctantly come to the conclusion that it is for several reasons.

(1) the budget process consumes the time and attention of OMB almost to the exclusion of all other considerations.

(2) OMB does not fare well before the Congress during budget deliberations. Necessary staff and budget for OMB are not generally supported. Then the management side does not receive priority within OMB as OMB management allocates the resources that are made available.

(3) OMB 2000 has virtually dismembered the management side of OMB. The reorganization has assisted OMB staff in concentrating on agency management issues during the internal OMB budget review process. That is a positive result of the reorganization. However, the OMB 2000 vision of the role of OMB seems to exclude the notion that OMB should be providing government-wide leadership to agencies in formulating and promoting government-wide management priorities and then making sure that these priorities are being implemented. The new OMB does not accept that role and thus is neither organized nor adequately staffed to perform in that capacity.

2. STRENGTHEN THE AUTHORITY OF THE MANAGEMENT SIDE OF OMB SO THAT IT CAN PROVIDE LEADERSHIP AND KEEP THE BUREAUS AND DEPARTMENTS MOVING IN THE RIGHT DIRECTION.

A successful OMB that is a leader within the government for management improvements requires that several elements be present.

(1) First of all, there has to be acceptance that OMB has a leadership role vis-a-vis other government agencies. During the last several years, OMB has embraced a collegial philosophy in which department and agency management together adopt priorities and programs and each agency then assumes responsibility for implementing these improvements within its own operations. Monitoring of results and establishing accountability for performance has not been accepted as an OMB responsibility. I believe OMB has that responsibility and that recent administrations have badly eroded OMB's management role by sacrificing that responsibility in the name of participatory management.

(2) Secondly, an administration has to have a government wide management agenda if the management side of OMB is to have a role in an administration. Apart from financial management (pushed by Congress) the Bush Administration did not have a government-wide management agenda. The present administration's prime management agenda (NPR) is not even housed within OMB. Thus, it is not surprising that the decline in the management side that had been occurring for the past decade or so has accelerated.

(3) Thirdly, the OMB management side has to be staffed and organized to provide leadership in the management areas being promoted by an administration. As noted earlier, OMB 2000 does not acknowledge an OMB management leadership role throughout the government. Thus it is neither organized nor staffed to perform that function.

(4) Finally, an administration needs to deal with the question of whether an agency is accountable to OMB and the Office of the President for how well it performs in implementing management improvements. Some administrations have been satisfied to rely upon the judgement and experience of the individual cabinet secretaries in overseeing their departments. Other administrations have sought to direct more of these efforts centrally. If an administration is committed to allowing cabinet heads to run their own operations with only minimal oversight from the Office of the President, a weak management side of OMB is inevitable because there is no role for that staff.

3 LESSENING THE EFFECTS OF LEADERSHIP POSITIONS BEING VACANT FOR LONG PERIODS OF TIME.

There are several separate and unrelated questions here. For a variety of reasons, the clearance process in government is becoming increasingly confrontational and demeaning. Qualified persons are reluctant to go through the clearance process, the financial disclosure process and then the post-employment restriction process. Finding persons who are qualified and willing simply takes a longer period of time--unfortunately.

Then, the delay is compounded because the clearance and approval process takes an inordinate period of time. The processd is sometimes delayed for reasons having nothing to do with the candidate or the position. For example, I waited in 1985 for six months at Interior for my confirmation hearing. Conventional wisdom suggested that I should not take the position on an acting position while waiting got confirmation because an acting incumbent invariably will get involved in an issue that becomes controversial during the confirmation process. Nevertheless, I decided I would function in an acting capacity and still was confirmed....but it took six months. Then at HUD, I was nominated, filled the CFO position on an acting basis for six months but never received a hearing since it was the end of the Bush administration.

Fixing the clearance process and accelerating the schedule would help all qualified applicants not just financial mangement candidates.

Finally, senior level turnover in places such as OMB has a ripple effect upon the next tier down. Turnover in those positions is inevitable. Strong, professionally qualified career deputies help to offset the problem of prolonged vacancies but does not overcome the problem caused by the leadership vacuum while everyone awaits the nominee.

4. GETTING AROUND THE PROBLEM THAT AS FINANCIAL STATEMENTS GET CONSOLIDATED, IMPORTANT DETAILS ON SPECIFIC AGENCIES GET LOST.

You cannot get around that problem. Aggregated financial statements may not have the value that the supporters suggest. One exception is aggregation of liabilities as an obligation of the government. A useful concept with tangible meaning.

5. MORE TRAINING FOR AGENCY STAFF. SETTING UP A PROGRAM FOR FINANCIAL MANAGEMENT PERSONNEL.

I agree that additional training is required. Unfortunately, the desire to provide career advancement opportunities has led to broadening the range of related experiences that may be offered to meet experience requirements in certain financial management positions. At the same time, the job content of many of the positions has become increasingly complex as the range of governmental financial activities has been expanded. Thus we have "accountants" who are not accountants etc. Thus the need for training is critical.

Ideally, OPM should provide such training or promote the provision of such training by qualified federal agencies such as FMS. However, that kind of option appears to

be difficult given the downsizing by OPM and the transfer of major training programs to the Agriculture Graduate School.

Given those circumstances, I would turn to organizations such as the AGA. Several years ago, ago AGA had a professional development institute which sponsored training for agency financial personnel. That institute was financed in part from student fees, private donations and support (I believe) from government agencies. The institute is not as active as it once was because an active supporter could no longer give the program the time he had provided previously. However, AGA is now hiring an education director and a resumption of this kind of program is possible if no agency in the government will sponsor one.

7. BENEFITS OF AGENCY AUDIT COMMITTEES.

The concept works well in the private sector and has applicability to the federal government as well. An agency benefits from having a number of senior managers on the committee who become knowledgeable about the audit findings, the follow-up and the quality of the audit itself. Too frequently, two problems persist. Audit findings are either ignored or follow up action is not effective. Thus the reported problem festers. Secondly, the audit may not be well performed and may contain questionable findings and recommendations. The program manager who disputes the audit appears defensive and the question of the adequacy of the audit may never be addressed. A committee helps to bring that perspective to the debate in a balanced manner.

8. COMPLIANCE WITH THE GOVERNMENT MANAGEMENT REFORM ACT.

I see no reason for delaying compliance with the Government Management Reform Act or allowing agencies to be held to a different (and presumably lower) standard. The systems improvement and reporting requirements embedded in the act have been discussed in the federal government for at least the last 20 years and have been a priority for at least the last three administrations over the last 15 years.

Mr. HORN. We are going to hold the questions until the other two witnesses have had a chance to make their opening statements.

The next is the Honorable Edward Mazur, former Controller, Office of Federal Financial Management, Office of Management and Budget.

Mr. Mazur.

Mr. MAZUR. Mr. Chairman, thank you very much.

Between December 1991 and June 1993, I served as the first Controller of the Office of Federal Financial Management, appointed under the CFOs Act. Since my last appearance before Congress in June 1994, the direction of Congress has shifted in dramatic ways.

As the Congress seeks to align the expenditures and revenues of Government, its actions are consistent with the call for fiscal responsibility envisioned by the CFOs Act. But I would issue a strong note of caution, however. Financial management, Mr. Chairman, is just as vital during times of contraction as it is during times of expansion.

To view financial management as nothing more than another overhead item to receive cuts before programs are cut is a little like turning out your headlights at night with the false notion of saving energy in your battery. Financial management is an absolute requisite to knowing where you are going, how well you are getting there, and with what results.

Mr. Chairman, I would now like to make seven recommendations that I believe would strengthen the CFOs Act and congressional oversight. First, the Controller of the Office of Federal Financial Management, OFFM, I believe should continue to be appointed by the President, confirmed by the Senate, and definitely reside in OMB. The position, however, I believe should be elevated so that it reports directly to the Director of OMB.

Consistent with that, I believe—and second recommendation—all duties in Section 503(a) of the act, which are those relating to financial management, and which are currently assigned to the Deputy Director for Management, should be reassigned to the Controller. The Deputy Director could then focus on agency Deputy Secretaries and be charged with creating communications, dialog and formal reporting that fosters good management of Federal programs.

Third, the Congress should look in great detail at the staffing reductions made to OFFM during the past 2 years. Now, at 20 persons, down from 40 in 1993, the office is significantly understaffed. When I went into the position, I thought it should have, easily, 60 persons. Congress should consider offering specific advice on the minimum staffing it believes is consistent with the requirements of the act.

Fourth, the Congress should actively review agency financial management performance, based on clearly defined indicators. In this regard, the Congress should request OMB to annually publish in the budget of the United States the "current status of financial management in the U.S. Government," as first published in table 3(c)(1), on page 168 of President Clinton's budget for the U.S. Government for fiscal year 1995.

Fifth, each CFO Act agency should be required, through amendment to Section 303 of the act, to create a formal audit committee to be comprised of seven individuals, three from the Federal Government and four from the private sector. I was delighted to hear Comptroller General Bowsher endorse that notion in his testimony.

Sixth, the Congress should support each of the 24 CFO Act agencies as they move to meet the requirements for annual financial statements and audits established by the Government Management Reform Act.

Finally, the CFO Act should be amended to require joint attention by OMB and Treasury on the accurate accumulation and reporting of actual financial information by all agencies, and to require the publication and updating of a formal Federal financial systems vision and action plan. Both are extremely complex arrangements and need not only the constant attention of OMB and Treasury but I believe of Congress.

Mr. Chairman, those are my seven recommendations. In the few minutes I have remaining I would like to address 4 of the 11 questions of concern you presented to me in your letter of July 18.

Regarding your question four, the financial standards prepared by the Federal Accounting Standards Advisory Board can be viewed as accountability standards and are just what we need in the Federal Government to give common and standard guidance on complex issues that all agency CFOs face in preparing audited financial statements. These standards, in combination with OMB's form and content guidance, I think give the agencies what they do need.

Regarding question five, the continuing challenge faced by CFOs will be the development of their staff, the modification of complex financial systems, and the mustering of budget support for these efforts. Relative to budget support, Mr. Chairman, I encourage the Congress to be sensitive to the impact of budget cuts on IGs. Unless shielded from budget cuts, or authorized and funded to engage outside CPAs, the loss of IG staff will greatly hinder completing audits of agency financial statements.

Although I would agree with Mr. Riso that those audits have a cost, I would ask you to look back into the financial status report that OMB published last year to determine exactly what those audits are uncovering. They are uncovering billions and billions of dollars of lost revenues, unmanaged assets, and ill-managed liabilities that I believe, in total, way outweigh the cost of actually conducting those financial audits.

I will quickly end here. Regarding question 10, I recommend that the Controller be able to ensure that at least one candidate in whom he is interested is part of every candidate pool considered by the President. I also recommend that the Congress encourage the President to designate a person with a proven financial management background as the senior White House personnel official responsible for the recruitment of CFOs and IGs.

Finally, regarding question 11, and as noted in my fourth recommendation, the single most important action that Congress can take to strengthen financial management is to insist on the publication and review of financial management measures and performance standards for all agencies. On the day that all agencies of the

Federal Government meet the standards for financial performance established by OMB and the CFO Council, you will have acceptable, if not excellent, financial management in the Federal Government.

I hope that you and your colleagues will consider my recommendations, and it certainly has been a pleasure to be here this morning.

[The prepared statement of Mr. Mazur follows:]

Edward J. Mazur
Vice President for Administration and Finance
Virginia State University
Petersburg, Virginia

Mr. Chairman and Members of the Subcommittee:

My name is Edward J. Mazur. Between December 1991, and June 1993, I served as the first Controller of the Office of Federal Financial Management appointed under the Chief Financial Officers Act.

Mr. Chairman, I deeply appreciate your interest, and the interest of this Subcommittee, in matters relating to the financial management of the Federal Government. Continued oversight by the Congress is essential to ensuring stronger leadership in bringing Federal financial management performance to acceptable levels.

THE NEW FACE OF CONGRESS

I last appeared before the Legislation and National Security Subcommittee of the House Committee on Government Operations on June 21, 1994, to address issues similar to those that I will be addressing today. During the last year, however, the face and direction of Congress have shifted in dramatic ways. As the Congress seeks to ultimately align the expenditures of the Government with its revenues, it could be said that this direction is consistent with the desires for stronger fiscal accountability and responsibility as envisioned in the Chief Financial Officers Act. It is also true, as former Controller of the Office of Federal Financial Management and a longtime State Comptroller, that the idea of "balancing the books" generally warms the heart of anyone in a senior position of financial responsibility.

There is a strong word of caution, however, that I am obliged to issue. Almost thirty years ago, a corporate accountant with whom I worked said, in a bit of homespun counseling, "Son, remember that whether you have a profit or a loss, you still need somebody to count the beans." Although he might have been thinking in terms of job security, I see that comment as meaning that the existence of financial management and the ability to be fiscally accountable is just as vital during times of contraction as it is during times of expansion. To view financial accounting, financial analysis and reporting, and the strengthening of fiscal accountability as nothing more than another overhead item, to receive its cuts first before programs are cut, is a little like turning out your headlights at night with the false notion of saving energy in your battery Financial recordkeeping, and the analysis and reporting that goes along with it, as clearly envisioned in the Chief Financial Officers Act, is an absolute requisite to knowing where you are going, how you are getting there, and the results thereof, as Congress moves to realign the expenditures of this vast government with the revenues provided by its people.

EFFORTS ACKNOWLEDGED

Although it has been two years since I reluctantly left the position of Controller of the Office of Federal Financial Management, I am very pleased by the continued efforts that many of my former associates and colleagues have expended on the vision of improved financial management that we shared. These efforts include. the leadership and extraordinary efforts put forth by Hal Steinberg, former Deputy Controller of the Office of Federal Financial Management, the continued energetic, optimistic, and thoroughly competent efforts of Woody Jackson, the recently named Deputy

Controller of the Office of Federal Financial Management, and the efforts of all of the current and recent members of the Office of Federal Financial Management who, though a very small band, are completely dedicated to the purposes of the CFO Act.

In addition, I have great and continued appreciation for the leadership of OMB's Director, Alice Rivlin, Comptroller General Charles A. Bowsher and members of his staff, and Treasury Fiscal Assistant Secretary Gerald Murphy and the various units of the Treasury Department without whose support many CFO initiatives would not be possible. Additionally, I applaud the CFOs, Deputy CFOs and IGs who have continued in their efforts to do the hard day-to-day and practical work of improving Federal financial management.

CHANGES THAT WOULD STRENGTHEN THE CFOs ACT

Building on my testimony of June 1994, I would like to make a series of recommendations that I believe will strengthen the CFOs Act and Congressional oversight. While some of my recommendations essentially repeat what I said in 1994, some are new and are based on the perspective of another year.

In summary, I strongly recommend that specific modifications to the CFOs Act be enacted by Congress in order to (1) ensure greater continuity in leadership, especially by the Controller of OFFM; (2) accelerate progress; and (3) enhance accountability to the Congress. My recommendations are based on my personal experience as the first Controller of the Office of Federal Financial Management. In that position, I was able to assess, first hand, the practicality and workability of the Act. My recommendations are as follows:

RECOMMENDATION 1:

Without question, the Controller of the Office of Federal Financial Management (OFFM) should continue to be appointed by the President and confirmed by the Senate, and should continue to reside within the Office of Management and Budget. The position, however, should be elevated organizationally, through an amendment to the Act, so that it reports directly to the Director of OMB.

Basis of Recommendation:
A Controller's function, and the vision that he or she pursues is decidedly different from that commonly pursued by those with budget and planning responsibilities. Controllers must apply distinct policies and complex methodologies to ensure a particular outcome as to financial performance or disclosure - and they are held professionally accountable for that outcome! Every day of my professional experience for the past 18 years has verified this difference in orientation.

The methodologies and concepts employed by a Controller help others comprehend arrangements of extraordinary complexity, and permit moving intellectually and operationally from the broadest policy matter to a line of computer code.

To be truly effective, the Controller of OFFM must have both reasonable independence and independent access to the senior fiscal policy head for the United States Government - the Director of OMB.

The Controller, after all appropriate formal and informal consultations, must make the final recommendation on financial management policy prior to its submission to the Director, and be held personally accountable for its subsequent success or failure.

The Controller's views on accountability, management systems requirements, and policies relating to the financial execution of programs must be readily present when critical decisions are faced by the Director of OMB.

RECOMMENDATION 2:

All duties in Section 503(a) of the Act, currently assigned to the Deputy Director for Management, should be reassigned to the Controller. Further, the Controller should become Chairman of the CFO Council, through amendment to Sections 503 (a)(12) and 302 of the Act.

In turn, the responsibilities of the Deputy Director for Management should be extended to focus his or her attention on Agency Deputy Secretaries, or their equivalent. OMB's Deputy Director for Management should be charged with responsibility for creating an overall environment of communications, dialogue, and formal reporting that fosters good management of federal programs.

Basis for Recommendation:

While most agency CFOs have budget responsibilities, their day-to-day focus, as required by the Act, is principally on ensuring the effective execution of, and accountability for, programs authorized by Congress. There is a need to bind agency CFOs with the Controller, whose principal focus is on guiding how extraordinarily large complex program activities are represented financially as the budget is executed.

The Deputy Director for Management can be most effective when providing a "generalist's view" that ensures, agency to agency, that all critical elements needed for effective overall management performance are in play. There is a clear need for one senior OMB official to focus on the complete interplay of financial management, personnel, procurement, performance measurement, general management, and other concerns. This is envisioned by the National Performance Review (NPR) recommendations to establish a President's Management Council (PMC), chaired by OMB and comprised of agency Chief Operating Officers.

RECOMMENDATION 3:

The Congress should look in great detail at the staffing reductions made to the Office of Federal Financial Management that have been put in place over the past two years. The office has been significantly understaffed, in my fair judgment, and cannot hope to do all that is necessary, or even much of what is necessary, to support the implementation of the Chief Financial Officers Act. The Congress should consider offering specific advice and recommendations to the OMB leadership on the minimum level of staffing that it believes is consistent with the requirements placed on the Office of Federal Financial Management by the CFOs Act.

Basis of Recommendation

In 1991, during the nomination process, I completed a functional analysis of the current and future duties of the Office of Federal Financial Management and determined that, at a minimum, the office should be expanded from the forty persons that it had in 1991, to at least sixty. These recommendations were consistent with those independently derived by the then acting head of the office, Susan Gaffney, who is now Inspector General for HUD.

Staffing measurements completed near the end of 1992 and submitted to the Associate Director for Management sustained the view that a 40-person OFFM staff was far too lean.

As a by-product of the OMB 200 initiative, the Cash Management Branch of the Office of Federal Financial Management was eliminated and disbursed throughout OMB in 1993. This unit, as I noted in my testimony of June 1994, was perhaps the most mature of all of the controller activities then operating in OFFM. Its loss brought significant risk to initiatives that could bring in billions of dollars of additional revenues to the Treasury of the United States.

RECOMMENDATION 4:

The Congress should actively review agency performance based on clearly defined indicators. In this regard, the Congress should strongly encourage the Office of Management and Budget to annually publish in the budget of the United States the "Current Status of Financial Management in the U.S. Government" as first published as Table 3C-1 on page 168 of President Clinton's Budget for the United States Government - Fiscal Year 1995, as submitted on February 7, 1994. Although I am informed that segments of the data presented in this table can be found in the OMB Federal Financial Management Status Report and Five-Year Plan, which is published annually as required by the Act, the full power of having a composite score card on the vital statistics of financial management performance will be lost unless published in the President's Budget.

Basis of Recommendation

The complexities of Federal financial management make it literally impossible for the Congress, or any oversight body, to spend the time necessary to look at all of the elements that produce one level of financial performance or the other---- elements such as people, competence, organization structure, systems, central government support, etc. The one thing that the Congress can do, however, is focus on a "bottom-line." In the case of the Table, it is a series of bottom-lines or "indicators" that illustrate a level of performance and represent, in summary fashion, a whole host of activities that produce that performance. In short, while Congress cannot possibly comprehend nor affect all of the intricacies of day-to-day financial operations, they can and should, absolutely, hold the Administration responsible for producing a particular level of results as purposed by the Controller of the Office of Federal Financial Management.

This focus on "indicators" of financial performance by Members of Congress and senior Administration executives is a mechanism that was proven in Virginia and contributed, at one time, to Virginia being viewed as the best financially managed state in the United States.

RECOMMENDATION 5:

Each CFO Act agency should be required, through amendment to Section 303 of the Act, to create a formal audit committee. This audit committee should report to the agency head and should focus on the adequacy of agency financial statements required by the Act, and upon their audit. The Committee should serve in a capacity comparable to audit committees currently serving in the private sector, within not-for-profit institutions, and for many state and local governments.

I suggest that each agency's audit committee be comprised of one representative from the General Accounting Office; one representative recommended by the American Institute of CPAs; one representative recommended by the Financial Executives Institute; two senior executives from private corporations or private institutions whose focus is affiliated with one or more purposes of the federal agency; and two senior federal agency executives, at least one of which should be a Presidential appointee.

Basis for Recommendation:

Such audit committees might meet three or four times per year. They would receive the status of financial statement preparations and audit progress, and provide observations, suggestions, and assurances to the agency head.

From my experience in Washington, I am convinced that the perspective of such an audit committee would enhance agency focus on financial management, and bring additional objectivity and creativity to that commonly present in agencies today. Informal exchanges between federal CFOs and corporate CFOs during 1993, arranged jointly by the Private Sector Council and Council for Excellence in Government, were enormously helpful to all participants.

RECOMMENDATION 6:

Congress should support and encourage each of the 24 CFO Act agencies as they move to meet the requirements for annual financial statements and audits as established in Section 405, "Annual Financial Reports" of the Government Management Reform Act of 1994.

Basis of Recommendation:

Current federal experience in preparing and auditing agency-wide financial statements has demonstrated that only a review of comprehensive financial statements can fully determine the interplay of transactions and accountability.

Over time, audited agency-wide financial statements will be an effective tool for senior agency management. In the past, only the Budget, which principally focuses on revenues and expenditures, comprehended the overall fiscal standing of an agency. By preparing and auditing agency-wide financial statements, agencies will focus more on material financial events and on the agency's complete fiscal circumstances.

The focus will shift to relationships and performance. The days of ignoring assets, and failing to disclose liabilities will end. The federal government's recent initiatives concerning credit management will be enhanced.

Audited, agency-wide financial statements will ensure the clarity and reliability of financial information flowing to agency executives, the Congress, and other interested parties. They will permit greater comprehension as to what financial performance really means for a given agency, and promote a focus on performance. Most importantly, it will permit financial performance to be tied, where appropriate, to programmatic performance.

RECOMMENDATION 7:

The CFOs Act should be amended to add responsibilities, within Section 503 (a) of the Act to require:

(a) A conscious and continuous focus of joint attention by OMB and Treasury on the on-going accumulation and operational reporting of actual financial information by all agencies to OMB and Treasury, to include reporting on the progress of such joint activities in OMB's annual status report as required by Section 301.

(b) The formulation, publication and updating of a formal "Federal Financial Systems Vision and Action Plan" for the federal government.

Basis for Recommendation:

Greater assurance is needed concerning financial data that eventually flows into the Budget of the United States Government. This matter is addressed on page 17 of the Federal Financial Management Status Report and 5-Year Plan, August 1994, under "Government-wide Financial Management Systems."

To assure greater reliability, the federal government must speak to agencies with one voice, and establish a unified set of demands for operational financial information and supporting systems. Since OMB has fiscal policy responsibility and Treasury has both operating and policy responsibility, they need to continue their "leadership and organizational struggle" to resolve these joint responsibilities - under their separate authorities.

Additionally, OMB's responsibility for sustaining recent advances in conceptualizing the interplay of agency and central federal financial systems needs to be clarified, and Congress needs to be more informed on this highly complex but crucial matter. Page 14 of the Federal Financial Management Status Report and 5-Year Plan, August 1993, addresses this matter under "Financial Management Systems." In addition, reference should be made to the "Financial Management Systems Status Report" issued May 31, 1994, by the Financial Systems Committee of the Chief Financial Officers Council, in conjunction with the Office of Management and Budget.

RESPONSE TO QUESTIONS OF IMMEDIATE CONCERN TO THE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Mr. Chairman, in the remainder of this testimony, I would like to address the eleven questions noted in your letter to me of July 18, 1995.

SUBCOMMITTEE QUESTION 1: When the CFO Act was implemented, what were the obstacles that agency CFOs faced? How did they overcome them? Are there still reasons to be concerned?

Response:

The first obstacle was attitudinal. Both agency CFOs and Inspectors General had to first commit to the prospects of greater accountability, the consolidation of financial information, and an altered approach to carrying out audit responsibilities. For some CFOs and IGs, this was an easy transition, which supported their personal and professional views of what accountability within large governmental organizations should be like in the first place. For others, especially selected IGs, the transition was more problematic. In general, the tensions that developed for selected IGs occurred when they had to reconcile between their more established investigative——let's catch the bad guys-----approach, and the need to accept that audited financial statements, and the integrated way in which controls and policies can be audited, actually gives greater leverage to the accomplishment of overall audit responsibilities.

The second obstacle was staff. Individuals who were processing and accounting oriented, without other special training or experience, had a problem moving to the disciplines and concepts necessary for the preparation of the annual financial statements. I had this experience when we became more aggressive in preparing financial statements in conformance with generally accepted principles in the Commonwealth of Virginia, I know that the same problems existed in selected agencies here in Washington.

The third obstacle was the sorry state of financial systems in a number of federal agencies. These systems were built to accomplish processing tasks and were not originally designed to integrate financial information and produce summary reports.

SUBCOMMITTEE QUESTION 2: Has the implementation of the CFO Act improved financial management in the agencies?

Response:

Implementation of the CFO Act is definitely improving financial management in federal agencies. There is now an ultimate "outcome" for the complex financial transactions that are typically part of our federal agencies. That "outcome" includes a balancing between resources and expenditures, complete accountability for the assets that are under the care of agencies, responsible management of liabilities that are created as part of agency operations, and the need to ensure that no major or material weaknesses exist in the financial systems and recordkeeping procedures of agencies. Beyond that, there is now an enhanced ability, as a

by-product of efforts to generate audited financial statements, to prepare better financial management information, which, together with traditional budget analysis and other data, will afford agency executives a better opportunity to manage.

Most all federal agencies are still in transition toward accomplishing the requirements of the CFO Act; but, from what I understand of the activities of the Chief Financial Officers (CFO) Council, this is proceeding with appropriate enthusiasm and considerable creativity.

SUBCOMMITTEE QUESTION 3: How would you measure any improvement? Number of weaknesses in internal control reported? Or other measure? In your opinion, which are the two poorest agencies in terms of being prepared to comply with the Government Management Reform Act? Which are the two leaders?

Response:

As I have in my formal statement, I draw the Subcommittee's attention to the table that appears on page 168 of the Budget for the United States Government - Fiscal Year 1995. The table is #3C-1 "Current Status of Financial Management in the U.S. Government". It appears in a section of the budget entitled "Improving Management in Government Finances" under a subtitle of " Improved Accountability." This table illustrates eight separate "indicators of financial management performance." It cites specific measures of performance and sets forth specific performance standards against which the relative status of agencies can be evaluated. I strongly encourage the Subcommittee to spend time with this table and to make it a regular and scheduled focus of your attention. This table, a copy of which is attached to these remarks clearly indicates the distance that many agencies have to go in order to meet the performance standards that were established by OMB.

This "score card of financial management performance" was created during my tenure as Controller of the Office of Federal Financial Management, and was thoroughly reviewed and concurred with by the CFO Council and the CFO Council Operations Group.

From this chart, you can see that the National Science Foundation and the GSA are making positive progress toward reaching each of the standards.

SUBCOMMITTEE QUESTION 4: What guidance is OMB providing the agencies on how to comply with the Act?

Response:

OMB, in combination with the Federal Accounting Standards Advisory Board (FASAB), is providing excellent support and guidance to agencies. OMB issued the first guidelines on the form and content of financial statements back in 1992. It was a product of a coordinated effort between selected agency CFOs, Fiscal Officers, and OMB staff, with input from many others. The form and content guidance has been updated at least once, and I understand that it is about to be updated again to reflect recent standards published by FASAB.

The FASAB, under the superb leadership of the Honorable Elmer Staats, has produced three important and initial financial statements, to include " Accounting for Selected Assets and Liabilities", "Accounting for Direct Loans and Loan Guarantees" and "Accounting for Inventory and Related Equipment". In addition, and perhaps even more importantly, it has published five exposure drafts and a significant concept paper, "Objectives of Federal Financial Reporting".

It was my privilege to have sat on FASAB during the preparation of some of these statements and papers, and to contribute to them. These statements, as well as those that will be published in the near future by FASAB provide an excellent foundation, together with OMB's form and content guidance, for the preparation of agency financial statements. These financial reporting standards, which also could be viewed as "accountability standards", are just what we need in the Federal Government to give common and standard guidance on complex issues that all agencies' CFOs face in preparing audited financial statements. Agencies will now have the benefit of this guidance and the certainty it provides, while OMB will be able to continue its role of stipulating the form and content of financial statements.

SUBCOMMITTEE QUESTION 5: What are the main obstacles to agencies coming into full compliance with the CFO Act and with GMRA and eventually obtaining unqualified opinions?

Response:

The continuing challenge faced by CFOs and Deputy CFOs will be the development of their staff so that they have the solid capacity to deal with complex issues pertaining to the preparation of financial statements. In some cases, training made available by the Association in Government Accounting, OMB, Treasury, and others, will be sufficient to bring staff along. In other cases, agencies may have to continue to look to the outside for additional or replacement staff, and for people who have had experience in putting together financial statements for large and complex organizations.

The modification and enhancement to complex financial systems, together with mustering the budgetary support for such efforts, will also continue to be a major challenge to agencies' CFOs. It is in regard to the latter that this Subcommittee and other Committees of Congress can be sensitive to the fact that agency financial operations are not just "another overhead item", to be put on the block with everything else that may come under budget scrutiny.

I encourage Congress to be sensitive to the impact of budget cuts on IGs. Unless shielded from budget cuts, or authorized and funded to engage outside CPAs, the loss of IG staff will greatly hinder completing audits of agency financial statements.

Financial operations, and the reports and analyses that they provide, should be on equal status with budget analyses and budget projections, as a means of telling the Congress and administration officials as to how well they are executing their responsibilities. Congress's support for the staffing and systems needs of agencies CFOs, and IGs, will continue to be an important opportunity for Congress to support the CFO Act and the GMRA.

SUBCOMMITTEE QUESTION 6: How many CFOs are in politically appointed positions?

Response:

Unless the laws changed since I left the Controller's position in June of 1993, there should be sixteen CFOs who are politically appointed, with the others appointed by their agencies' heads.

The political appointment of CFOs is something that I endorse. I do not endorse "the political content", which may be considered when someone is nominated. But, I do endorse the opportunity for the President to identify absolutely outstanding, and accomplished, financial managers from state and local government, from the federal government, and from the private sector to take on major responsibilities for the financial management of complex federal government agencies. And, I believe that the Congress has the opportunity to influence the thinking of these individuals through the Senate conformation process, to confront them with the nature of their responsibilities, and to stress the importance of their success to the Congress and to the people of the United States.

SUBCOMMITTEE QUESTION 7: Which agencies have CFOs who are in career positions? Do these agencies plan to make any changes to the way CFOs are appointed? If not, why not?

Response:

The agencies that have CFOs in career positions include the Department of General Services, the Office of Financial Management, The National Science Foundation, FEMA, the Social Security Administration, AID, the Nuclear Regulatory Commission, and the Small Business Administration. I have no knowledge of any plans to convert these CFO positions into presidential appointments. I would encourage the Congress, as it develops its guidance to the Administration, to not be concerned that these several agencies are served with career financial officers. Knowing some of the individuals who serve in these capacities, and their long standing commitment to improving financial management, I believe that the debate and dialogue within the Chief Financial Officers Council always benefitted by the fact that these career officials were holding CFO positions in their respective agencies. This diversity of experience ensures that the CFO Council blends the new ideas and enthusiasm that often come with political appointees, with of the personal awareness of the challenges that are involved with change in the Federal Government that is exhibited by career CFOs.

SUBCOMMITTEE QUESTION 8: Does the current organizational structure of the Office of Management and Budget best represent the best reporting relationship?

Response:

Consistent with my previously expressed views, I strongly believe that the Controller of the Office of Financial Management belongs in the Office of Management and Budget. Although the overall political strength of OMB might vary slightly from Administration-to-Administration, its strength and duties are so clear and central to the direction of the Federal Government and, ultimately, to whether or not the Federal Government works well on behalf of the people, that this is the only place that should house the Federal Controller. To place the position in another department, or, worse yet, in its own department would weaken the role anticipated in the CFO Act.

Now, having supported the notion that its position should continue with OMB, let me state very clearly that the position of Controller should report directly to the Director of OMB and have assigned to it all financial management duties currently assigned to the Deputy Director for Management. This change, which will necessitate a change in the law, is vital if Congress ultimately wishes to see from the work of the Controller and the Office of Federal Financial Management produce the full benefits intended by the CFOs Act.

I would encourage Congress to take a lesson from my personal experience. The reporting relationship does make a difference. Under the current structure of the law, which places the Controller under the Deputy Director for Management, the Controller's ability to have access to the Director, and gain attention to the financial management concerns as set forth in the CFOs Act, is directly and firmly impacted by the attitudes, concepts, and vision of the individual who sits in the Office of Deputy Director for Management. I would not wish to compare and contrast the two individuals under whom I worked, Frank Hodsoll in the Bush Administration, and Phil Lader in the Clinton Administration. Both were outstanding public servants. However, I think it is common knowledge to the Congress that there were definite differences in the approaches that these individuals took to their work, and to what they considered to be high priority at the time they served That had a direct bearing on the pace with which the Office of Financial Management could bring about change, and had a direct influence in the access that the Controller had to the Director, when that access was important to gaining his encouragement and support for important financial management matters.

While the Controller does not necessarily have to sit in every high level budget strategy session, regular access will bring to the Director a different perspective, a perspective that relates to the practical problems of budget execution, notwithstanding the budget strategies and politically strategies that may become a part of the President's budget initiatives. I believe, as in the case in virtually every major and successful corporation in the United States, that the CFO can be a positive force for ensuring the overall effectiveness of programs that are proposed and supported by the President of the United States.

I truly hope that the Congress will give serious consideration to this change, and I would be delighted to meet with members of the Subcommittee and staff outside of this hearing to discuss this particular recommendation.

SUBCOMMITTEE QUESTION 9: What has been the impact of OMB 2000 and future personnel cuts on the ability of OMB to carry out its responsibilities under the CFO Act?

Response:

In answering this question, I would like to quote liberally from my prepared testimony of June 1994, and an answer given in response to a question from the Subcommittee.

From a policy perspective, there is much that is good about the OMB 2000 decisions, especially the desire to require OMB staff and agency officials to focus on program execution and performance. The focus on recruiting OMB staff from "among people with significant experience in the public sector, preferably in program management," is laudable.

However, I have concerns with the impact of OMB 2000 on the future effectiveness of the Controller of the Office of Federal Financial Management, and the further implementation of the CFOs Act. OMB Memorandum 94-16 admirably seeks to bind a budget focus with a management focus, through the establishment of Resource Management Offices. Unfortunately, it does not recognize the importance of having an integrated yet independent, organizational focus on (1) actual day-to-day financial practices; (2) how such practices are guided through often complex systems of internal controls; and (3) how they ultimately reveal themselves in financial reports and audits.

There is a considerable inconsistency between the independent financial management functions envisioned by the CFOs Act and what will result from implementation of OMB 2000. The CFOs Act in Section 503(a) and 504(b), envisions a vigorous, shirtsleeves role for the Controller - one of monitoring and interaction - not simply to "continue to have government-wide policy development responsibility for financial management," as stated in the OMB Memorandum 94-16 (page 8). This inconsistency convinces me that the individuals who were principally responsible for advising the Director may not have fully comprehended the distinct, and functionally necessary differences, between a budget perspective and a chief financial officer's perspective. This aspect of OMB 2000 should be reviewed carefully by the Congress and perhaps be reconsidered by OMB.

As a final comment, something comparable to the financial management indicators that appear in the President's 1995 Budget can be created for the OMB RMOs. Such qualitative and quantitative benchmarks can permit the Congress to track each RMOs progress in implementing changes that are very much a concern of this Subcommittee.

SUBCOMMITTEE QUESTION 10: How has the timeliness or lack of timeliness of appointments to CFO-mandated positions affected compliance with the act? How long have positions in your agency or organization been open as a result of delays in the process of confirmation?

Response:

When I came on board in December of 1991, a significant portion of the CFOs were established by designating individuals already in place to serve in that capacity. Accordingly, the first experience that we had in naming a new group of CFOs was during the Administration of President Clinton. Generally speaking, I was pleased with the efforts made by the President and White House personnel in identifying, securing, and ultimately appointing what I believe has proven to be a fine group of Chief Financial Officers.

However, I think that there are improvements to be made. I certainly would have preferred to see a larger percentage of CFOs coming out of established senior financial policy and financial operations experiences. I think that I have a strong bias toward individuals with that kind of a background. However, those that are currently serving, by all that I know, are dedicated and working hard to effectively support of the CFO Act.

The process of appointing anyone by the President takes too long and it is to convoluted. My own appointment from the time the position was offered, to the time I was nominated took seven months, with another four months passing until I was confirmed. This was a long time to put one's life on hold, and to experience some of the personal disruptions that come through the process. I think that there are definitely inefficiencies in a way in which White House personnel approaches this pulling together of candidates and considering people.

I recommend that the Controller and Deputy Director for Management should be able to personally ensure that at least one candidate in whom they are particularly interested is part of every pool that is eventually considered by the President for any one CFO position. I do not think that the pool should be shaped ultimately and solely by White House personnel staff.

I found in my own experience working with White House personnel that the staff assigned the tremendous responsibility of identifying and recruiting CFO candidates changed with great frequency, almost monthly during the six months that I worked with White House personnel. This worked to the disadvantage of the intent of the CFO Act. I recommend that the Congress encourage the President to designate a person with a proven financial management background as the senior White House personnel official responsible for the recruitment of CFOs and IGs, and that this person be dedicated to staying with that process from the very beginning through the appointment of the last CFO or IG position. In addition, the Congress should seek to ensure, as was generally the case under the Clinton Administration, that the Controller and the Deputy Director for Management be integrally involved with the identification of candidates, the consideration of their credentials and interviewing of these candidates before their credentials are placed before the President of the United States.

SUBCOMMITTEE QUESTION 11: How can Congress help ensure that the CFO Act and the Government Management Reform Act are fully implemented?

Response:

The single most important action that the Congress can take in determining whether or not the benefits of the CFO Act and the Government Management Reform Act are fully realized is to pay consistent and specially scheduled attention to the progress that the agencies are making as that is now shown in Table 3-C, "Current Status of Financial Management in the U.S. Government, as found on page 168 of Budget for the United States Government - Fiscal Year 1995. As I have conveyed to the Congress on other occasions, the complexities of financial management, of accounting, of financial processes in these many federal agencies is extraordinary. The Congress cannot hope to spend enough time focusing on the individual organizational, systems, and other activities that are necessary to improve financial management.. The Congress, principally through reviews of GAO reports and IG reports in the past many decades has done just that. You focused on specific subjects, specific occurrences, and specific weaknesses. Yet, I would hold out that the overall financial management of the Federal Government did not improve. What I encourage you to do, without ignoring many of things that you have focused on in the past, is to, instead, focus absolute attention on whether or not the performance standards as set forth by OMB and the CFO Council are being obtained.

Insist that there is an annual publication of the current status of financial management in the U. S. Government, both measures and performance standards. Insist that it is published each year in the Budget of the President, and insist that it is published in the Federal Financial Management Report Status Report and the Five-Year plan published by OMB each year in conformance with the Act. By focusing on these created bottom-lines, to which Congress from time-to-time might wish to add, will be the most time efficient and most effective way in which the Congress can ultimately ensure that financial management is operating on the behalf of the people.

In terms of additional measures, I would strongly encourage expanding the table to include the following "accounting processes" measures and standards developed by OFFM:

Measures	Number Agency Locations Fully Reconciled	Percent Timely Reporting To Central Agencies	Average Posting Time (Days) For Interagency Charges	Average Process Time (Days) For Travel Payments
Standards (Goals)	All	95	30	15

I would hold that if one day all agencies of the Federal Government met the standards for financial performance established by OMB and Chief Financial Officers Council, you will have acceptable, if not excellent, financial management in the Federal Government and its respective agencies.

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Mr. Chairman, I would like to close with three thoughts.

First, I hope that your Subcommittee will act favorable upon my recommendations. They come from someone who has spent fifteen years on the front line of improving federal and state financial management, and whose leadership helped the Commonwealth of Virginia achieve sustained national recognition for financial management excellence.

Second, despite the work that has progressed, we need to redouble efforts to improve federal financial management. A clear vision for a controllership that is elevated in stature, charged with working directly with the agency CFOs, and with championing the cause of improved financial management must be established and pursued with the utmost determination.

Third, while you and your Subcommittee consider recommendations from today's hearing, I encourage you to regularly and vigorously monitor the progress of CFO Act agencies in achieving the standards set forth in OMB's table of Financial Management Indicators, as they appeared on page 168 of the President's 1995 budget. If you do, you will find that the financial management of the federal government will progressively improve.

Mr. Chairman, thank you for this opportunity to share my continuing interest in improving Federal financial management.

Attachment to July 25, 1995 Testimony
by Edward J. Mazur to the
House Subcommittee on Government Management Information & Technology
With Reference to Subcommittee Question 3.
Excerpts From Budget of the United States Government
Fiscal Year 1995, p. 168

initial steps will be to pay businesses with Federal contracts, State and local governments, Federal employees and retirees, and interagency transfers of funds via electronic funds transfer.

Improve Accountability

Empowerment requires accountability. Financial reporting provides accountability by demonstrating that government agencies are achieving the expected results and disclosing to taxpayers how their tax dollars are actually spent. The NPR recommended, and the Administration is planning, issuance of an audited consolidated annual report on Federal finances by 1997.

The Administration initiated a system in 1993 to report publicly the status of financial management in the 23 agencies covered by the CFOs Act. As Table 3C-1 indicates, significant challenges remain for agencies to make improvements in financial management activities.

In 1993, 95 reporting entities submitted audited financial statements, covering approximately $875 billion of gross budget authority; 37 were determined by independent audit to be in conformity with prescribed accounting standards. This is a marked increase from 1992 when 55 reporting entities submitted audited financial statements and only 19 were determined to be in conformity with prescribed accounting standards.

Another tool for public accountability is the High Risk Program, which focuses on correcting management control weaknesses that could result in major breakdowns in Government service, or in fraud, waste or abuse. A progress report on agency efforts to correct high risk areas appears in *"Analytical Perspectives."*

Finally, the Administration will revise agency guidance on internal control systems to eliminate prescriptive procedural requirements, and streamline the management control program. To reduce the NPR-identified burden of other mandated reports, the Administration has developed and submitted to Congress a phased program to consolidate duplicative reports and streamline the others.

Table 3C-1. CURRENT STATUS OF FINANCIAL MANAGEMENT IN THE U.S. GOVERNMENT [1]

Agency	1992 Budget Authority (in billions of dollars)	1992 Financial Statement Audits			Receivables			Cash Management	
		Percent Audit Coverage [2]	Unqualified Audit Opinions	Material Weaknesses in Accounting Controls	Percent Delinquent [3]	Percent Change in Delinquencies	Percent Change in Collections	Percent Timely Payments [4]	Percent Payroll by EFT
Goals		n/a	All	0	n/a	Decrease	Increase	95	90
HHS	559.6	51	1 of 5	10	28	69	28	96	85
Treasury[5]	296.7	81	4 of 10	24	81	0	-10	78	84
Defense	281.9	58	2 of 15	19	7	0	0	93	87
Agriculture	66.3	100	5 of 7	34	10	-16	11	99	75
Labor	48.2	100	0 of 1	5	53	9	7	94	74
Transportation	36.2	61	1 of 4	9	68	5	-6	86	92
OPM	35.8	20	0 of 4	5	68	13	-5	77	83
Veterans Affairs	33.9	100	0 of 1	5	72	-7	18	82	81
Education	28.8	23	1 of 2	3	81	-13	4	94	93
HUD	25.0	100	1 of 3	8	15	-1	5	81	38
Energy	17.2	21	10 of 11	11	61	5	-9	93	87
NASA	14.3	100	0 of 1	5	13	0	-3	97	91
Justice	10.0	11	4 of 5	6	42	-32	15	80	85
Interior	7.1	41	0 of 5	12	19	3	32	78	78
EPA	6.5	28	0 of 5	9	52	58	-14	98	89
AID	5.7	2	3 of 5	4	2	-49	-9	79	98
State	5.2	12	0 of 2	11	73	-74	-75	54	93
FEMA	4.8	13	2 of 4	2	12	0	450	91	83
Commerce	3.0	1	1 of 1	0	23	-49	-21	90	86

Table 3C-1. CURRENT STATUS OF FINANCIAL MANAGEMENT IN THE U.S. GOVERNMENT[1]—Continued

Agency	1992 Budget Authority (in billions of dollars)	1992 Financial Statement Audits			Receivables			Cash Management	
		Percent Audit Coverage[2]	Unqualified Audit Opinions	Material Weaknesses in Accounting Controls	Percent Delinquent[3]	Percent Change in Delinquencies	Percent Change in Collections	Percent Timely Payments[4]	Percent Payroll by EFT
NSF	2.6	1	1 of 1	0	58	-70	-17	n/a	90
SBA	1.9	86	0 of 1	3	24	2	2	51	85
GSA	0.4	100	1 of 1	1	71	5	12	96	83
NRC	0.02	100	0 of 1	4	20	23	3	52	95

[1] Boldface indicates the Agency is meeting financial management goals.

[2] Agencies that are not in boldface did not achieve the audit coverage required by the CFOs Act. The percent of audit coverage required varies by agency and includes spending authority from offsetting collections.

[3] A significant portion of the delinquent debt is believed to be uncollectable due to factors such as bankruptcy, inability to locate the debtor, and various legislative restrictions.

[4] Timely payment statistics in excess of 95 percent that are not in boldface could not be verified by a reliable quality control system.

[5] The percent audit coverage excludes Interest on the Public Debt.

n/a = Not applicable

STAYING IN STEP WITH THE PRIVATE SECTOR

REINVENTING REGULATORY MANAGEMENT

Regulations, like other instruments of government policy, have enormous potential for both good and harm. Well-chosen and carefully crafted regulations can minimize fraud, limit pollution, increase worker safety, discourage unfair business practices, and contribute in many other ways to a safer, healthier, more productive, and more equitable society. Excessive or poorly designed regulations, by contrast, can cause confusion and delay, give rise to unreasonable compliance costs in the form of capital investments and/or ongoing paperwork, retard innovation, reduce productivity, distort private incentives, and adversely affect living standards.

The importance of regulations in our society and the many challenges that regulators face make it imperative that the process for developing regulations be principled, professional, and productive. Regrettably, this Administration did not inherit such a process. On the contrary, the way Federal regulations were developed and reviewed in the recent past has been severely criticized for delay, uncertainty, favoritism, and secrecy. Improvement was clearly needed.

Improving Regulatory Integrity

To meet this responsibility, President Clinton issued Executive Order No. 12866, "Regulatory Planning and Review," and other instructions to help create regulations that "work for [the American people], not against them."

- The President affirmed the primacy of Federal agencies in the regulatory decision-making process. At the same time, he reaffirmed the importance of centralized regulatory review to ensure that, to the extent permitted by law, regulations are

We can't reject all regulations. Many of them do a lot of good things. They protect workers in the workplace, shoppers in the grocery stores, children opening new toys. But there are others that serve no purpose at all. This executive order will provide a way to get rid of useless, outdated and unnecessary regulations that are obsolete, expensive and bad for business.

President Bill Clinton
September 30, 1993

Subcommittee on Government Management, Information and Technology
July 25, 1995 Hearing on Implementation of Chief Financial Officers
Follow-up Questions

Responses provided by Edward J. Mazur
Former Controller, Office of Federal Financial Management
Vice President for Administration and Finance, Virginia State University
Petersburg, Virginia 23806

1. Question: In your opinion, should the Office of Federal Financial Management (OFFM) be moved out of the Office of Management and Budget (OMB) and combined with other parts of the General Services Administration or the Office of Personnel Management, into a separate Office of Federal Management?

Response: The Office of Federal Financial Management (OFFM) should most definitely stay within the Office of Management and Budget (OMB). An integrated Financial Management and Budget responsibility is typical for most successful organizations, both private and governmental. The policy and budgetary authority of OMB are critical to ensuring proper attention by Federal agencies as to the importance of implementing the Chief Financial Officers Act. From my personal experience, as the first Controller appointed under the Act, the authority of OMB, and the ability to access even the President's office through the Director of OMB has been critical in gaining the positive attention that has been developed toward the Act.

2. Question. How would you strengthen the authority of the management side of OMB so that it can provide leadership and keep the different bureaus and departments moving in the right direction?

Response: As noted in my testimony of July 25, 1995, the authority of the management side of OMB can be strengthened by breaking the Controller out from under the Deputy Director for Management and providing a direct reporting relationship to the Director of OMB. This will bring to the highest reasonable level all financial matters relating to the execution of the national budget, without those communications being distracted or impeded by other priorities that currently vie for the attention of the Deputy Director for Management. The Deputy Director for Management would then be able to focus his or her attention on effectively leading the Deputy Secretaries of the various Federal agencies in ensuring their proper and timely focus on a broad array of management issues, of which Financial Management is a part.

3. Question: How can we lessen the adverse effects of having leadership positions such as that of the Controller of OFFM vacant for long periods of time?

Response: The position of Controller of OFFM was vacant between July 1, 1993, and the latter part of 1994. Contributing to this occurrence was the transition to a new administration in 1993, and the difficulty, within White House personnel, in providing assurances that my position would be secure through the full four years. I believe that my work as the first Controller should have lasted at least five years while major policies were put in place, and I continue to believe that consistency in that leadership would have moved progress forward at an even faster rate than otherwise was possible.

One significant way in which such continuity of leadership can be provided is if the position is appointed a minimum of a six-year term. While I realize that would not preclude an incoming President from forcing a Controller out of his position, it would, nevertheless, signal the intent of Congress that this position should be principally a nonpolitical, and professional level appointment of an individual who deserves to have the confidence of the President and the Congress in carrying out some of the most difficult leadership work in Washington.

4. Question: How can we get around the problem that, as financial statements get consolidated, important details on specific bureaus or agencies get lost?

Response: It is recommended that your committee seek the advice of the Chief Financial Officers Council on how best to establish reporting standards, which would be issued by OMB, or addressed in one or more of the financial reporting standards established under the auspices of the Federal Accounting Standards Advisory Board. These standards could guide how best to consolidate and combine financial information in such a way that some of the detail needed for proper congressional oversight remains with the financial statements. It is possible, and is routinely done for a number of governmental and nongovernmental entities, to have combining unaudited financial statements as an integral part of published financial statements that are presented on a consolidated basis.

5. Question: Several witnesses at of our hearings have said that agency staff need more training than they are getting. The agencies are unable to devote much resources to this. One suggestion made by witnesses is to use an organization like the Association of Government Accountants to provide training. If you were asked to set up a training program for all agency financial management personnel, how would you do it?

Response: First of all, I do not believe that there needs to be created any new Federal agency or organizational activity in support of financial management training required by Federal agencies. I believe that the Chief Financial Officers Council and the President's Council on Integrity and Efficiency (PCIE) can be relied upon to develop approaches to training that will be efficient and effective. In fact, the Chief Financial Officers Council has, to the best of my recollection, endorsed, sponsored or encouraged training to be available for agency personnel. The Association of Government Accountants, among other bodies, is generally well able to develop and put on courses that can be extremely helpful to Federal government financial officers.

6. Question: If agencies contracted out work to certified public accounting firms, how would they ensure that the auditors paid adequate attention to what they considered important? If certified public accounting firms were asked to report on management assertions on, for example, internal controls or compliance with laws and regulations, these engagements would not necessarily be done under generally accepted auditing standards but under the new standards for attestation engagements. These "attestation" standards require the agency to determine what it wants examined and specify what procedures should be included in the engagement. Who should negotiate such contracts? Who should monitor them?

Response: In instances where an agency chooses to use a certified public accountant to carry out a full opinion audit, in conformance with generally accepted auditing standards, or interim audits of more limited scope, the scope of such engagements should be established and approved by the head of the agency. In establishing that scope, the head of the agency should receive direct advice and counsel from the agency's Inspector General, who will be in a leadership capacity to coordinate and oversee such audit procedures. However, the agency head should also receive input and counsel from the agency's fiscal officers as the scope is finalized. As noted in my testimony of July 25, 1995, the existence of a formal agency audit committee both to review the scope of such audits and to be a body to receive, with the head of the agency, reports from such audits would be extremely helpful.

7. Question: Can you tell us a little more about the benefits of having agencies set up audit committees? Has the concept worked well in the private sector?

Response: As noted in my testimony of July 25, 1995, I am very much in favor of amending the Chief Financial Officers Act to formally call for the establishment of audit committees in all agencies covered by the CFO's Act. Comprised of several individuals, as specifically recommended in my testimony, such an audit committee can provide immensely important support to senior agency management, and to the Inspector General, in encouraging timely attention to financial management improvement and to the accomplishment and results of audits. Virtually every major non-profit body, operating under an independent or appointed board, and every significant corporate entity has an audit committee.

8. Question: Do you think any agencies should be allowed to take longer to comply with the Government Management Reform Act than others, or should all be held to the same standard? What if an agency just cannot comply? Should OMB give waivers?

Response: I do not recommend that selected agencies be given any more time than other agencies to conform with the requirements of the Government Management Reform Act, which amended sections of the CFO Act in regard to the preparation of audited financial statements. As indicated in my testimony of July 25, 1995, Congress should carefully monitor which agencies meet the requirements established by the Act, and other financial measures recommend by OMB and the Chief Financial Officers Council. That recognition of performance against standards will create a positive pressure within the CFO Act community to find creative and innovative ways of meeting the requirements of the Act. Without such constant attention, and oversight, agencies may seek one excuse or another to not implement vigorously the requirements of the Act. Failure to comply should be noted by OMB, who should not be encouraged to give waivers. They should be encouraged, however, in their various reporting responsibilities to carefully disclose barriers that exist within a given agency that are inhibiting full compliance with the GMRA.

Mr. HORN. Well, we thank you for being here. That's an excellently organized statement, and you have made some very sound recommendations as well as observations.

Our last witness on this panel is Harold Steinberg, former Deputy Controller, Office of Federal Financial Management, Office of Management and Budget.

Welcome.

Mr. STEINBERG. Thank you, Mr. Chairman.

As you have indicated, I am Harold Steinberg, formerly Acting Controller and Deputy Controller of OFFM, and previously the Associate Director for Management at the Office of Management and Budget. I wish to focus on four aspects of the Chief Financial Officers Act: one is the genesis of the act and the initial funding issue; two is the agency CFO structures and appointments, which you expressed some interest in; three, is the financial management staffs, which I think are key to a successful implementation; and fourth is the audited financial statements.

I have submitted my statement for the record, and, with your permission, will summarize it now.

I think it should be recognized that the CFO Act was not the result of a congressional desire for reform or even, at that time, a strong executive branch desire for a legislative foundation or mandate for better financial management.

As Mr. Riso pointed out, it was the actions of several external groups: the American Institute of Certified Public Accountants, the Association of Government Accountants, the National Association of State Auditors, Controllers, and Treasurers, and the Financial Executives Institute, specifically studies they had done and recommendations they had made, reports they issued, infomercials they paid for, talk show appearances, and so forth, that really pointed the need for improved financial management in the Federal Government.

The Reagan administration approach, which has been indicated, the administrative appointment of a CFO and the establishment of an administrative CFO Council, was a start. The Bush administration had added to that a five-point program which included improving accounting standards, systems standards, agency financial systems, central agency data bases, and audited financial statements.

But the bill, when it came, was a surprise to at least the OMB leadership. It had been passed in the waning nights, if you will, of the 101st Congress. The OMB leadership did welcome the act. I think with Mr. Mazur's appointment they secured an outstanding team to lead the Office of Federal Financial Management. They were fully supportive of the plans and programs that OFFM put forth to implement the act, and they continued that support.

However, in Congress, the House Appropriations Committee, in the year following implementation of the act, actually sought a rider to appropriations language to bar the expenditure of any moneys to implement the act. And it took a monumental effort by OMB and those external organizations I mentioned before to get the rider defeated. To the House's credit, the rider was defeated by 350 to 60, or something like that.

Also, within the agencies, they didn't, you might say, kiss their tonsils over the act. The Assistant Secretaries for Management

were already responsible for financial management activities in the agencies, and they were not overjoyed at relinquishing authorities and responsibilities to a new position. So they lobbied Presidential personnel to also secure the appointment as the agency CFO.

This is not an issue of the problem of giving both jobs, the Assistant Secretary for Management and the CFO, to one person; rather, the act specified that the CFO had to have qualifications and experience in financial management. Many of these ASMs, at that time, did not have the qualifications or the interest in financial management.

The new administration did appreciate the importance of appointing agency CFOs with extensive qualifications and experience in financial management of large organizations. While the appointments took considerable time to occur, most of the persons have been excellent choices.

About a year ago, within OFFM, we did a rack-up of the agency CFOs. We found that the average number of years of financial management experience was extensive. Several had CPA certificates, advanced degrees in public administration, law degrees, and other appropriate credentials.

As far as the question you asked the Comptroller General about the dual-hatted CFOs, in other words, the CFOs also responsible for management and administration, in my opinion, Mr. Chairman, this may not be the relevant issue.

To be effective, the CFO clearly should have responsibility and authority for accounting, financial reporting, budget formulation and execution, and financial systems. The addition of the typical Assistant Secretary for Management responsibilities, personnel, procurement, parking, can or cannot be helpful. It really depends upon the agency.

I would be more concerned that the person in the CFO position have the skills, the interest, the stature in financial management, and therefore be able and willing to address the area. I would be even more concerned if the agency CFO does not have responsibility for budget formulation or, as we have in some instances, there is an intent to remove budget formulation from his or her portfolio.

If budget formulation is continued separate, it continues the notion that actual financial and other results are less important than budget estimates. It also increases the possibility that the financial management function will not receive sufficient resources to effectuate the necessary improvements. I don't think it's a coincidence that many of the agencies that have kept the budget function separate are also agencies with poor financial management.

I also wanted to mention the CFO Council and reiterate what Ed DeSeve said before. It's in the agencies where the rubber hits the road. The improvements can only be made if the agency CFOs make them happen. The agency CFOs have to feel personally responsible for improving financial management in their agencies.

The restructuring and empowering of the CFO Council was the major step that OFFM took to further that sense of responsibility. Your recent meeting with the CFO Council also contributes to strengthening within each CFO his or her appreciation of the importance of improving the agency's financial management activities. I urge you to continue those types of activities.

In regard to financial management personnel, the quality of the financial manager can only be as good as the quality of financial management personnel. Prior to enactment of the CFO Act, agencies were frequently satisfied with generalists in financial management positions, but the act has really changed the playing field.

Developing and maintaining integrated accounting and financial management systems, preparing organization-wide financial statements, performing audits of these statements requires specialized skills. The people in the CFO organizations have to have specialized skills.

Since the luxury of hiring is likely to be limited as we move forward, significant attention must be devoted to training to provide already existing employees with specialized skills. I think a lot of this training is going to have to come from the private sector.

Financial management developments are occurring extremely rapidly, and very frequently the Government training organizations have difficulty developing training materials or obtaining knowledgeable instructors quickly enough to provide training that is timely enough for the job. Fortunately, there are a number of professional associations, universities, and even some proprietary organizations that are stepping up to the plate to provide the training.

The last issue I want to address is the audited financial statements. I understand that the committee is concerned with the large numbers of qualified and disclaimed auditors' opinions and material weaknesses. I think you are right to view those two indicators equally.

The clean or unqualified auditor's opinion is not an end in itself, which Jerry alluded to. The real value is evidence that the agency has its financial house in order and is able to process and provide reliable information. The absence of a clean opinion is evidence of the contrary. In fact, I wonder how congressional staffs can feel comfortable relying upon budget requests and other information submitted by agencies that do not have clean opinions on their financial statements.

In fact, it is possible, as the Federal Housing Administration demonstrated, to correct grossly inaccurate financial data produced by totally inadequate systems and obtain a clean opinion on a specific date and yet still continue with the inadequate system.

So it's those two things working together, the opinions and the material weaknesses, that are looked upon as evidence of a house being in order.

The situation, however, by the numbers, might not be as bad as it would look like at first. When the CFO Act was first passed in October 1990, it required Federal organizations, funds, and activities immediately to prepare and obtain independent audits of financial statements. For some, the fiscal year had already ended; for others, it was a brand new experience.

These are extremely large very diverse entities. The resources invested in accounting have not been sufficient; the cultures were not supportive. Such things as the role of representation letters, as small a matter as that, were never explained to them. Accounting standards did not exist.

So I don't think it was realistic to expect that the Federal entities would perform perfectly, which is what an unqualified opinion represents the first time around. Some of the entities could not even prepare financial statements, much less obtain an audit, and particularly an unqualified opinion.

The key thing is that there has been progress. The number of entities able to issue financial statements has grown from 3 in fiscal year 1990 to an estimated 124 for fiscal year 1994. The numbers receiving unqualified opinions has risen from 1 for fiscal year 1990 to 50 for fiscal year 1993, the last year for which audited statements have been received. This means percentages receiving unqualified opinions has risen from 33 percent to 46 percent.

The numbers and percentages of entities with no material weaknesses has also been rising. In fiscal year 1992, only 34 percent of the entities submitted financial statements with no material weaknesses. That number is up to 46 percent.

So I would say the important thing—a few important things. One is to start the process. When the act was first passed, there were three agencies that submitted audits: GSA, SSA, and Labor, and all of them had qualified opinions. Now, 5 years later, none of them have qualified opinions for activities they are able to control.

The second thing; I would like to reinforce what the Comptroller General said about the audit committees. And, actually, he didn't mention his own audit committee. The GAO is a Federal agency with an audit committee, and having had experience in both the New York City audit and knowledge of the GAO audit, the GAO audit committee has been extremely successful in helping the GAO to get the clean opinion that it has been able to get.

In conclusion, I think the committee can take comfort with the steady and effective implementation of the act. In response to your question, what can this committee do: as indicated already, continue to ask for information from the CFOs in agencies on specific aspects of the financial management function. The indicators that Ed Mazur mentioned are as good a way as any to measure progress.

Ask for financial information, the kind that would be in statements, but link it with the budget information and the performance information which is also and should also be part of the financial statement. And most important, urge your colleagues on authorizing and appropriations committees to ask for that type of information. In short, I don't think there is any substitute for effective oversight by an inquiring Congress.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Steinberg follows:]

Harold I. Steinberg
Former Deputy Controller/Acting Controller
Office of Federal Financial Management
Office of Management and Budget

Mr. Chairman, Members of the Subcommittee, I am Harold I. Steinberg, formerly Acting Controller and Deputy Controller at the Office of Federal Financial Management and previously Associate Director for Management at the Office of Management and Budget. I am pleased to provide my impressions on the implementation of the Chief Financial Officers Act, and particularly the Congress' and agencies' initial response to the Act and the progress since those early days. I will cover four points: the genesis of the CFO Act and the initial funding issue, the agency CFO structures and appointments, assuring the quality of the other financial management staffs, and the progress with audited financial statements.

GENESIS OF AND INITIAL REACTION TO THE CFO ACT

The CFO Act was not the result of a Congressional desire for reform. Nor did it grow out of an Executive Branch desire for a legislative foundation or mandate for better financial management. To the contrary, several groups external to the Federal Government, such as the American Institute of Certified Public Accountants, the Association of Government Accountants, and the National Association of State Auditors, Controllers, and Treasurers, were pointing up the lack of financial management in the Federal Government and identifying the things needed to correct the shortcoming. They prepared and issued reports, paid for infomercials, appeared on radio talk shows, communicated the problem to their members and others throughout the country and, in one instance, sponsored an all day National Press Club colloquium for Congressional and Administration leaders.

Thus, by the time of the Bush Administration, OMB had established an administratively appointed Chief Financial Officer and requested each major agency to appoint an agency CFO to represent it on a Government-wide CFO Council. It also had

established a five point program for financial management improvement. The five points were aimed at obtaining improvements in Federal accounting standards, systems functional and information standards, agency financial systems, the central agency data bases, and audited financial statements. However, although OMB and GAO worked closely with Congress in crafting legislative language, the enactment of the CFO Act in the waning nights of the 101st Congress came as a total surprise to most of those concerned with the Federal Government's financial management.

Furthermore, the early reactions to the CFO Act were varied and interesting. The House Appropriations Committee sought an appropriations rider that would bar the expenditure of monies to implement the Act. Perhaps this was due to a realization of the implications of a process that would provide not just more information, but information that reflected actual results rather than budget estimates and that was subject to the scrutiny of independent auditors. Perhaps it was an attempt by the appropriators to prevent the establishment of another participant in financial and budget operations. In any event, OMB, as well as representatives of the previously mentioned outside organizations, were able to sufficiently emphasize the need for the CFO Act such that more than 350 Members voted against the proposed funding limitations.

OMB also invested considerable time and effort in securing outstanding persons to lead the Office of Federal Financial Management, which the Act established to carry out the financial management functions of the Act. To head the office as Controller, OMB sought Ed Mazur who, as Controller of the State of Virginia, was considered one of the best of the State CFOs. I was privileged to be appointed Deputy Controller and asked to come on board even before Ed Mazur could complete the Senate confirmation process. Four outstanding Branch Chiefs were selected. Specifically, OMB recruited the Deputy State Auditor of the State of Virginia to lead the accounting and auditing function and a Big Eight

accounting firm partner who had had twenty years experience guiding the implementation of automated systems in governments and not-for-profit organizations to lead the financial systems function. It was able to head the management integrity function and the credit and cash management function with the two outstanding Senior Executives who were already serving in those positions.

I can also state that during my three plus years as Deputy and Acting Controller, there was not one financial management initiative I can recall that was proposed by OFFM but rejected by the three OMB Directors or three OMB Deputy Directors for Management who also served during that time. Indeed, they strongly encouraged us to develop and coordinate ambitious plans for implementing the Act.

AGENCY CFO STRUCTURES AND APPOINTMENTS

The enactment of the CFO Act was apparently viewed a little differently in the agencies, at least at first. The Assistant Secretaries for Management, who were already responsible for the financial management activities in their agencies, were not overjoyed with the prospect of relinquishing some authorities and responsibilities to a new position in the agency . Many lobbied Presidential Personnel to also secure the appointment as the agency CFO. I am not suggesting that placing in one person the administrative responsibilities that are normally tended to by an ASM, e. g., personnel, procurement, and the financial responsibilities tended to by a CFO is bad management. Rather, the persons already filling the ASM positions generally did not have the qualifications in financial management envisioned by the Act. Therefore, they often did not have the interest in financial management.

As a result of extensive briefings from OFFM, the new Administration recognized the importance of appointing agency CFOs who have extensive qualifications and experience in the financial management of large organizations. Although, the appointments took considerable time to complete, the persons selected were generally excellent choices. A rack-up prepared by OFFM in 1994 revealed not only several years of financial management experience for each of the agency CFOs, but also several CPA certificates, advanced degrees in public administration, and law degrees.

I would add that the question of "dual-hatted" CFOs, i. e., the CFO is also the Assistant Secretary for Management or Administration, is, in my opinion, not a relevant issue. To be effective, a CFO must have responsibility and authority for accounting and financial reporting, budget formulation, and systems. The addition of the typical ASM responsibilities and authorities, i. e., personnel and procurement, can or cannot be helpful, depending upon the agency. What is important is that the person in the CFO position have the skills, interest, and stature in financial management, and therefore be able to address the area.

On the other hand, I would be concerned with the few instances where the agency CFO does not have responsibility for budget formulation--or there is an intent to remove budget formulation from the CFO's portfolio. Maintaining a separate budget function continues the notion that actual financial and other results are less important than budget estimates. It also increases the possibility that the financial management function will not receive sufficient resources to effectuate the necessary improvements. I suspect it is not a coincidence that many of the agencies that have kept the budget function separate are also agencies with the poorest financial management.

Another player that merits attention is the CFO Council. While the law charges OMB/OFFM with driving the financial management process, it is in the agencies where the rubber hits the road. Improvements can be made in agencies only if the agency's CFO makes them happen. The agency CFOs have to feel personally responsible for the quality of financial management in their agencies.

A year ago, OMB restructured and empowered the legislatively-required CFO Council to further that sense of responsibility. The Council now elects its own leadership and sets its own agenda. It has become exceedingly active. One example is its assumption from OMB of the program to define the desired agency CFO structure. Your recent meeting with the CFO Council contributed greatly to the effort to strengthen within each CFO his or her appreciation of the importance of improving their agency's financial management. I urge you to continue these type activities.

FINANCIAL MANAGEMENT PERSONNEL

The quality of financial management in the Federal Government will be only as good as the quality of its financial management personnel. Prior to enactment of the CFO Act, agencies were frequently satisfied entrusting their financial management function to "generalists" or persons without specific financial management skills.

The Act changes the playing field. Fulfilling such requirements as developing and maintaining integrated accounting and financial management systems, preparing organization-wide financial statements, and performing financial audits requires specialized skills. A current project of the CFO Council Human Resources Committee is the

development of a paper that defines the core competencies, i. e., the specialized skills, that should exist in persons filling agency financial management positions

New people brought on board must obviously have specialized skills. However, since the luxury of hiring is likely to be limited, significant attention must be devoted to using training to provide already employed personnel with the specialized skills. I believe much of the training will have to be provided by the private sector. The financial management requirements are developing rapidly and government training organizations frequently have difficulty developing training materials or obtaining knowledgeable instructors quickly enough to provide training that is sufficiently timely. Fortunately, the professional associations, such as the Association of Government Accountants, and various proprietary organizations are demonstrating an interest in providing the training

There is one additional point I would like to make regarding balancing the need to apply specialized skills with the downsizing the Government is trying to accomplish. The IG offices have, over the years, developed considerable skills in program auditing. Program auditing requires either a generalist 's, i. e., generalized, skill or a specific type of specialized skill.

Financial auditing is another type of specialized skill, possessed in particular by individuals in certified public accounting firms. It would seem foolish, in a period of downsizing, for IG offices to give up the program auditing specialized skill in order to be able to establish the financial auditing specialized skill--considering that that skill is readily available from the certified public accounting firms. A more effective and economical approach would be to retain, not give up, the program auditing skills within the IG offices; use the certified public accounting firms for the financial audits; and use the program

auditing skills to build on findings developed by the certified public accounting firms in the financial audits.

The last issue I want to discuss is audited financial statements. I understand the Committee is concerned with the large numbers of qualified and disclaimed auditors' opinions and material weaknesses. You are right to view these two indicators equally.

First, a clean, or unqualified, auditor's opinion is not an end in itself. Its real value is as evidence that the agency has its financial house in order and is able to process and provide reliable information--and its absence is evidence of the contrary. For example, for three years running, the auditors of the Immigration and Naturalization Service Fee Accounts financial statements disclaimed an opinion on the statements due to insufficient information in the accounting records. Hopefully, the Congressional Committees that reviewed the INS budgets were concerned with the credence they could place in assertions that INS had insufficient monies to fulfill its responsibilities.

Second, it is possible, as the Federal Housing Administration has demonstrated, to exert the Herculean effort necessary to correct grossly inaccurate financial data produced by a totally inadequate system, and thereby obtain a clean opinion on a specific date, yet still continue with the inadequate system such that the following day the data are not worth the paper on which they are written.

Let me give my views on why this situation exists and try to show that the situation might not be that bad. As with most tunnels, there is light at the end. The CFO Act required, when passed in October, 1990, that several Federal organizations, funds, and activities immediately prepare and obtain independent audits of financial statements prepared on other than a budgetary basis. For some, the fiscal year had already ended.

For most, this was a brand new experience. Many, being part of the Federal Government, were extremely large entities--much larger than entities in the private sector.

Add to this situation the fact that traditionally, the resources invested in accounting systems were not sufficient, cultures had to be changed, policies had to be revised, agreements had to be reached with auditors as to thresholds for materiality, the role of representation letters had to be explained, and last, but not least, standards for accounting and reporting had to be developed, explained, and understood.

Thus, it would be inappropriate to expect that the Federal entities would perform perfectly--which is what an unqualified opinion represents--the first time around. In fact, some entities could not even prepare financial statements, much less obtain an audit , and particularly an unqualified opinion on the audit.

On the other hand, there clearly is progress. The number of entities able to issue financial statements has grown from 3 for FY 90, to 55 for FY 91, to 92 for FY 92, to 109 for FY 93, to an estimated 124 for FY 94. The numbers that received unqualified opinions has risen from 1 for FY 90, to 19 for FY 91, to 36 for FY 92, to 50 for FY 93, which is the last year for which all the statements have been received. This means that the percentages receiving unqualified opinion have been rising from 33%, to 35%, to 40%, to 46%.

The numbers and percentages of entities with no material weaknesses has also been rising. The numbers were not kept for FY 90 or FY 91. However, for FY 92, the number and percentage of entities submitting financial statements with no material weaknesses was 31 and 34%; for FY 92, it was 45 and 41%, and for FY 94, the percent of those submitted

so far is 46%--although the percentage is likely to fall as the statements that could not be completed by the required due date are received in OFFM.

Equally impressive is what we have seen with agencies that started preparing and obtaining audits of their financial statements prior to the Act: Department of Labor, Social Security Administration, and General Services Administration. At the time the Act was passed, most had qualified opinions with several qualifications. For FY 94, no opinions were qualified for matters the agencies were able to control.

The lesson is simple. Agencies that start preparing and obtaining audits of their financial statements learn about their systems, accounting, and reporting weaknesses; correct the weaknesses; and build experience preparing and auditing the statements such that they are able--typically within a few years--to issue financial statements with unqualified opinions.

CONCLUSION

In conclusion, I believe your Committee can take comfort with the steady and effective implementation of the CFO Act. I suspect you might wonder what more Congress can do. I would suggest continue asking for information from OFFM and the agency CFOs on specific aspects of the financial management function. Ask for financial information that is linked with budget and performance information. And perhaps most important, urge your colleagues on the Authorizing and Appropriations Committees to ask for the information.

In short, there is no substitute for effective oversight by an inquiring Congress.

Hearing on the Implementation of the Chief Financial Officers Act
Responses to Follow-up Questions

Submitted by Harold I. Steinberg

1. In your opinion, should the Office of Federal Financial Management (OFFM) be moved out of the Office of Management and Budget (OMB) and combined with other parts of the General Services Administration or the Office of Personnel Management, into a separate Office of Federal Management?

A. Definitely no--for at least two reasons. First management of the programs is as important, if not more important, than administrative management, i. e., management of people, property, and dollars. After all, programs are the reasons a government is established and exist. OMB's concern with allocating resources must therefore extend to the manner in which the allocated resources are expended, i. e., in accordance with the allocation request and contributing to achievement of the expected results--in other words, management of the programs. It would be counterproductive to establish a separate administrative management agency and expect it to improve management when the most important management is program management. Financial management should work in support of program management, not as a separate function.

Second, if there is a separate Office of Federal Management, than there would be two groups talking to the agencies and the messages would not necessarily be the same. Indeed they are likely to often conflict. The agencies, in turn, would play these differences off against each other.

Finally, OFFM obtains considerable leverage by using the other parts of OMB to bring about the improved financial management in the agencies The opportunity to have and use this leverage would be lost if OFFM is separated from OMB.

Incidentally, the financial management function was separated from OMB in the early 1970s and moved to GSA. It did not work effectively and was moved back to OMB in the late 1970s.

2. How would you strengthen the authority of the management side of OMB so that it can provide leadership and keep the different bureaus and departments moving in the right direction?

A The management side of OMB, in so far as it is the function of the Deputy Director for Management, already has considerable authority to keep the different bureaus and departments moving in the right direction. He is the Chairman of the three interagency councils most responsible for management in the bureaus and departments: President's Management Council, Chief Financial Officers Council, and President's Council on Integrity and Efficiency. He has three statutorally-created offices providing him support: Office of Federal Financial Management, Office of Information and Regulatory Affairs and Office of Federal Procurement Policy.

Once the aforementioned authorities and resources are in place, the major remaining ingredient needed for leadership is the quality of the individual serving as the Deputy Director of Management. I would look to the present incumbent for an example of the qualifications and attributes of an effective Deputy Director for Management. Also, the Deputy Director for Management should be directly involved in the budget review and

allocation process, and in particular bring to it the management of resources perspective. The current incumbent appears to be doing so.

3. How can we lessen the adverse effects of having leadership positions such as that of the Controller of OFFM vacant for long periods of time?

A. First, there needs to be a strong career staff, including a strong deputy, that is capable of running the function even without policy leadership.

Also, consideration could be given to amending the CFO Act to make the Controller position a career position, in OMB, equal in stature to the career Assistant Director for Budget Review position in OMB, and analogous to Treasury's Fiscal Assistant Secretary and GAO's Assistant Controller for Accounting and Information Management. These also are career positions. The American Institute of Certified Public Accountants, the Association of Government Accountants, the National Association of State Auditors, Controllers, and Treasurers, and the Financial Executives Institute reports all recommended that 1) there be a Chief Financial Officer for the government and 2) the position have a sufficient tenure to provide continuity. The Chief Financial Officers Act, as written, established two "chief financial officers" for the Government, the Deputy Director for Management and the Controller of the Office of Federal Financial Management, and made both Presidential appointees. This provided double the "clout," but eliminated the likelihood of sufficient continuity, and particularly during changes in Administrations. On the other hand, once there is a Presidentially-appointed Deputy Director for Management who is also the "chief financial officer," an effective career Controller could get all the "clout" he or she needs from his stature within OMB and from the Deputy Director for Management

4. How can we get around the problem that, as financial statements get consolidated, important details on specific bureaus or agencies get lost?

A. The benefit from the audited financial statements is not necessarily the information they contain, but rather the process of preparing them. That assures not only the accuracy of the information. It increases the awareness and thus the likely use of the information used to prepare the statements.

The above notwithstanding, it is always possible to "drill down" into a financial statement and obtain the underlying data. For example, the readers of any department's financial statement, let's say the Department of Housing and Urban Development, can request and obtain the financial statements of component bureaus, in this instance the Federal Housing Administration or the Government National Mortgage Association. The Government Management Reform Act provides the foundation for that process by requiring the Director of OMB to identify components of departments and agencies that shall be required to have their own financial statements., OMB, in conjunction with the CFO Council, has established criteria that define when it is desirable to have those separate statements. The Federal Accounting Standards Advisory Board, in its Statement of Recommended Accounting Concepts No. 2, Entity and Display, provides for instances when one or more suborganizations should prepare and issue a separate set of financial statements

5. Several witnesses at our hearings have said that agency staff need more training than they are getting. The agencies are unable to devote much resources to this. One suggestion made by witnesses is to use an organization like the Association of Government Accountants to provide

training. If you were asked to set up a training program for all agency financial management personnel, how would you do it?

A. The availability and use of the Association of Government Accountants and other training providers addresses the need to have quality training **available** for the Government's financial management personnel. It does not address the resource need. However, having resources for training is not a matter of insufficient resources in an agency; it is a matter of prioritizing. Agencies can decide whether budget appropriations remaining at the end of a fiscal year are more beneficial to expend on more equipment or on training. Likewise, they can decide whether administrative travel is more beneficial than training.

The key elements in establishing a training program for all agency financial management personnel are 1)determining the programs that need to be provided, 2) establishing a career development program for each employee in financial management, 3) assuring that there are sufficient sources for the training, and 4) providing information regarding the availability of this training.

The determination of the programs that should be provided can be developed from the Framework for Core Competencies for Financial Management Personnel in the Federal Government, developed by the Chief Financial Officers Council Human Resources Committee and the Joint Financial Management Improvement Program (JFMIP). That document lists the specific programs and other developmental activities that should be taken by persons working in financial management in the Federal Government, according to the functions in which they are serving.

The career development program for each financial management employee is basically a record keeping and counseling program that would be established within each agencies. It would require the development and maintenance of records that identify each employee's function, the training programs/activities needed to effectively perform that function, and the sources and dates for the programs/activities the employee has already taken. These records would be used by the employees' supervisors during annual employee evaluation and counseling to arrange for additional training during the coming year. Several departments already have effective career development programs. The Department of Energy is an example.

To assure the availability of sufficient sources for the desired training, the Government can probably rely on the private sector. If it is economically viable, i. e., sufficient numbers of people want and are willing to pay for training, the professional associations, academia, and for-profit organizations will develop, advertise, and provide training. The quality programs will obtain repeat attendees; the poor quality programs will not.

The above notwithstanding, the CFO Council could also establish a Financial Management Training Institute in the same manner as the President's Council on Integrity and Efficiency (PCIE) established the Inspector General Auditor Training Institute. The process the PCIE used was that one Inspector General took the responsibility to organize the effort and assigned one or two persons, primarily to handle the administrative requirements of a training academy; other IGs lent staff and provided limited seed money; OMB also allocated some seed money; space was obtained from DOD; the limited staff designed a limited number of courses; and different OIGs provided experienced personnel to teach the courses. The OIGs paid a fee for each person attending a course such that within a few years, the agencies and OMB could cease providing the seed monies and the Academy could support both the administrative needs and the development of new courses.

The final requirement, providing information regarding the availability of training, is already done by the Joint Financial Management Improvement Program. JFMIP publishes periodically a compendium of courses in Federal Government financial management that are available from government agencies and the private sector. Each course is described and information is provided regarding the length, dates, location, cost, and process for enrolling for the course.

6. If agencies contracted out work to certified public accounting firms, how would they ensure that the auditors paid adequate attention to what they considered important? If certified public accounting firms were asked to report on management assertions on, for example, internal controls or compliance with laws and regulations, these engagements would not necessarily be done under generally accepted auditing standards but under the new standards for attestation engagements. The "attestation" standards require the agency to determine what it wants examined and specify what procedures should be included in the engagement. Who should negotiate such contracts? Who should monitor them?

A. Agencies could ensure that auditors pay adequate attention to what they consider important by identifying those matters in the contract and specifying that they need to be covered during the audit. For example, if the agency wants the certified public accounting firm to audit the performance measures as well as the financial data, it can specify that requirement in the contract. Another process the agency can and should use is frequent progress meetings with the auditors during the audit. Finally, audit committees, which are addressed in the next question, can be an effective way to convey to the auditors what is important to cover during the audit and to determine their findings in these areas.

In the Federal Government, the contracting officers have a role in the negotiation and monitoring of contracts that must be provided for. That aside, the negotiation of the matters to examine and the procedures to include in an attestation engagement should be done by whomever hires the auditors, which in most cases would be the Inspector General. However, the specification of these matters should be based upon an agreement between the IG and the Chief Financial Officer. Monitoring should also be done by the IG, in conjunction with the CFO.

7. Can you tell us a little more about the benefits of having agencies set up audit committees? Has the concept worked well in the private sector?

A. The primary benefit of an audit committee in a governmental entity, as opposed to an audit committee in the private sector, is that it provides a means whereby the head of the entity can obtain independent, objective information regarding the financial status and results of his or her organization relatively quickly and easily. It also provides a vehicle for assuring the audit process is progressing expeditiously and addressing the significant issues; and that management is properly addressing financial management and other needs and problems identified by the audit.

The key consideration in a governmental audit committee, therefore, is its makeup. There are two approaches. One is to have it composed of persons external to the entity who have not only the expertise required to sit on an audit committee, but also the stature to command the attention and respect of the head of the entity. The entity head will frequently place more reliance on the views of these individuals than of his or her own staff. The General Accounting Office uses this approach

The second approach is to have the audit committee composed of senior officials in the entity, i. e., the deputy secretary, assistant secretary level, who have the knowledge and time to follow up on auditor findings and recommendations. In this instance, the leverage comes from the committee itself.

A third approach is to have insiders and outsiders. New York City used that approach successfully.

As indicated, in many respects, audit committees work differently in the government than they do in the private sector. I have enclosed with my response a booklet published by my former firm, KPMG Peat Marwick, that describes audit committees in governments.

8. Do you think any agencies should be allowed to take longer to comply with the Government Management Reform Act than others, or should all be held to the same standard? What if an agency just cannot comply? Should OMB give waivers?

A. Agencies should not be allowed to take longer to comply with the Government Management Reform Act. If an agency cannot comply, than it would not be in compliance and that should be so noted and reported. The pressure from peers and the President is likely to move that agency along much quicker than if it is given waivers from complying.

Mr. HORN. We thank you. It's a very helpful statement, and we will get to it in detail later.

I would now like to yield to the gentleman from Florida, Mr. Scarborough, if he would like to pursue the questioning of the witnesses.

Mr. SCARBOROUGH. Thank you, Mr. Chairman.

I just have a quick question or two. I would like to open it up to the panel and just ask all three of you what we could be doing to encourage the agencies to speed up implementation of the integrated financial management systems that you all have been speaking about today.

Mr. MAZUR. I'll go first. I would just like to take you back to what I said at the end of my testimony. I think there are things that you can track without a lot of effort and without spending a lot of time, as the Congress has done at times in the past, getting involved with detailed problems of agencies.

Just look to the bottom lines that have been created by OMB and really follow up on those every 6 months, or every year at least, with the agencies. Use that score card to separate the "good guys" from the "bad guys," and let the leverage of internal pressure and competition between the agencies serve your interests.

The other thing I would suggest that you do, since it has been mentioned at least three times today, is to get some leverage for yourself through an amendment to the law to require the agencies to appoint audit committees.

If you find that you have good, thoughtful people there, who are not involved with the day-to-day management of the agencies, raising questions that are typically raised by audit committees, you will gain a lot of leverage. And as they work with the agencies to purify and improve financial information over a period of time, you will gain the benefits from that.

Mr. STEINBERG. I would add, Ed had mentioned the indicators in the budget document. Even before that, though, when OMB publishes its 5-year plan, which as indicated will be out by the end of the summer, and in a separate systems report prepared by the CFO Council, there is a host of data about the quality of the systems, such things as the age of the systems, plans for upgrading them, whether or not they fully implement the standard general ledger, whether they adhere to the JFMIP requirements for core systems, whether they adhere to the internal standards.

Look at that table, and to the degree you are not satisfied with what you see, then use congressional oversight.

Mr. RISO. I would add several other things, sir. One, I would want to be satisfied on the quality of the systems plans. Compiling them in a Governmentwide report is helpful reading, but I would like to know more about the quality.

Second, I would like to intervene substantively, not Congress, but be satisfied as to the kind of monitoring that takes place. Is it day-to-day involvement in checking on whether things that are reported as happening are, in fact, happening, or are we just having our computers speaking to each other, as is the case in certain programs?

So I would like to know more about who is monitoring how, and how many people are spending time on that, and how often are op-

erating departments being evaluated in terms of their annual progress?

Finally, I would ask the question, is there a correlation between the system and the contents of the agency budget?

Mr. SCARBOROUGH. Good. Thank you.

Thank you, Mr. Chairman.

Mr. HORN. Thank you very much.

Let me pursue with you what I have pursued with other panelists and will pursue with still further panelists. To what degree should the Chief Financial Officer report directly to the head of the agency? In a few places, the CFO does not report to the head of the agency. How do you feel about that?

Let's start right down the line with Mr. Mazur.

Mr. MAZUR. I think the CFO should report directly to the head of the agency. And I would echo what Hal said, and that is that when the agency CFOs do not have budget formulation responsibilities, they need to be added. And I think, if they haven't been added on a voluntary basis, I think the Congress should speak perhaps with a stronger voice.

When you have both of those responsibilities, both for the formulation of the budget—and I realize your concerns about how far that goes in the policy development—but when you are there helping to formulate the budget, whether you have views on policy or you don't, you are there as a responsible person making sure that the information is objective and is accurate and is reliable, as those key decisions are made.

Combine that with the responsibilities for budget execution, and you really have a package, together with financial systems, that is absolutely needed if these individuals are to work the changes that the act envisioned.

Mr. HORN. Mr. Steinberg.

Mr. STEINBERG. He said it as well as I would. Definitely to the head of the agency.

Mr. HORN. OK. Mr. Riso.

Mr. RISO. For the first time in my life, I agree with Hal Steinberg.

Mr. STEINBERG. Thanks. I appreciate that.

Mr. HORN. Maybe Mr. Mazur said that since he is now in real politics, as vice president of a university.

Mr. MAZUR. Yes, you're right, sir.

Mr. HORN. You learn a lot there.

Obviously, some of you don't take quite as seriously as I do this situation of the Assistant Secretary of Management and Administration also being the CFO. Isn't there a conflict here, basically? How does a CFO who is also the Assistant Secretary for Administration go in and face up to the Secretary when they are playing all sorts of management games to get the job done?

It seems to me that there is a real fundamental difference here, because the controllership role, which is in the CFO's domain, is crucially important. I can recall my first 2 days as a university president, I called in the university controller. I said, "Look, there's a business manager and a vice president between you and me. Don't let that bother you. You see something stupid come across your desk, you walk through that door." Two weeks later, he did.

It saved me a lot of grief, whether from a headline in the L.A. Times or anything else.

And I have found a lot of chief executives who have that relationship, that combining the Chief Financial Officer with the controllership function has saved them a lot of grief, because they are outside the line of operations where, as I said earlier, to get the job done you do all sorts of things.

Mr. MAZUR. Sir, could I answer that?

Mr. HORN. Yes.

Mr. MAZUR. Respond to that, rather, in terms of the university experience which we both share. When you are the CFO, you are the person responsible for making the whole thing work, balancing demands for change with the vision that a president might have of the university or the head of an agency. So you have to facilitate change by using the resources, shifting resources, and being able to influence policy.

The Deputy CFOs, who are all career appointed individuals, should not be the forgotten persons in this mixture of people who are here working in the Federal Government to improve financial management. They are the people who stand, I think, in the role that you think of as a Controller. They are the people who are more involved with budget execution, who will make that strong independent statement, and be in a position to do so.

But that CFO has to be the person to work between the provost and student affairs, and so forth, in your model of a university, and that's a person, unless they have various components of the university, or in this case the Federal Government, under their wing, they may not be able to move change as quickly as you otherwise would have.

That's the best answer I can give.

Mr. HORN. Any additional comments anyone wants to make on that?

Mr. RISO. I would only add that when the CFO Act was passed it was an effort on the part of people who were not qualified in the financial area, although they were Assistant Secretaries, to gain the title of CFO. And the defense was, we would have a career Deputy CFO to bolster the weak or the flat spot in this person's financial background. I don't think it works.

Mr. HORN. You don't think it works?

Mr. RISO. I don't think that works, sir. The financial problems in operating agencies are significantly large, the systems improvement needs are sufficiently large that, if an Assistant Secretary for Management is going to have the title of CFO, it darn well better get a lot of his priority, irrespective of how qualified the backup staff happens to be.

Mr. HORN. And as I recall, you were in that situation yourself, so you understand what both jobs do.

Mr. RISO. Yes, and I've been a consultant to departments where that hasn't been the case, and they helped generate opportunities.

Mr. HORN. Yes. It seems to me relying on the Deputy CFO to perform the functions of the CFO is difficult, in terms of the relationship of a Deputy circumventing his superior.

Mr. RISO. If I may, sir, it's also unrealistic if you truly believe the CFO ought to have a major role in the budget formulation proc-

ess. I do agree with Ed DeSeve that the policy and the execution and the formulation lines are not as clear as people would like. But I do think, in most administrations where political appointees constitute top management, they would be uncomfortable if the primary budget function rested with a careerist, irrespective of how qualified and competent that careerist would be.

Mr. HORN. Well, I think we could agree, though, that the CFO role is to make sure the numbers there reflect reality and that they are accurate. And you cannot, it seems to me, develop a budget without the confidence that there is some basic value that will continue between fiscal years and that you are all playing from the same deck, if you will.

Mr. RISO. I agree with that.

Mr. HORN. I would assume that's the basic role, not necessarily to make the decision, the value decision, but to say, "Here are the options. Here's the data that show the cost we have spent on options one, two, and three," and that that comes in with some accuracy.

Mr. RISO. It should.

Mr. HORN. It should. Yet we still have departments that don't have the slightest idea where they are, fiscally, except they hope they don't go to jail at the end of the fiscal year. I don't know if anybody has ever been sent to jail, but there's always the threat of that. And it's a fairly good idea.

Well, is there anything else, based on this discussion, you might want to add to this? We have some questions, and in the interest of time, because I hear a vote might be coming up shortly which will cut short our morning session, we would appreciate your answering, and we will put it in the record at this point.

So, I thank the panel.

We will try to begin with panel four and see how much we can get done before the vote. Panel five will obviously go over till 2 p.m. Would panel four come forward?

Gentlemen, you might have seen, we have a tradition here, if you would stand and raise your right hands, of swearing in witnesses.

[Witnesses sworn.]

Mr. HORN. Both witnesses affirmed.

I am delighted to read your testimony and see your background, and am immensely pleased by the help that the private sector has given in the creation of this act and the implementation of this act.

So why don't we start with Mr. Buel T. Adams, the vice president and treasurer of CBI Industries, on behalf of the Financial Executives Institute.

Mr. Adams.

STATEMENTS OF BUEL T. ADAMS, VICE PRESIDENT AND TREASURER, CBI INDUSTRIES, INC., ON BEHALF OF THE FINANCIAL EXECUTIVES INSTITUTE; AND THOMAS V. FRITZ, PRESIDENT AND CHIEF EXECUTIVE OFFICER, THE PRIVATE SECTOR COUNCIL

Mr. ADAMS. Thank you, Mr. Chairman.

The Financial Executives Institute is a professional association of 14,000 Chief Financial Officers, Treasurers, and Controllers from some 8,000 companies throughout the United States and Canada.

The Committee on Government Liaison, of which I am chairman, formulates positions on economic and regulatory issues of concern to American businesses.

Mr. Chairman, FEI commends the Government Reform and Oversight Committee for its longstanding commitment to improve the financial management practices in the Federal Government. We appreciate the opportunity to present the views of the Financial Executives Institute before this subcommittee, and we are always willing to provide our technical assistance to you, the ranking minority, Congresswoman Carolyn Maloney, and your respective staffs.

As Congress begins to make the tough decisions to significantly reduce the size and scope of Government, tough decisions should also be made to dramatically improve the Government's financial management practices. Taxpayers should have the assurances that the Federal Government is not only cutting Federal spending but also spending their tax dollars efficiently. That is why Congress passed such legislation as the Chief Financial Officers Act and the Government Management Reform Act.

As you know, the CFO Act, which FEI strongly supported, was passed in 1990. The act was designed to make the Federal Government, through its agencies, function in a more efficient and businesslike manner by establishing financial standards by which to operate. The GMRA passed last year requires the Federal Government, by 1998, to produce a consolidated financial statement that will reflect the overall financial position and results of operations of the executive branch of the United States.

Given that 1998 is only 3 years away, Congress must act now to ensure that the executive branch agencies will be able to produce the timely, accurate financial statements needed to prepare the Governmentwide consolidated financial statement as required by the GMRA. Otherwise, FEI will continue to testify year after year on yet another GAO discovery of billions of taxpayer dollars being mismanaged, unaccounted for, or wasted.

Because we are concerned with the need for strong Federal financial management, and because we know, through our own experiences in the everyday business world within which we operate, the benefits that can flow from financial policies and controls properly applied, FEI has from the beginning monitored the progress Federal agencies have achieved in implementing the act and evaluated their success in meeting the objectives and spirit of the act.

Over the past 4 years, FEI has commented on the annual Federal financial management status report and 5-year plan and testified on several occasions last year during the first oversight hearings on implementation of the act. In our testimony last year we summed up the fiscal state of affairs of the Federal Government in one word, "abysmal." This year we are prepared to upgrade the rating to "woefully inadequate."

There has been progress over the past year, due in large part to the support and leadership of OMB's Deputy Director for Management, John Koskinen, but the progress is painful and agonizingly slow. Last year we testified that 11 of the 12 Commerce program agencies subject to the CFO Act could not be audited "because," in the words of the Commerce Department's Inspector General, "of the

numerous deficiencies in the present financial management systems of the reporting entities."

One year later, of the 10 Commerce Department financial statements for fiscal year 1993, only 9 could not be audited, but only 4 received unqualified opinions. Progress? Yes. Satisfactory? No.

Problems at the Defense Department are even more telling. Of the 1993 audited financial statements, no major branch of the military received an unqualified opinion; all received either a disclaimer or, worse, no opinion, due to the incomplete status of the financial statements. OMB wrote that "The audit results indicate that DOD's financial management is seriously deficient."

In its review, OMB enumerates a list of problems: major weaknesses in basic internal controls, significant instances of noncompliance with the regulations, inability to substantiate and permit auditors to verify asset balances of approximately $1 trillion. OMB concluded that DOD's problems "are of such magnitude that it will take several years for the results of DOD's initiatives to improve financial management to be evident."

Because the Financial Executives Institute believes so strongly in the importance of good Federal financial management, we think we need to do more than simply criticize from the sidelines. At the request of the Air Force, FEI's Committee on Government Liaison is advising and assisting them in applying the requirements of the CFO Act to the Air Force's specific problems, and we are prepared to work with other agencies, at their request, to the limit of our resources.

We believe such partnerings are helpful, because FEI members can transfer to the agency their business knowledge and experience in similar situations. And it provides FEI with a reality check on the magnitude of the task ahead, gives us a better appreciation for the dedication and effort of the many talented agency employees trying to make their organizations more businesslike, and may lead to recommendations from FEI in the future, or amendments to the CFO Act, designed to make it more effective and less burdensome for those attempting to implement its provisions.

In conclusion, let me say that FEI, as an organization composed of financial executives, understands the importance of timely, reliable financial information in making effective decisions, in planning for the future, and improving productivity. While we believe that many improvements during the last 4 years have been made in the way agencies of the Federal Government operate financially, there is still much to do before full implementation of the CFO Act is realized. The benefits are many, and the costs are relatively low.

Congress must hold the executive branch accountable for its financial management practices, and the taxpayers must hold Congress accountable for ensuring that substantial progress is made. The holes in Uncle Sam's pockets need to be mended before he asks the taxpayers to dig deeper into their own pockets.

Mr. Chairman, thank you for this opportunity to appear before the subcommittee this morning. I would be pleased to answer any questions.

[The prepared statement of Mr. Adams follows:]

Testimony of Buel T. Adams

Vice President & Treasurer, CBI Industries, Inc.

Good morning. My name is Buel T. Adams. I am Vice President and Treasurer of CBI Industries, Oak Brook, Illinois and Chairman of Financial Executives Institute's Committee on Government Liaison. Financial Executives Institute is a professional association of 14,000 chief financial officers, treasurers, and controllers from some 8,000 companies throughout the United States and Canada. The Committee on Government Liaison formulates positions on economic and regulatory issues of concern to American businesses.

Mr. Chairman, FEI would like to commend you the Government Reform and Oversight Committee for your longstanding commitment to improve the financial management practices in the federal government. We appreciate the opportunity to present the views of Financial Executives Institute before this Subcommittee, and we are always willing to provide our technical assistance to you, the Ranking Minority Member, Congresswoman Carolyn Maloney, and your respective staffs.

As Congress begins to make the tough decisions to significantly reduce the size and scope of government, tough decisions should also be made to dramatically improve the government's financial management practices. Taxpayers should have the assurances that the federal government is not only cutting federal spending, but also spending their tax dollars efficiently. That is why Congress passed such legislation as the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA).

As you know, the CFO Act, which FEI strongly supported, was passed in 1990. The Act was designed to make the federal government, through its agencies, function in a more efficient and business-like manner by establishing financial standards by which to operate. The GMRA, passed last year, requires the federal government, by 1998, to produce a consolidated financial statement that will reflect the overall financial position and results of operations of the executive branch of the U.S.

Given that 1998 is only three years away, Congress must act now to ensure that the executive branch agencies will be able to produce the timely, accurate financial statements needed to prepare the government-wide consolidated financial statement as required by the GMRA. Otherwise, we will continue to testify year after year on yet another GAO discovery of billions of taxpayer dollars being mismanaged, unaccounted for, and wasted.

Because we are concerned with the need for strong Federal financial management, and because we know through our experiences in the everyday business world within which we operate, the benefits that can flow from financial policies and controls properly applied, FEI has from the beginning, monitored the progress Federal agencies have achieved in implementing the Act and evaluated their success in meeting the objectives and spirit of the Act. Over the past four years, FEI has commented on the annual Federal Financial Management Status Report and Five year Plan, and testified on several occasions last year during the first oversight hearings on implementation of the Act.

In our testimony last year, we summed up the fiscal state of affairs of the Federal government in one word: "abysmal." This year we are prepared to upgrade the rating to "woefully inadequate."

There has been progress over the past year, due in large part to the support and leadership of OMB's Deputy Director for Management, John Koskinen, but the progress is painful and agonizingly slow. Last year we testified that 11 of the 12 Commerce program agencies subject to the CFO Act could not be audited, because, in the words of the Commerce Department's Inspector General, "... of the numerous deficiencies in the present financial management systems of the reporting entities." One year later, of the 20 Commerce Department financial statements for FY 1993, only nine could not be audited, but only four received unqualified opinions. Progress? Yes. Satisfactory? No.

In transmitting the Commerce financial statements to Congress, OMB noted that the FY 1993 audits, "identified serious internal control issues including weakness in the very reporting mechanisms designed to identify and report on material weakness." OMB goes on to say that, "many internal control weaknesses are in the outdated, fragmented, costly financial systems identified on OMB's High Risk List." And although Commerce is addressing these issues through its Commerce Administrative Management Systems (CAMS)-- it will not be fully implemented until sometime in FY 1998. As we discussed later, FEI continues to question the extreme length of time required to develop a new financial management system.

Problems at the Defense Department are even more telling. Of the 1993 audited financial statements, no major branch of the military received an unqualified opinion. All received either a disclaimer or worse, no opinion, due to the incomplete status of the financial statements. OMB wrote, "that the audit results indicate that DoD's financial management is seriously deficient." In its review, OMB enumerates a list of problems:

- Major weakness in basic internal controls
- Significant instances of noncompliance with regulations
- Inability to substantiate & auditors to verify asset balances of approximately $1 trillion

OMB concluded that because DoD's problems "...are of such magnitude that...it will take several years for results of DoD's initiatives to improve financial management to be evident."

Because Financial Executives Institute believes so strongly in the importance of good Federal financial management, we think we need to do more than simply criticize from the sidelines. At the request of the Air Force, FEI's Committee on Government Liaison is advising and assisting them in applying the requirements of the CFO Act to the Air Force's specific problems. And we are prepared to work with other agencies, at their request, to the limit of our resources. We believe such partnerings are helpful because FEI members can transfer to the agency their business knowledge and experience in similar situations. And it provides FEI with a "reality check" on the magnitude of the task ahead, gives us a better appreciation for the

dedication and effort of the many talented agency employees trying to make their organizations more "businesslike" and may lead to recommendations from FEI in the future for amendments to the CFO Act designed to make it more effective and less burdensome for those attempting to implement its provisions.

Mr. Chairman, I would like to conclude by summarizing FEI's comments on the 1994 Federal Financial Management Status Report and Five Year Plan. Our review focused on three areas:

1. Financial Management Infrastructure
2. Management Accountability
3. Asset Management

Financial Management Infrastructure

Our primary concern focuses on the need for strong leadership at the top levels in support of improved financial management. At the time of its publication in August, 1994, there were still eight CFO vacancies and numerous deputy CFO vacancies. Two vacancies, at Justice and Labor, dated back to the inception of the Clinton Administration.

We are pleased to note that all but one vacancy has been filled or have candidates awaiting confirmation.

Its seems to us that problems regarding the hiring and retaining qualified CFOs relate to the role they play within the agencies. Candidates for these positions have to believe that they have an important responsibility in the day-to-day management of the agencies and will not just be performing some perfunctory role. As is the case in the business environment, the agency CFO should play a much more active role in the overall budget/financial management area that appears to be contemplated.

The 1994 Status Report acknowledges weaknesses in many of the existing financial management systems: "Currently, financial management systems are not able to provide accurate, timely, internally consistent, and accessible financial data to manage the federal government at all levels. To correct this shortcoming, the federal government must establish appropriate stewardship over the data necessary to carry out fiduciary responsibilities. It must also establish the financial systems to support the stewardship over such data."

We recognize that implementing major systems upgrades is no easy task but it is one faced by virtually every major company given the current business environment and the ever-pressing need to compete globally and efficiently. This same responsibility has to be accepted at all levels of government. Systems applications have to be defined and uniformly implemented. Systems architecture has likewise to be defined so that agencies can benefit from the use of common application programs.

These objectives are well acknowledged in the 1994 Status Report which incorporated a vision statement and various forward looking plans. However, from our perspective, it appears that a significant amount of time has been consumed without achieving many "real" results. For example, the percentage of CFO agencies in compliance with the agency's department-wide information architecture standards is only 13 percent for the 804 financial management systems, and only 28 percent comply with the departments' financial data classification standards. Significant shortcomings in other system architecture standards were also evident. The report also highlighted the fact only 52 percent of the agencies' financial management systems are part of the agency integrated financial system. Furthermore, only a fraction of the 459 core system applications meet the basic standards set forth by the agency's joint internal program standards.

Given this slow progress, we suggest that consideration be given to establishing a private sector committee to both advise and assist in implementing the government-wide system objectives. Most public companies have faced similar challenges and could provide excellent insight and experience in meeting the overall system design commitments.

We have stated in the past that we have been concerned that the federal government was operating without the benefit of generally accepted accounting standards. We are pleased to see that some good progress has been made with the issuance of a "concept" statement, several "accounting standards" and guidelines for the form and content requirements of basic financial statements. We applaud this effort and urge that it be continued.

Improve Management Accountability

Management must be responsible and accountable for its actions. In a comment letter on the 1992 Status Report, we noted that, "historically, government-wide financial data on assets, liabilities, revenues, expenditures and changes in cashflows have been inconsistent, incomplete and inaccurate." Although some progress has been made since that comment letter, we still believe that there are many problems, as highlighted in the latest report. For example, in 1993, agencies reported a total of 482 pending material weaknesses in management internal controls, only 11 less that reported in 1992. Additionally, three agencies out of 23 reported that they were not in overall compliance with standards for management control under Section 2 of the Federal Manager's Financial Integrity Act (FMFIA). Six agencies reported that they were not in overall compliance with financial management systems. There were a total of 139 material non-conformances with government-wide policies. These weaknesses and systems non-conformances are as measured against compliance with Section 4 of FMFIA.

A key tenet of sound fiscal management is the reliability of financial information necessary to make financial decisions. Incomplete or unreliable financial information usually results in incomplete or unreliable financial results. For this reason the CFO Act requires annual audited financial statements of all agencies.

For the fiscal year ended September 30, 1992, 130 financial statements were prepared for the various agencies, of which 70 percent were audited as required. Only 36 financial statements received unqualified opinions and only 32 had not material weaknesses in accounting controls.

Although this level of compliance is significantly ahead of early years, it is entirely unacceptable to anyone outside of government. The government holds public companies to a much higher standard than it holds itself. If a public company disclosed that it had an "unclean" opinion, it would be scrutinized by the SEC and the media, as well as being precluded from trading on the stock exchanges until the situation was rectified.

One of FEI's major concerns is with the accuracy and reliability of financial information. We therefore believe that the aforementioned weaknesses in internal control, financial management systems, and audited financial statements require more immediate action. Accordingly, FEI supports the idea that a public oversight group within Congress be established to expedite remediation. This group might be a Joint Congressional Audit Committee charged with responsibility to review all audit reports. Audits reports which were either incomplete or contain material weaknesses would then require remediation in a prompt manner.

Asset Management

The Federal government needs to act in a manner similar to private industry when it comes to managing its assets; it must make the most efficient use of its cashflow to minimize costs and maximize benefits to the recipient parties. To that end, the 1994 Status Report highlights several plans of action necessary to achieve those objectives. Unfortunately, most of these plans are still in the design stage and therefore will require several years before they produce real economic benefits.

FEI has developed a proposal for Federal capital asset budgeting which we believe offers a simple, understandable and effective method of controlling and accounting for long-lived assets of the government. Our proposal has been reviewed on an informal basis by analysts at GAO and OMB and is regarded by them as technically feasible. We are prepared to discuss the proposal with the appropriate staff of this Committee at their convenience, with the view of ultimately producing legislation to supplement and improve the CFO Act.

Conclusion

In conclusion, let me say that FEI, as an organization composed of financial executives, understands the importance of timely reliable financial information in making effective decisions in planning for the future and improving productivity. While we believe that many improvements during the last four years have been made in the way agencies of the Federal government operate financially, there still is much to do before full implementation of the CFO Act is realized. The benefits are many and the costs are relatively low. Congress must hold the Executive branch accountable for its financial management practices, and the taxpayers must hold

Congress accountable for ensuring that substantial progress is made. The holes in Uncle Sam's pockets need to be mended before he asks the taxpayers to dig deeper into their own pockets.

Mr. Chairman, thank you for this opportunity to appear before the Subcommittee this morning. I would be pleased to answer any questions.

Mr. HORN. Thank you very much, Mr. Adams.

I now would like to hear from Thomas V. Fritz, the president and chief executive officer of the Private Sector Council, a group that has had a substantial influence on the establishment of this act.

We appreciate your continuing interest and activities of bringing together CEOs from the private sector with Government chief executives and operating officers.

Mr. Fritz.

Mr. FRITZ. Thank you, Mr. Chairman.

Good morning. I am Thomas Fritz, president and chief executive officer of the Private Sector Council. I am pleased to be with you today and hope to be helpful.

The Private Sector Council is a nonprofit, nonpartisan, public service organization dedicated to improving the productivity, efficiency, and management of the Federal Government through a cooperative sharing of knowledge between the public and private sectors.

It is supported by its members, many of the largest, finest, and most advanced corporations in the world, which provide both financial support and talented executives to serve on PSC teams, teams that work with Government on projects which are cooperatively defined but initiated by Government's senior management. Over all the years, these services have been offered and provided at absolutely no cost to the Government. We neither seek nor accept contracts or grants from Government.

We have been asked to present our views today on the progress that has been made by Federal agencies in implementing the Chief Financial Officers Act and in preparing to implement the Government Management Reform Act. Let me begin by saying that among the important responsibilities of any democratic Government to its people is that of accountability and stewardship.

Although our Constitution calls for a regular statement and account of the receipts and expenditures of all public money to be published from time to time, the financial information throughout Government has been so inadequate that credible financial reports have not been made to the American people since our country was founded over 200 years ago. At best, only a loosely fitting, pro forma report has been cobbled together by the Treasury Department, from time to time, from incompatible data into a mosaic that some sheepishly call a financial report.

It is time for the Federal Government to get on with credibly fulfilling this important responsibility. Perhaps the enactment by Congress of these two laws will bring success.

In these brief remarks I want to comment on just three points: first, the importance of financial statement audits and the audit process; second, the role and responsibilities of the Chief Financial Officers; and, third, the financial management information systems in the Federal Government.

First, a major advancement brought on by the CFO Act was a requirement for certain financial statement audits. These audits have not been easy. In more than half of the audits which have been performed, the auditors were not able to express an unqualified opinion. At those major agencies, auditors were unable to satisfy themselves as to significant financial statement issues and

therefore were unable to express an opinion, or had to qualify their audit opinion, as to the fair presentation of the agency's financial information.

The goal should be that financial statements of Government departments and agencies must receive unqualified opinions from their auditors. In the private sector, public companies that did not receive unqualified opinions would be subject to scrutiny and enforcement action by the Securities and Exchange Commission, and investors would flee.

You may ask whether there have been benefits from the audits that were required by the CFO Act? My answer is an emphatic yes! The audit process has resulted in savings from the recovery of funds due Government. It has benefited from knowledge about the magnitude of internal control and information system problems. And, third, it has benefited from clear, more accurate, and useful information about an agency's financial condition.

Financial audits have resulted in finding and collecting and correcting billions of dollars of accounting errors, mistakes, and omissions that, if unresolved, would make the information provided you in Congress and the American people useless or misleading.

Although much, much more must be done, the progress which has been made would not have been made without dedicated leadership in the OMB, in agencies' financial management, and a lot of good work by the comptroller general, the General Accounting Office, and other auditing organizations.

Second, the role of the Chief Financial Officers. The CFO Act, which created the Chief Financial Officers positions at major Federal agencies, has provided an excellent opportunity for improving our Government's financial accountability. For these improvements to occur, our Nation has enlisted a number of talented individuals with significant financial management credentials to these CFO positions.

To be effective, the CFOs are to be, and must be, important leadership positions in Government. The fact that at least 16 of the CFOs are to be Presidential appointments that are to be confirmed by the Senate shows the importance that you in Congress have placed on the CFO position.

CFOs should report to the head of the department or agency and are to have the responsibility and authority to influence and direct financial management decisions throughout the department. It is very, very important that an effective reporting relationship exist with the Secretary of the department and that proper authority and responsibility be established.

Establishing this new position in a meaningful way has been more successful in some agencies than others. Some departments have done these things successfully, and others are still sorting it out. Organizations like the CFO Council are working to create teamwork among the many agencies of Government and to encourage all departments and agencies to use the full talent of CFOs in a meaningful way.

In the private sector, a CFO is one of the most important positions in a successful corporation. That, too, is how it should be in Government. I am confident that a competent CFO, who is supported by, has access to, and has the encouragement of the depart-

ment Secretary, can do a lot to change and improve our Government so that it is more technologically advanced, smaller, more efficient, more responsible, and more effective in meeting the needs of the administration, Congress, and the American people.

Finally, financial information systems across Government are dilapidated, outdated, costly to operate, and need attention. For example, of the agencies covered by the CFO Act only about 25 percent say their systems will support producing auditable financial statements.

Good financial information systems are necessary today to provide accountability and credible management information from which to make good decisions and measure mission performance. In addition, it is estimated that more than 50 percent of the Government's financial management systems will need to be replaced or upgraded during the next 5 years, although many of these projects are undefined and unfunded at this time.

To accomplish what must be done requires strong leadership and work underway today to redesign the processes and eliminate unproductive tasks. It is encouraging to note that financial management systems improvement was designated as the most important area of emphasis by the CFO Council this year. That is as it should be. Technology, coupled with streamlined processes, have worked in the corporate world to find ways to do better with less. Our Government must do the same.

In closing, let me repeat, financial statement audits have resulted in and will continue to result in an improved Government. CFOs have serious responsibilities and should play a significant role in major agency decisions, and financial management systems must be improved and processes streamlined. Congress has a very important role in achieving these objectives. Those in the agencies responsible for achieving them need your help and support.

This concludes my prepared statement, and I would be pleased to answer any questions. Thank you.

[The prepared statement of Mr. Fritz follows:]

THOMAS V. FRITZ

PRESIDENT AND CHIEF EXECUTIVE OFFICER, THE PRIVATE SECTOR COUNCIL

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

GOOD MORNING. I AM THOMAS FRITZ, PRESIDENT AND CEO OF THE PRIVATE SECTOR COUNCIL (PSC). I AM PLEASED TO BE WITH YOU TODAY AND HOPE TO BE HELPFUL.

PSC WAS FOUNDED IN 1983 BY DAVID PACKARD AND BILL ONSTED TO ENABLE LEADING AMERICAN BUSINESSES TO ASSIST THE FEDERAL GOVERNMENT BY PROVIDING PRIVATE SECTOR KNOWLEDGE AND EXPERTISE. WE ARE A *NONPROFIT, NONPARTISAN, PUBLIC SERVICE ORGANIZATION DEDICATED TO IMPROVING THE PRODUCTIVITY, EFFICIENCY AND MANAGEMENT OF THE FEDERAL GOVERNMENT THROUGH A COOPERATIVE SHARING OF KNOWLEDGE BETWEEN THE PUBLIC AND PRIVATE SECTORS.*

PSC IS SUPPORTED BY ITS MEMBERS -- MANY OF THE LARGEST, FINEST AND MOST ADVANCED CORPORATIONS IN THE WORLD, WHICH PROVIDE BOTH FINANCIAL SUPPORT AND TALENTED EXECUTIVES TO SERVE ON PSC TEAMS, TEAMS THAT WORK WITH GOVERNMENT ON PROJECTS WHICH ARE COOPERATIVELY DEFINED, BUT INITIATED BY GOVERNMENT'S SENIOR MANAGEMENT. OVER THE YEARS THESE SERVICES HAVE BEEN OFFERED AND PROVIDED AT ABSOLUTELY NO COST TO THE GOVERNMENT. WE NEITHER SEEK NOR ACCEPT CONTRACTS OR GRANTS FROM GOVERNMENT.

FOR MORE THAN TWELVE YEARS OUR MEMBERS HAVE QUIETLY WORKED WITH, AND AT THE INVITATION OF, GOVERNMENT LEADERS TO BRING SAVINGS TO OUR NATION. DURING THAT PERIOD WE HAVE COMPLETED MORE THAN 250 PROJECTS FOR 25 FEDERAL DEPARTMENTS AND AGENCIES. WE DO NOT LOBBY, RATHER WE TAKE ACTION TO ENCOURAGE AND FACILITATE PRODUCTIVE CHANGE -- CHANGE WHICH IS RECOMMENDED BY TALENTED EXECUTIVES FROM THROUGHOUT THE PRIVATE SECTOR. ALTHOUGH AT TIMES PSC HAS TAKEN STRONG POSITIONS, FROM ITS BEGINNING, WE HAVE MAINTAINED A LOW PROFILE, BUT A STRONG COMMITMENT TO BEING HELPFUL TO, RATHER THAN JUST CRITICAL OF, THE MANAGERS OF OUR GOVERNMENT. WE BELIEVE THAT AFTER 12 YEARS WE HAVE ESTABLISHED A SOUND RECORD OF ASSISTANCE TO GOVERNMENT MANAGERS IN THEIR MASSIVE DAILY CHALLENGE TO ADVANCE GOOD GOVERNMENT.

WE HAVE BEEN ASKED TO PRESENT OUR VIEWS TODAY ON THE PROGRESS THAT HAS BEEN MADE BY FEDERAL AGENCIES IN IMPLEMENTING THE CHIEF FINANCIAL OFFICERS ACT OF 1990 AND IN PREPARING TO IMPLEMENT THE GOVERNMENT MANAGEMENT REFORM ACT OF 1994

LET ME BEGIN BY SAYING THAT AMONG THE IMPORTANT RESPONSIBILITIES OF ANY DEMOCRATIC GOVERNMENT TO ITS PEOPLE IS THAT OF ACCOUNTABILITY AND STEWARDSHIP -- REPORTING ON THE RECEIPTS, EXPENDITURES, PROGRAMS AND ACTIVITIES CONDUCTED IN THE COURSE OF GOVERNING. ALTHOUGH, ARTICLE I, SECTION 9 OF OUR CONSTITUTION CALLS FOR "... A REGULAR STATEMENT AND ACCOUNT OF THE RECEIPTS AND EXPENDITURES OF ALL PUBLIC MONEY... BE PUBLISHED FROM TIME TO TIME," FINANCIAL INFORMATION THROUGHOUT GOVERNMENT HAS BEEN SO INADEQUATE THAT CREDIBLE FINANCIAL REPORTS HAVE NOT BEEN MADE TO THE AMERICAN PEOPLE SINCE OUR COUNTRY WAS FOUNDED OVER 200 YEARS AGO. AT BEST, ONLY A LOOSE FITTING, PRO FORMA REPORT HAS BEEN COBBLED TOGETHER BY THE TREASURY DEPARTMENT FROM TIME TO TIME FROM INCOMPATIBLE DATA INTO A MOSAIC THAT SOME SHEEPISHLY CALLED A FINANCIAL REPORT. IT IS TIME FOR THE FEDERAL GOVERNMENT TO GET ON WITH CREDIBLY FULFILLING THIS IMPORTANT RESPONSIBILITY. PERHAPS, THE ENACTMENT BY CONGRESS OF THESE TWO LAWS WILL BRING SUCCESS.

IN THESE BRIEF REMARKS I WANT TO FOCUS AND COMMENT ON JUST THREE POINTS: (1) THE IMPORTANCE OF FINANCIAL STATEMENT AUDITS AND THE AUDIT PROCESS, (2) THE ROLE AND RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICERS, AND (3) THE FINANCIAL MANAGEMENT INFORMATION SYSTEMS IN THE FEDERAL GOVERNMENT.

FINANCIAL STATEMENT AUDITS

A MAJOR ADVANCEMENT BROUGHT ON BY THE CFO ACT WAS A REQUIREMENT FOR FINANCIAL STATEMENT AUDITS FOR ALL REVOLVING FUNDS, TRUST FUNDS AND COMMERCIAL OPERATIONS (E.G., GOVERNMENT INSURANCE, GOVERNMENT LOAN GUARANTEES, ETC.) OF 23 DEPARTMENTS AND AGENCIES, AND, A PILOT PROGRAM TO TEST THE VIABILITY OF PREPARING AND AUDITING FINANCIAL STATEMENTS FOR THE ENTIRE OPERATIONS OF 10 OF THE LARGEST GOVERNMENT ORGANIZATIONS (E.G., ARMY,

AIR FORCE, IRS, CUSTOMS, HUD, LABOR, AGRICULTURE, VA, ETC.). THESE AUDITS HAVE NOT BEEN EASY. THINK, IF YOU WILL, ABOUT HOW DIFFICULT IT WOULD BE TO PERFORM A FIRST-TIME AUDIT OF AN ORGANIZATION TWO OR THREE TIMES THE SIZE OF GENERAL MOTORS AFTER IT HAD BEEN IN OPERATION FOR MORE THAN 200 YEARS. IN MORE THAN HALF OF THE AUDITS WHICH HAVE BEEN PERFORMED, THE AUDITOR WERE NOT ABLE TO EXPRESS AN UNQUALIFIED OPINION. AT THOSE MAJOR AGENCIES, THE AUDITORS WERE UNABLE TO SATISFY THEMSELVES AS TO SIGNIFICANT FINANCIAL STATEMENT ISSUES AND THEREFORE WERE UNABLE TO EXPRESS AN OPINION OR HAD TO QUALIFY THEIR AUDIT OPINION AS TO THE FAIR PRESENTATION OF THE AGENCY'S FINANCIAL INFORMATION. THE GOAL SHOULD BE THAT THE FINANCIAL STATEMENTS OF GOVERNMENT DEPARTMENTS AND AGENCIES MUST RECEIVE UNQUALIFIED OPINIONS FROM THEIR AUDITORS. IN THE PRIVATE SECTOR, PUBLIC COMPANIES THAT DID NOT RECEIVE UNQUALIFIED OPINIONS WOULD BE SUBJECT TO SCRUTINY AND ENFORCEMENT ACTION BY THE SECURITIES AND EXCHANGE COMMISSION AND INVESTORS WOULD FLEE.

YOU MAY ASK WHETHER THERE HAVE BEEN BENEFITS FROM THE AUDITS THAT WERE REQUIRED BY THE CFO ACT? MY ANSWER IS AN EMPHATIC YES! WE HAVE DIRECTLY SEEN PROGRESS IN CONFRONTING SERIOUS FINANCIAL CONFUSION AND FINANCIAL MANAGEMENT WEAKNESS. THE FOCUS ON COMPLETE FINANCIAL STATEMENTS AND THE AUDIT PROCESS HAS RESULTED IN:

-- SAVINGS FROM THE RECOVERY OF FUNDS DUE THE GOVERNMENT, WHICH PREVIOUSLY LACKED ATTENTION,

-- KNOWLEDGE ABOUT THE MAGNITUDE OF INTERNAL CONTROL AND INFORMATION SYSTEMS PROBLEMS FACING THE FEDERAL GOVERNMENT, AND

-- CLEARER, MORE ACCURATE AND USEFUL INFORMATION ABOUT AN AGENCY'S FINANCIAL CONDITION.

FOR EXAMPLE, DISCLOSURE IS NOW REQUIRED FOR BILLIONS OF DOLLARS OF LIABILITIES AND POTENTIAL LOSSES TO GOVERNMENT FOR SUCH ITEMS AS ESTIMATED FUTURE

PAYMENTS TO RETIRED EMPLOYEES AND THEIR BENEFICIARIES; LIABILITIES FOR LOAN DEFAULTS AND INTEREST SUBSIDIES; LIABILITIES RELATED TO HAZARDOUS WASTE DISPOSAL AND CLEAN UP AT MILITARY INSTALLATIONS, ETC. THE FINANCIAL AUDITS HAVE ALSO RESULTED IN FINDING AND CORRECTING BILLIONS OF DOLLARS OF ACCOUNTING ERRORS, MISTAKES AND OMISSIONS THAT IF UNRESOLVED, WOULD MAKE THE INFORMATION PROVIDED TO CONGRESS AND THE AMERICAN PEOPLE USELESS OR MISLEADING.

ALTHOUGH MUCH. MUCH MORE MUST BE DONE, THE PROGRESS WHICH HAS BEEN MADE WOULD NOT HAVE BEEN MADE WITH OUT DEDICATED LEADERSHIP IN THE AGENCIES FINANCIAL MANAGEMENT AND A LOT OF GOOD WORK BY THE COMPTROLLER GENERAL, THE GENERAL ACCOUNTING OFFICE AND OTHER AUDIT ORGANIZATIONS.

ROLE OF CHIEF FINANCIAL OFFICERS

THE CFO ACT, WHICH CREATED STATUTORY FINANCIAL MANAGEMENT POSITIONS AT THE OFFICE OF MANAGEMENT AND BUDGET AND CHIEF FINANCIAL OFFICER POSITIONS AT MAJOR FEDERAL AGENCIES , HAS PROVIDED AN EXCELLENT OPPORTUNITY FOR CORRECTING THE SERIOUS FINANCIAL MANAGEMENT PROBLEMS IN THE FEDERAL GOVERNMENT AND FOR IMPROVING OUR GOVERNMENT'S FINANCIAL ACCOUNTABILITY TO CONGRESS AND ITS CITIZENS. FOR THESE IMPROVEMENTS TO OCCUR OUR NATION HAS ENLISTED A NUMBER OF TALENTED INDIVIDUALS WITH SIGNIFICANT FINANCIAL MANAGEMENT CREDENTIALS TO THESE CFO POSITIONS. AS OUTLINED IN THE CFO ACT, THESE CREDENTIALS SHOULD INCLUDE "A DEMONSTRATED ABILITY IN THE GENERAL MANAGEMENT OF AND KNOWLEDGE OF AND EXTENSIVE PRACTICAL EXPERIENCE IN FINANCIAL MANAGEMENT PRACTICES IN LARGE GOVERNMENTAL OR BUSINESS ENTITIES." TO BE EFFECTIVE THE CFOs ARE TO BE, AND MUST BE, IMPORTANT LEADERSHIP POSITIONS IN GOVERNMENT. THE CFOs SHOULD BE FULLY QUALIFIED, WITH EXPERIENCE AND STATURE WITHIN THE FINANCIAL COMMUNITY WORTHY OF A MAJOR CORPORATION. THE FACT THAT AT LEAST 16 OF THE CFOS ARE TO BE PRESIDENTIAL APPOINTMENTS THAT ARE CONFIRMED BY THE SENATE SHOWS THE IMPORTANCE YOU IN CONGRESS HAVE PLACED IN THE CFO POSITION. CFOs ARE TO REPORT TO THE HEAD OF THE DEPARTMENT OR AGENCY AND ARE TO HAVE THE RESPONSIBILITY AND AUTHORITY TO INFLUENCE AND

DIRECT FINANCIAL MANAGEMENT DECISIONS THROUGHOUT THE DEPARTMENT. IT IS VERY, VERY IMPORTANT THAT AN EFFECTIVE REPORTING RELATIONSHIP EXIST WITH THE SECRETARY OF THE DEPARTMENT AND THAT PROPER AUTHORITY AND RESPONSIBILITY BE ESTABLISHED. ESTABLISHING THIS NEW POSITION IN A MEANINGFUL WAY HAS BEEN MORE SUCCESSFUL IN SOME AGENCIES THAN OTHERS. SOME DEPARTMENTS HAVE DONE THESE THINGS SUCCESSFULLY; OTHERS ARE STILL SORTING THINGS OUT. ORGANIZATIONS LIKE THE CFO COUNCIL ARE WORKING TO CREATE TEAMWORK AMONG THE MANY AGENCIES OF GOVERNMENT AND TO ENCOURAGE ALL DEPARTMENTS AND AGENCIES TO USE THE FULL TALENT OF CFOs IN A MEANINGFUL WAY. IN THE PRIVATE SECTOR A CFO IS ONE OF THE MOST IMPORTANT POSITIONS IN A SUCCESSFUL CORPORATION. THAT, TOO, IS HOW IT SHOULD BE IN GOVERNMENT. I AM CONFIDENT THAT A COMPETENT CFO, WHO IS SUPPORTED BY, HAS ACCESS TO, AND HAS THE ENCOURAGEMENT OF THE DEPARTMENT SECRETARY CAN DO A LOT TO CHANGE AND IMPROVE OUR GOVERNMENT SO THAT IS MORE TECHNOLOGICALLY ADVANCED, SMALLER, MORE EFFICIENT, MORE RESPONSIBLE AND MORE EFFECTIVE IN MEETING THE NEEDS OF THE ADMINISTRATION, CONGRESS AND THE AMERICAN PEOPLE.

INFORMATION SYSTEMS

AND FINALLY, THE CFO ACT POINTS TO THE NEED FOR SOUND FINANCIAL INFORMATION SYSTEMS. INFORMATION SYSTEMS ACROSS GOVERNMENT ARE DILAPIDATED, OUTDATED, COSTLY TO OPERATE AND IN NEED OF ATTENTION. FOR EXAMPLE, OF THE AGENCIES COVERED BY THE CFO ACT ONLY ABOUT 25% SAY THEIR SYSTEMS WILL SUPPORT PRODUCING AUDITABLE FINANCIAL STATEMENTS AS REQUIRED BY THE GOVERNMENT MANAGEMENT REFORM ACT OF 1994. GOOD FINANCIAL MANAGEMENT SYSTEMS ARE NECESSARY TODAY TO PROVIDE ACCOUNTABILITY AND CREDIBLE MANAGEMENT INFORMATION FROM WHICH TO MAKE GOOD DECISIONS AND MEASURE MISSION PERFORMANCE. IN ADDITION, IT IS ESTIMATED THAT MORE THAN 50% OF THE GOVERNMENT'S FINANCIAL MANAGEMENT SYSTEMS WILL NEED TO BE REPLACED OR UPGRADED DURING THE NEXT 5 YEARS, ALTHOUGH MANY OF THESE PROJECTS ARE UNDEFINED AND UNFUNDED AT THIS TIME. TO ACCOMPLISH WHAT MUST BE DONE REQUIRES STRONG LEADERSHIP AND WORK UNDERWAY TODAY TO REDESIGN THE PROCESSES AND ELIMINATE UNPRODUCTIVE TASKS. IT IS ENCOURAGING TO NOTE THAT

FINANCIAL MANAGEMENT SYSTEMS IMPROVEMENT WAS DESIGNATED THE MOST IMPORTANT AREA OF EMPHASIS BY THE CFO COUNCIL THIS YEAR. THAT'S AS IT SHOULD BE! TECHNOLOGY, COUPLED WITH STREAMLINED PROCESSES, HAVE WORKED IN THE CORPORATE WORLD TO FIND WAYS TO DO BETTER WITH LESS -- OUR GOVERNMENT MUST DO THE SAME.

IN CLOSING, LET ME REPEAT -- FINANCIAL STATEMENT AUDITS HAVE RESULTED IN, AND WILL CONTINUE TO RESULT IN, AN IMPROVED GOVERNMENT; CFO'S HAVE SERIOUS RESPONSIBILITIES AND SHOULD PLAY A SIGNIFICANT ROLE IN MAJOR AGENCY DECISIONS; AND, FINANCIAL MANAGEMENT INFORMATION SYSTEMS MUST BE IMPROVED. CONGRESS HAS A VERY IMPORTANT ROLE IN ACHIEVING THESE OBJECTIVES. THOSE IN THE AGENCIES RESPONSIBLE FOR ACHIEVING THEM NEED YOUR HELP AND SUPPORT.

Mr. HORN. Well, I thank you also for that excellent statement, Mr. Fritz.

Let me ask both of you some questions. You have heard my concerns about the split role in some agencies of CFO—or the inclusive role, really, of the CFO being part of the Assistant Secretary for Management.

Give me a feel for private industry, and to what degree most chief financial officers in private industry have other nonfinancial functions, such as human resources, recruitment, development, personnel responsibilities of one sort or another, or public affairs and other things that are typical staff functions around a chief executive officer. To what extent do CFOs in the private sector have those functions attached to their responsibilities?

Mr. ADAMS. Mr. Chairman, while there are undoubtedly some individual cases in which CFOs do have some of those responsibilities, I think the more typical situation is where those administrative responsibilities are devolved upon another one or more persons, a chief administrative officer, perhaps, or some other folks.

CFO responsibilities, I think, are just so intense and important that to dilute them with other administrative type responsibilities is going to hurt the CFO's work on the financial area.

Mr. HORN. Mr. Fritz, do you want to add anything?

Mr. FRITZ. Yes. My experience has been that it varies as you look out over corporate America. Some corporations include in the CFO function far more responsibilities than others. And I would say that a great deal of it depends on the individual and the background and experience of the individual CFO.

It is very important, however, I believe, that the role and responsibility of CFOs include the three areas that were discussed by most of the speakers earlier today; that is, accounting, financial management, and information; second, budget formulation and execution; and, third, information resource management.

These three responsibilities, I believe, should be included in the CFO position. And as I said in my statement, the reporting relationship and the support that the CFO receives from the Secretary, effectively the CEO of the department, is critically important in seeing to it that the mission of the CFO and the financial interests of the Nation are properly carried out.

Mr. HORN. When you use the phrase "information resource management," what do you include in that?

Mr. FRITZ. I would include in that the development and upgrading and maintenance of financial systems, information systems, technology, to be sure that the financial data that will be used in putting together the financial information from which to make good management decisions is appropriate.

Mr. HORN. So it's really financial information resource management, or is it broader than that?

Mr. FRITZ. Well, it could be broader, but certainly the former.

Mr. HORN. Would you add anything to that, Mr. Adams?

Mr. ADAMS. No, I would agree with what Mr. Fritz said.

Mr. HORN. I noted with interest that you mentioned, Mr. Adams, the capital budgeting concept on page 5.

Mr. ADAMS. Yes.

Mr. HORN. We have held some hearings on that, as you might know, and we are very interested in that topic. And that is going to be a very difficult matter to get through the Congress, because there are various myths and nonmyths, I guess, in our way.

Tell me how private industry deals with capital budgeting, and how extensive is that throughout private industry? And what would be the basic definition of what should be included in a capital budget, and what should be excluded?

Mr. ADAMS. Well, I can only speak from my experiences, but I think they are probably typical. Usually, companies will have a capital budget which is separate from their operating budget but which does integrate with it. A capital budget will usually plan out 3 to 5 years, will attempt to identify the major capital expenditures for fixed assets, and the like, that are going to be necessary; potential acquisitions; and probably joint ventures that the company may be anticipating.

Usually, each of those expenditures gets a thorough review by the appropriate budgetary authorities, and advance approval is given for those. However, that does not give the company or the financial people the right to spend money for that. Normally, at the time the project is ready for expenditure, it will be brought up again for another review, and that will be the review that authorizes the expenditure.

So, really, a capital budget is sort of a basic initial approval. It is necessary to help the company decide where its finances are going to be several years out, but it doesn't give the authority to go ahead with a specific expenditure until that is brought up in a special authorization request.

Mr. HORN. Is there an agreed definition of the useful life of the items that are to go into a capital budget as opposed to a regular operating budget?

Mr. ADAMS. I think there is a generally agreed upon concept as to the lives of assets. Obviously, they will differ depending on the nature of the asset itself. You have, of course, the tax lives, which are at least indicative if not demonstrably required for accounting. But, generally, accountants understand how long a building will last, how long a piece of machinery will last, and so forth.

So, yes, it's not a hit-and-miss proposition. Normally, there are well understood lives.

Mr. HORN. Yes. I think it's pretty amenable to most Members of the House and Senate as to the useful life of a particular reclamation project or public works project, and so forth. Where it gets very murky is some who would say you should put a new computer system as a capital asset. Now, given the generations of computer technology evolution, some would say, "I'm not so sure that should be in there." How does industry handle that matter?

Mr. ADAMS. I think a lot of it would depend on the cost of the system. As you point out, with the evolution of computer systems, prices going down less and less, there's a certain de minimis amount above which or below which one would not want to capitalize it, regardless of the longevity of the item. And also, of course, computer systems become obsolete very quickly. So perhaps if you have a situation where a computer is only expected to last for 2 or

3 years, it may not be worth capitalizing for that short period of time.

Mr. HORN. Yes, I agree. There's no use paying it off 10 years later when it hasn't been around for 7.

Do you want to add anything to that, Mr. Fritz?

Mr. FRITZ. I have nothing further to add to Mr. Adams' comments.

Mr. HORN. I noticed with interest, Mr. Adams, that you stated charitably, with reference to the Federal Government, that the fiscal state of affairs is "abysmal," and you would upgrade the rating maybe to "woefully inadequate." And you noted particularly the problems in the Department of Defense. Has the Department of Defense been offered any help by either of your groups, in terms of how to get on top of their financial management problems?

Mr. ADAMS. Well, I'm sure Mr. Fritz will speak to the Private Sector Council, but the Financial Executives Institute is, as I mentioned, working with the Air Force, at their request, to attempt to help them resolve the major issues that are facing them, as far as compliance with the act goes.

Mr. HORN. How long have you been working with the Air Force?

Mr. ADAMS. We've been working with them a little less than a year now.

Mr. HORN. To use a phrase that maybe shouldn't be used, do you see light at the end of the tunnel, working with the Air Force, that it's possible to also work beyond?

Mr. ADAMS. We're still discovering where the tunnels are, I think, is the answer. Not yet, I'd have to confess.

Mr. HORN. Now, as I understand it, a lot of the accurate records are at the base level, in terms of inventory, but those haven't been converted into financial management records, or they haven't been posted when equipment is moved to other locations. Is that what some of the problems are?

Mr. ADAMS. That is the genesis of some of the problems; that's quite true. There are many others, too.

Mr. HORN. Now, what motivated the Air Force to "get religion" in terms of Federal financial management?

Mr. ADAMS. I think it stems from the pressure, if you will, that this committee and subcommittee are putting on compliance with the CFO Act. Where there is pressure on the executive branch, the people there are going to respond. And they understand that this is a high priority of Congress, and therefore they are giving it their top priority also.

Mr. HORN. Well, is the Air Force really simply a model, a sort of demonstration project for the Department of Defense, or do they just think, if you throw one vestal virgin into the fire, we will shut up for a while? When are they going to get beyond the Air Force?

Mr. ADAMS. I honestly don't think that that was the case. I think that the Air Force, of its own accord, perhaps without consulting with DOD, did come forward and just ask for help from us. We view it as a very honest attempt to try to do what is right and pick our brains, which we are happy to do.

Mr. HORN. But you have found that it can work and that even complex organizations, which are very complex, such as the Air

Force, with hundreds of thousands of items in inventory and everything else, that they, too, can have a decent financial statement?

Mr. ADAMS. Absolutely.

Mr. HORN. It's just a matter of getting to it.

Mr. ADAMS. That's quite true, sir.

Mr. HORN. So far, what do you find have been the major problems as to why this service, in particular, did not have an adequate financial statement?

Mr. ADAMS. Well, I can't really speak to the root causes. One of their major concerns has been control over their aircraft and their weapon systems. I think, in a large sense, they don't keep track of the planes and systems once they are completed. They are sort of off the books at that point in time, because, according to the Air Force, their main purpose is to eventually be used up in combat. So, therefore, they don't keep track of the assets the way we would in private industry.

Another major concern of theirs is the contingent liabilities they may have for environmental problems. For example, at air bases, one thing we have consulted with the Air Force on is trying to help them identify and account for perhaps the cost of cleaning up the bases and the weaponsites that they have abandoned.

Mr. HORN. That's a major problem for most of the Members of Congress. As bases have been closed, property has been made available to the community. The fact is, nobody in their right mind would take that property and utilize it in the private sector unless the Department of Defense has allocated the funds to clean it up.

Mr. ADAMS. That's right.

Mr. HORN. And the fact is, one, they haven't considered it in base closure; it's off the table. No. 2, they have hardly released any property since the 1989, 1991, and 1993 rounds, and now 1995. And No. 3, they don't seem to want to release much money to clean it up.

Mr. ADAMS. That's true.

Mr. HORN. And that seems to me one hand at the Pentagon doesn't quite know what the other hand is doing; even those decisions are made in the Office of the Secretary of Defense, not at the service level.

Mr. ADAMS. I would agree with that.

Mr. HORN. Yes. I think it would be helpful—any advice the private sector wants to give this committee on the environmental question would be very welcome.

Mr. ADAMS. I think we're making strides in that area.

Mr. HORN. Is that part of your study within the Air Force?

Mr. ADAMS. Yes.

Mr. HORN. What should be done by Congress to encourage agencies to comply with the standards for management control under Section 2 of the Federal Managers Financial Integrity Act? Right now, apparently, all that happens is, OMB records the lack of compliance, often on an ongoing basis, and the increasing number of nonconformances in the Federal financial management status report, and that's it. What can we do to make them change their attitude?

Mr. ADAMS. I think one of the previous speakers spoke to the idea of identifying the good guys and the bad guys from these OMB

reports. If you have an agency which is consistently behind the curve, as far as implementation, I think that perhaps more pressure and focus ought to be placed on that specific agency.

Mr. HORN. You raise an interesting point. When I was vice chairman of the U.S. Commission on Civil Rights, I suggested at the first meeting, and we did for several years, that we establish an excellent evaluation team that went into every Federal domestic agency, and then we would hold a press conference and they would be graded A, B, C, D, and F.

There happened to be three university presidents on the Commission at that time, so we knew what grades were. And I think the highest grade, as I remember, was B for the Office of Management and Budget, then known as BOB at that point when we started, in 1969. And that did get some attention, because there were so many Cs, Ds, and Fs that finally people got a little motivated not to be on that list.

So you've given us a good reminder there of what, maybe, we need to do at the next hearing on this subject.

In your testimony, you questioned the extreme length of time agencies claim it takes to develop a new financial management system. What is the experience of the private sector in this regard, and what should we do to change this, to motivate people, to encourage them to get moving?

Mr. ADAMS. Well, when you consider that the CFO Act was passed in 1990 and we're talking now about having systems in place by 1998, that's an unconscionably long period of time in business. We couldn't live with an 8-year gap between the time we identify the problem and the time we correct it.

Mr. HORN. Without the SEC descending on you, among other Federal agencies.

Mr. ADAMS. We would be inundated by our competition long before the SEC would get to us, I'm afraid.

Mr. HORN. Yes.

Mr. ADAMS. You have asked some of the other witnesses about how your committee could—what you could do to help the implementation of the act. They all mentioned many things that we would agree with. But the one thing that was not mentioned, I think, is perhaps to put more light on this question of, why does it take so long to change systems in the Government? I mean, we do it in the private sector over 6 to 12 months. Why does it take 6 years in the Federal Government?

Perhaps the reasons—I'm sure their systems are, obviously, more complex, budgetary constraints, perhaps, that we don't have, but it would be a question of interest, I think, for the subcommittee, should you so choose to put some attention on it.

Mr. HORN. Now, to what degree is part of the problem that there are inadequate systems, inadequate processing once the system is done, simply due to a lack of resources that perhaps they haven't asked for or, if they asked, Congress hasn't provided?

Mr. ADAMS. I would have to admit, that could certainly exist. In the private sector, of course, all those decisions about resources would be made at the beginning. When the decision was made to make the systems change, we would make sure that the parties responsible had enough money, had the right talent, et cetera, on it.

But I can understand that in the Federal Government that could be one of the reasons for the delays, but we don't know.

Mr. HORN. Now, the suggestion has been made of a joint congressional audit committee. That is quite common at the State legislative levels. California has had such a committee for generations. What is your suggestion as to the makeup of that committee, and to what degree should that committee have the power to require agencies to make changes?

It would be a little difficult. They can make their lives miserable by calling them up every day, I guess. But you would still need basic resources from the legislative body, if that's the problem. If it isn't the problem, and it's just willpower, you can send in the GAO constantly, so they live there, and they get a nasty headline every few weeks. Those are the bad sanctions.

Do you have any good incentives and carrots we can wave in front of their noses?

Mr. ADAMS. I don't know that there are good and bad sanctions. The idea of a joint committee was promulgated by the Financial Executives Institute back in 1989 or 1990 when we developed our recommendations for what led to the CFO Act.

Our thought at that time was, if you could have a joint audit committee somewhat analogous to the Joint Committee on Taxation, it would elevate the question of compliance with financial management standards to an extremely high level within the legislative branch and would give more clout and authority, I think, to the mandates that were coming out of Congress.

Mr. HORN. This would, as you see it, be bicameral, in the sense it included the Senate and the House on such a joint committee.

Mr. ADAMS. Maybe bicameral. Yes, both Senate and House, both parties; right.

Mr. HORN. That's a very interesting suggestion. I think we ought to explore that.

Mr. Fritz, do you have some comments on some of this dialog going back and forth?

Mr. FRITZ. Yes, a couple of things. If I may go back to the Defense Department, the Private Sector Council was called in to assist the Army in the review of the audit work that had been performed in the very first audit of any major department or service organization that was performed by GAO under the CFO Act.

The results of that first audit were really terrible. To be fair to the Army, at that period of time they were going through Desert Storm at the same time that they were receiving an audit by GAO, and 40 percent of all of their products were shipped out of the country; maybe 80 percent of all of their usable products were shipped out of the country to deal with that conflict. Nevertheless, they did get through the audit and received just a long gig-list of problems that existed.

The Secretary of the Army called the Private Sector Council to provide some private sector help in improving the situation there. And I must say that an awful lot of progress has been made since that time by the Army in improving their financial situation.

That was done with a senior level steering group composed of both military and civilian people there, at senior levels, who really understood that it was critically important to make progress. And

they were reviewed by Congress on a number of occasions to pursue that issue, to make sure that progress was being made.

Today, I would say that the Army has done a lot of what it can do—what it can do—at the service level to improve the situation and do everything it can. But information systems there, which are at the department level control, are completely inadequate and have resulted in a disclaimer opinion.

And until those financial systems get improved, and until there is pressure brought to bear to do that, the Army—and my guess is every other service—will have a similar problem, in that they will not have the financial information that is necessary to receive an unqualified opinion.

Part of the time there was no CFO in the department. And it was kind of amazing to those in the private sector that one of the largest departments in the Government didn't have a CFO. Subsequently, of course, a CFO has been assigned, and some progress has been made in that regard. But until the systems are improved, there will not be an unqualified opinion in the Defense Department.

On the question of my experience on information systems, why does it take so long in Government? It takes a long time in the private sector also, and they are not simple things that can be implemented quickly. They do take time, and, in the private sector, senior management often becomes uncomfortable and impatient with the status of systems and new systems and further development of existing systems.

It does take time. In the Government, the procurement process has been a big inhibitor in making progress on a quick basis. In the private sector, perhaps 3 years is the life span of technology. In Government, it's 3 years to just get through the procurement process.

Mr. HORN. We're trying to simplify that, but I think you're right.

Mr. FRITZ. And I encourage you to do that.

Mr. HORN. We, unfortunately, have a vote on the floor. But if you wouldn't mind, we might submit a few questions to you in writing and at this point in the record put the questions and your answers. You have both given very fine testimony, and we appreciate what you are doing to help the Government function efficiently and effectively.

Thank you for coming.

Mr. ADAMS. Thank you for the opportunity, Mr. Chairman.

Mr. FRITZ. Thank you.

Mr. HORN. We are in recess until 2 o'clock, when panel five will be present.

[Recess.]

Mr. HORN. Gentlemen, ladies, the subcommittee will come to order.

[Witnesses sworn.]

Mr. HORN. All four witnesses have affirmed.

Let's start with Mr. Williams, the Chief Financial Officer of the Department of Agriculture.

STATEMENTS OF ANTHONY A. WILLIAMS, CHIEF FINANCIAL OFFICER, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY IRWIN TED DAVID, DEPUTY CHIEF FINANCIAL OFFICER; ALVIN TUCKER, DEPUTY CHIEF FINANCIAL OFFICER, DEPARTMENT OF DEFENSE; DENNIS J. FISCHER, CHIEF FINANCIAL OFFICER, GENERAL SERVICES ADMINISTRATION; AND BONNIE R. COHEN, ASSISTANT SECRETARY FOR POLICY, MANAGEMENT, AND BUDGET AND CHIEF FINANCIAL OFFICER, DEPARTMENT OF THE INTERIOR

Mr. WILLIAMS. Mr. Chairman, as is the custom of the committee, I would like to summarize my remarks which I have entered for the record.

Mr. HORN. All of your statements will automatically be entered in the record. We would like you to summarize your remarks in 5 minutes. One of the reasons for that is, we have a vote possibly coming up in 20 minutes. If we can go right down the line, we can at least lay the testimony down, then we can come back for questions.

Mr. WILLIAMS. Yes, Mr. Chairman, my name is Anthony Williams. I am the first separately situated CFO for the USDA. I also serve as vice chairman for legislation of the CFO Council, and, where appropriate, I would like to make a few recommendations that represent the views of the council.

I would also like to introduce at this time Ted David, who is my Deputy CFO, and I do that for one reason, because of the outstanding work that Ted does for us; but also because the Deputy CFOs are an integral part of the CFO organization. We made a conscious effort last year to include the Deputy CFOs at the highest levels of our deliberations because we believe there is no such thing as a Republican system or a Democratic system: it's either a good system or a bad system or approach.

Speaking from the agency perspective, having been at the agency on-line now for almost 2 years, financial management at the agency level is not a majestic, glorious enterprise. I have often likened it to building a bridge. As we try to build a bridge to the information age, I believe very strongly that financial management is the foundation for that bridge.

Like any bridge foundation, most of the money for building the bridge goes into the foundation, even though you often don't see the work being done. Like any civil engineering exercise, you lose a lot of people down there in the muck. It's very hot, it's sweaty, people don't know what you're doing, but it's a vital job.

Just to share with you, Mr. Chairman, a few accomplishments, a very, very few. First and foremost among them is our institution at USDA of a strategic plan and now an organization that begins building on that strategic plan and some of the important themes of it, ranging from better customer service to performance management.

The second major accomplishment involves the initial stages of what we call our financial information systems and vision. If there is one silver bullet—and it may not be as fast as a bullet; it may be a silver stagecoach—if there is one approach that can get at many of our problems from a preventive perspective, it's a good financial system, providing our decisionmakers with information

when they need it, in a way they can use it. And that's our financial information system. We plan to have this system producing the results we want by 1997. Right now, I find it on time and on budget and am very happy with the results that we are achieving.

We have instituted a pilot program in cost management, using activity-based costing to identify duplicative and redundant control procedures in one of our agencies, pointing out some significant savings; work with our nonfinancial managers in a training program to show nonfinancial managers, as they proceed through the ranks, the value of financial management, because we believe financial management is everyone's responsibility, and that, ultimately, program managers are our real financial managers; and finally, the accomplishments of the CFO Council, I think most notably our work jointly with OMB on the status report and 5-year plan this year, as well as our first ever meeting with you and other congressional leaders last week. And we thank you for that effort.

One of our major systemic problems, as you have detailed, Mr. Chairman, in your questions earlier, is in our financial statements. Lack of sufficient documentation, inconsistencies among the different agency coding structures, lack of integrated systems, all are problems that we are working to prevent. And, once again, I would refer back to our financial information strategy as our basis for approaching that huge challenge.

Another big challenge we face is our whole relationship with the component agencies, which all have their separate constituencies, their separate set of congressional relationships, if you will, and really relate to the department sometimes more as a kind of loosely held confederation or a holding company than a real organized, integrated effort.

We believe that our new organization gives us the tools, in terms of evaluating new, top financial officials in the agencies, as well as in new tools for setting organizations in the agencies to begin to address that problem. And we hope and are confident we will do so.

Just a few suggestions, Mr. Chairman. One is to demonstrate to program and policy officials the value of good financial management. Hear from people on the budget side and the appropriations process at one point or another, "Well, what is the value we're getting out of these financial statements? What is the value we're getting out of this big expenditure in financial management?"

What we want to do, and we have to find ways to do this, is to showcase savings from cost management to show that there is a return on investment and that financial management is the way to show that return.

Also, very, very important to us, and I will sum up with this, is to really make sure—and this represents the views of the CFO Council—that CFOs are at the table where decisions are being made, not just financial decisions, but decisions that relate to the productivity and the performance of the agency.

With that, Mr. Chairman, at the end of the prepared testimony, I would be happy to answer your questions.

[The prepared statement of Mr. Williams follows:]

1. INTRODUCTION

Mr. Chairman and Members of the Committee, thank you for the opportunity to report to you USDA's progress in implementing the CFO Act of 1990. With me is Irwin Ted David, USDA's Deputy Chief Financial Officer.

Recognizing the need for a top-level focus on financial management, the Department separated the Chief Financial Officer (CFO) functions from Departmental Administration and created the Office of the Chief Financial Officer (OCFO). Anthony A. Williams, the Department's first separately situated CFO, was nominated by the President and confirmed by the Senate in November of 1993. Delegations of Authority to the Office of the CFO are currently undergoing final clearance.

2. THE CFO AT USDA

The CFO's responsibilities emanate from the CFO Act, Departmental regulations, and special assignments. The CFO Act put in place a framework within which agencies devote increased attention and resources to Federal financial management. Principal among the responsibilities conferred on my office by law and assigned to it by the Department are:

- Provide financial management advice and counsel to the Secretary, Deputy Secretary, Under and Assistant Secretaries, General Officers and Agency Heads;
- Develop and set standards for financial information systems; and design, develop, operate and/or approve the design for systems which provide financial management and program performance data;
- Exercise authority for operating the central accounting system and related component systems, and direct the Financial Information Systems Vision and Strategy (FISVIS) project;
- Maintain responsibility and authority for all matters related to accounting and financial operations;
- Monitor the financial execution of the Department budget;
- Manage and operate the National Finance Center and the systems and services it provides;
- Recruit, select and train highly qualified financial management personnel;

- Designate the Comptroller of the Working Capital Fund, and establish policies related to the Fund;
- Coordinate the Department's implementation of the Government Performance and Results Act of 1993 (GPRA);
- Review and approve Department and agency financial management budgets;
- Review and approve audited agency financial statements, and prepare Department-wide financial statements;
- Approve asset management systems, cash and credit management policies and procedures, and internal control review systems to reduce the risk of waste, fraud, and abuse;
- Implement the principles of cost accounting;
- Review fees, rents, royalties and other charges for USDA services;
- Provide staff support for budget formulation, presentation, and execution services for the offices of the Secretary, Deputy Secretary and most Under and Assistant Secretaries and General Officers;
- Ensure the incorporation of generally accepted accounting principles into USDA's financial operations;
- Monitor and participate in the development of Federal accounting standards; and
- Establish Department-wide travel policy.

The CFO does not have responsibility for personnel, procurement, budget formulation, information resources management, and facilities/operations.

3. ACCOMPLISHMENTS

3.1 Laying-in the OCFO Strategic Plan

One of the first tasks undertaken by the new CFO was the development of the Department's first Strategic Plan for Financial Management. It is a bold and balanced blueprint for financial management at USDA. The Plan provides in detail the OCFO Mission and Goals. We in OCFO have defined where we are going with reorganization, in our reinvention efforts and in our service to customers.

3.2 Implementing Performance Management: the Government Performance and Results Act

The CFO coordinates implementation of strategic and performance planning in USDA. We are moving forward vigorously, assisting agencies to develop strategic plans and performance measures. USDA is a leader in the Federal Government, with seven pilot projects that demonstrate and experiment with performance measurement. By the spring of 1996, USDA plans to have strategic plans for each mission area, and to have performance measures for most appropriation accounts when the FY-1998 budget is submitted.

3.3 Reorganizing Financial Management

To fulfill our mission, accomplish the goals and address the priorities of the Department, USDA's Deputy Secretary directed that USDA's General Counsel, James Gilliland, facilitate a joint effort of our Assistant Secretary for Administration, Acting Inspector General, Department Budget Officer, and Chief Financial Officer to create a strong and vigorous role for the CFO in Department Management. Together with OMB, the recommendations of this panel have resulted in an organization that gives the CFO, for the first time, real responsibility in the areas of agency financial systems, financial management budgets, and financial organization. This is a major first step in establishing a solid infrastructure for financial management at USDA.

The OCFO has developed a new structure to carry out the responsibilities outlined in the aforementioned, already published duties and responsibilities. It proposes the following financial management activities:

- The Immediate Office of the CFO provides oversight and leadership to all Department and component agency financial management activities and operations.

- The Financial Information Systems Vision and Strategy (FISVIS) development staff is tasked with working with USDA agencies to reinvent USDA financial management systems.

- The Associate CFO for Policy, Planning and Systems provides leadership in the development and improvement of financial policy, planning and information systems.

- The Associate CFO for Operations provides leadership to the National Finance Center (NFC), oversight to the Department Working Capital Fund (WCF), budget support to the immediate Office of the Secretary, the Deputy Secretary, Under and Assistant Secretaries and to the General Officers of the Department.

3.4 Providing Quality Information and Advice: FISVIS

With Department-wide "buy-in" and support of mission agencies, the OCFO is reengineering information systems at USDA via the Department's Financial Information Vision and Strategy (FISVIS). Nearly every program or management decision made in USDA has financial implications. Timely, useful, consistent, reliable and accurate financial information, particularly when combined with programmatic information, is the bedrock of sound decision making. FISVIS envisions a single, integrated financial management information system integrating financial, budget and programmatic information and enabling policy and program officials to assess and evaluate program performance.

As of October 1, 1995, FISVIS will begin to replace existing financial information systems that are over 20 years old. The new system will enable us to reduce operating costs charged to USDA agencies, and make information more readily available.

3.5 Reinventing Procurement

The CFO led the Procurement Task Force in USDA, to review procurement regulations and make recommendations to the Secretary to improve the procurement process in USDA. The Task Force issued its report in 1994. The Task Force report provides the foundation for USDA's lead modernization project: a reinvention of its procurement systems.

3.6 Instituting Cost Management

The CFO at USDA is leading the way to development of cost management techniques, working in partnership with mission agencies to develop a consistent method for determining actual costs and a uniform policy for establishing fair fees, rents, and charges for the $2.5 billion USDA collects annually for the things of value we produce. Through cost analysis and business process analysis techniques, we are building a culture that goes beyond budget justification and appropriation-oriented reporting to inculcate the effective use of financial information.

3.7 Resuming Cross-Servicing at the National Finance Center (NFC)

The OCFO's National Finance Center (NFC) leads the Federal Government in franchising, providing financial and administrative services both internally (to USDA agencies) and externally (to other Federal Departments and Agencies). Millions of Federal dollars are saved annually through NFC's cross-servicing activities.

In 1991, the Department placed a moratorium on expansion of these services to new customers so that we could plan for and begin implementation of a system modernization effort. Much has been done and plans are in place to achieve major additional improvements. In 1995, we lifted the moratorium and began to take on new customers.

3.8 Developing Training

The OCFO has developed a training program for USDA program managers, policy staff and other non-financial managers, titled Financial Management for Non-Financial Managers. The course has been delivered to Senior Executive Service trainees and Career Development Program trainees, who have evaluated the program very highly, and will soon be delivered to Agency Heads and Administrators. In addition, the OCFO and the USDA financial management community are developing a mass training initiative and a recruitment plan for hiring, training, and retaining top quality financial management staff.

3.9 Launching a Strong Financial Management Community in USDA

The OCFO is working with financial managers throughout the Department to build a strong, unified, and proactive financial management community. We have accomplished many important first steps. In June 1994, we hosted a Financial Management Forum, broadcast live by satellite video to financial management personnel around the country. Following the Forum, we sponsored a USDA-wide Financial Management Retreat, where top USDA financial management personnel discussed and defined their roles and responsibilities, identified and prioritized the pressing financial management issues within USDA, and developed mission and vision statements for the USDA financial management community. Through these efforts we are improving communication, fostering working relationships, resolving common problems, and reducing duplicative efforts in the financial management community.

3.10 The CFO Council

The USDA CFO serves the CFO Council as its Vice-Chairman for Legislation. In this role, the CFO managed the CFO Council's statutory mandate to develop legislation effecting financial operations and organizations. In this respect the USDA CFO has:

- led the effort to develop the Council's first strategic plan;
- coordinated -- jointly with the Department of Treasury -- the Council's support for the Debt Collection Improvement Act of 1995;

- chaired the CFO Council's joint participation with OMB in the development of this year's Federal Financial Management Status Report and 5 - Year Plan: and

- arranged -- in conjunction with this Committee -- the first joint meeting of Congressional leaders and the CFO Council on financial management issues.

USDA's Deputy CFO has also assumed leadership in important Council activities. USDA is represented on a number of Council committees, with the Deputy CFO serving as a member of both the GPRA Guidelines and the Human Resources Committees. The Deputy CFO also chairs the CFOC project to simplify credit reform operations. In these various roles, the CFO and the Deputy CFO work with their colleagues and the Congress to find more productive and efficient ways to consolidate and modernize systems, improve the quality of financial data, and to strengthen management controls. The Council serves a vital role in educating the stakeholders of federal programs about the value of good financial management and its role in building a government that works better and costs less.

4. CHALLENGES

4.1 Improving Audited Financial Statements

4.1.1 Financial Statements Summary

USDA is a pilot program under the CFO Act and has had audited financial statements since 1991. The OCFO prepares USDA's Consolidated Financial Statements and facilitates the preparation of financial statements for seven USDA agencies which also produce separate financial statements. The 1994 Consolidated Financial Statements cover USDA's -- before its reorganization -- 42 agencies and offices, with annual budget authority totaling more than $67 billion and approximately $145 billion in assets. OIG audits these statements, which represent the culmination of activities performed throughout the year. The initial audits resulted in an adverse opinion for the Department.

Overall, our audit for FY '94 will result in four agencies with unqualified opinions, two agencies with qualified opinions, one agency with a disclaimer of opinion, and the Department with a disclaimer of opinion. Generally, the reasons for these conditions include:

- lack of integrated financial information systems;

- inconsistencies in coding structures among agencies; and

- lack of sufficient documentation.

4.1.2 Value of the Audit

The financial statements audit serves a vital role as an independent assessment of our underlying financial systems. However, the information in our audit reports is not timely enough to be of much value to program and policy personnel. In short, these audits have shown there is much work to be done.

We are committed to meeting the OMB due dates for audits. More importantly, we simply must provide useful, timely, accurate, consistent, and reliable financial information to our personnel in whatever context they need it. Both the USDA Inspector General (OIG) and the General Accounting Office (GAO) have reviewed our plans for financial information systems implementation and believe we are headed in the right direction.

4.2 Reengineering Financial Management Process and Systems

USDA currently maintains and operates multiple financial information systems that were developed years ago to address specific agency needs. Our current financial information systems have been criticized by the GAO and the OIG. Systems are not standardized, and information elements are not consistent (i.e., we do not have a single financial "language" in USDA). Coordination among agencies is difficult, at best, and obtaining consistent information across agency lines is time-consuming and resource intensive. Most importantly, program and policy officials do not have the information they need when they need it.

Development of the FISVIS project is currently ongoing to rectify many of these problems. FISVIS is targeted for interim completion by 1997, and for full implementation by 1998. FISVIS has achieved several significant milestones.

- Working with program agencies, the FISVIS project has developed a single "language" for financial information in USDA. Now, for example, instead of having 175 definitions for "accounting code 1010," we have one.

- The FISVIS team has produced the first USDA-wide Financial and Accounting Standards Manual, and Financial Management Information Architecture. These documents provide a uniform set of standard accounting definitions, and chart of accounts, and a USDA-wide standard general ledger.

- We have licensed and are currently installing a commercial off-the-shelf financial system (COTS) to replace many of our older systems and to provide the foundation for our USDA integrated financial information system.

The project represents a major investment of staff time and resources, and a major coordination and communication effort as agency information systems are reengineered. Staff must be trained, and resources must be found to complete the project and implement the new systems.

4.3 Streamlining Management Controls

For the last 2 years, in the Federal Managers' Financial Integrity Act (FMFIA) Report, USDA has reported to the President and Congress that the Department is not in compliance with required management (internal) control systems and procedures. Through our self-assessment processes, we have identified management control risks of at least $1 billion, including five areas defined by OMB as "high risk" for fraud, waste, and abuse. These high risk areas are the current financial information systems, the InfoShare project, food stamp trafficking, loan programs of the Rural Housing and Community Development Service and farm loans of the Consolidated Farm Services Agency. In addition, through self assessment and audits of USDA's financial statements, we have identified over 50 material weaknesses. Unfortunately, many of these weaknesses will require several years to correct. The OCFO works closely with USDA agencies to identify and correct management control weaknesses, and to instill the concept of quality assurance instead of quality control--prevention, as opposed to cure.

4.4 Internal Modernization

We are updating many of the NFC's automated application systems that are outdated and inefficiency by today's technological standards. We have identified more than 80 projects to improve service and reduce the cost of operations, and we are working with customers and users to identify techniques and activities that we can jointly undertake.

We are also working with the Modernization of Administrative Processes initiative to replace many of our older administrative systems. Additionally, we are reengineering several of our Washington-based services, such as the methods and procedures we use for audit resolution and follow-up, management controls, the Working Capital Fund, and the budget procedures for the Secretary's immediate office.

4.5 Implementing GPRA

By submission of the FY '97 budget, USDA will have to identify measurable outcome-oriented (i.e., results-oriented) performance goals for each and every activity to justify our budget submission to OMB and Congress. The required performance goals will have to be consistent with Department, mission area and agency strategic plans submitted to OMB. Between now and then, OMB will be placing more and more emphasis on outcome-oriented performance measures. We must develop those goals and plans to be ready for the 1999 budget submission.

The CFO is coordinating the implementation of strategic and performance planning in USDA. We are moving forward vigorously, assisting agencies to develop strategic plans and performance measures. We are planning development of a Department-wide Mission Statement, subject to the Secretary's guidance, to serve as a beacon for USDA mission areas and agencies.

4.6 Ensuring Top Quality Financial Management Officers

Top quality financial management leadership is as important at the agency level as it is at the Department level. Agency financial managers are responsible for the efficient operation of financial management programs and objectives in agency programs. To provide sound leadership in the agencies, linked to the OCFO, the CFO Act provided that the CFO direct, manage and or/provide policy guidance and oversight of agency financial management personnel, activities, and operations, including development of agency financial management budgets. As we in USDA move forward with implementation of reorganization plans and activities, it is vitally important that the CFO be an active participant to maintain the highest level of competence in top financial officials.

5. THE ROAD AHEAD

Overall, I believe that USDA has made significant progress in implementing the CFO Act. The leadership of USDA's Deputy Secretary, Richard Rominger, and OMB Deputy Director John Koskinen, in fashioning a strong role for the USDA CFO is a major first-step. However, we recognize that much remains to be done.

To ensure the successful implementation of the CFO Act we must:

- demonstrate to policy and program officials the value of financial management
- secure an understanding that *"financial management is everyone's responsibility"*: that program managers are our real financial managers;
- ensure that the CFO is "at the table" in major financial decision-making activities of the Department; and
- continue to make critical investments in new or improved financial systems technology in order to achieve successful right sizing of government activities.

The USDA is committed to the President's goal of achieving a government that works better and costs less. I know this committee is dedicated to this overall effort. We are building a

bridge to a new era of market discipline, cost management, customer service, and management by results. Good financial management is the foundation of this bridge.

That concludes my testimony. I will be happy to take any questions.

Hearing on the Implementation of the Chief Financial Officers Act
Response to Follow-up Questions

1. **Under the 1994 reorganization, USDA established controllers as the key financial management official at the component agencies. Currently, no controllers have been officially appointed: some agencies have designated acting controllers, others have not. Also the CFO has no formal role in hiring and evaluating these controllers. In addition, controllers do not report directly to the component agency head. How does this situation affect your ability to influence and direct financial management operations at the component agency level? Do you believe that controllers not reporting to the agency head precludes the financial management viewpoint from being represented in major decisions of the component agencies?**

A CFO should play a key role in program decision, particularly those with financial management implications – including the hiring and evaluation of each of our component agency controllers. The less access and control that the CFO has over component agency controllers, the less influence the CFO will have in standardizing and effecting a coordinated Department-wide financial management program and organization. On the matter of controllership reporting, the private sector and most Federal agencies have found that for subsidiary controllers to be effective they must report directly to the individual in charge of that business or the individual that administers that specific program. In short, a vigorous CFO role in the selection and evaluation of controllers serving at the highest levels of their respective organizations is a recipe for good, sound, financial management infrastructure.

Of course, USDA's reorganization, streamlining requirements, budget constraints, and other conditions present us with many new challenges. The fact that the controller does not report directly to the agency head is only one aspect of providing effective financial management. Notwithstanding present constraints, my objective remains one of assisting agencies in the development of the best financial management organization we can under present circumstances. We work to ensure we have effective staffs and structures in order to: assist agency policy makers and program managers in developing and maintaining a strong financial management emphasis; provide policy makers and program managers with timely and useful financial information and advice; and participate in making agency program financial management decisions.

2. **USDA is in the process of developing a department-wide, integrated financial management system and has indicated the system will be ready by 1998. As part of this effort, you have issued Department-wide financial management standards, and procured a financial management foundation system which the component agencies must comply with. Do you feel that you, as USDA CFO, have adequate authority and influence to ensure that component agencies implement financial management systems which comply with the new financial and data standards?**

I agree that the CFO should have the authority and influence necessary to ensure that component agencies implement financial management systems which comply with the new financial and data standards. Under forthcoming delegations of authority to USDA's CFO, I will have the authority to review and/or approve agency financial management plans, financial management budgets, and legislation affecting financial management resources at the agency level. This responsibility includes providing leadership, guidance, and support to agencies in identifying resources needed to improve USDA's financial management system infrastructure. While this set of responsibilities has not yet been tested, we believe it arms the CFO with the capacity adequate to accomplish these and other tasks.

I recognize the importance of having a high quality financial management system to support the improvement of operations and provide financial and related information to program and financial managers. At the same time, I recognize the need for the Department to integrate/interface component agencies financial management systems. In order to accomplish changes in the structure of USDA's financial management systems, there must be effective communication within the financial community and standardization of processes and procedures.

In fact, my office held a financial management forum, created the CFO Advisory Board, sponsored a 2-day Financial Management Systems Conference, and a number of other activities that has fostered a better understanding what is meant by a single, integrated financial system for USDA, and identifying how the Department should articulate a plan for its single, integrated financial management system. The CFO strategy reflects a new direction in understanding USDA's financial management systems and how systems collectively support Government-wide initiatives to improve financial management.

3. **If integrated financial management systems will not be complete until 1998, what interim actions are being taken to improve timeliness and accuracy of financial statements? Do you anticipate that USDA will comply with OMB's deadline for submitting 1995 financial statements?**

The Office of the Chief Financial Officer (OCFO) has essentially used the same process for the past 3 years to prepare financial statements. The process has been endorsed by the Office of the Inspector General and has continued to result in improvements in the timeliness and accuracy of the Departments financial statements. Unfortunately, USDA's

problems in preparing timely financial statements are not process-based. The problems are inherent to a highly, decentralized mode of operations. USDA's financial statements are currently a culmination of seven stand-alone statements prepared from a number of stand-alone systems. Some of the systems have long-standing problems. For example, the systems are not integrated and information needs to be manually manipulated. Manual intervention increases the risk of error, time required to prepare statements, and the need for audit adjustments. Until the Department has a single, integrated financial management system, timeliness of financial statements will be an issue.

In addition, many of USDA's agencies are still adjusting to the continuing ramifications of USDA's overall reorganization. That is, the impact of the reorganization on the resources needed to prepare financial statements in a timely manner is unknown at this time. We have set a goal of March 1, 1996 for all of the FY '95 financial statement components. While we may not reach this date, we will still show significant progress over our performance for FY '94 performance.

4. **The CFO Act assigns the CFO with responsibility for the development and reporting of cost information and the systematic measurement of performance. USDA currently does not have an effective system to provide program managers with cost information needed for measuring and reporting performance. What is being done to ensure that program managers receive adequate information on the costs of providing their services or products? What initiatives are underway to develop performance measures and what other actions need to be taken?**

USDA is currently moving forward with the implementation of performance measurement under the CFO Act and GPRA. The OCFO is in the process of analyzing performance measures information reported from a variety of sources such as OMB's Spring Review and the GPRA pilot projects. These analyses will be used as feedback to USDA agencies to improve their performance measures processes.

Moreover, OCFO has been conducting meetings with policy officials and program managers within the Department to enhance their understanding of the need for, and the progress made in the area of cost information regarding their products and services. These individuals will coordinate their work with the rest of the Department, including other USDA projects that are already underway. One such project involves the use of Activity Based Costing in the identification of management control costs in the Rural Economic and Community Development mission area. The project resulted in the Rural Economic and Community Development Agency (RECD) being able to look at the costs of its management control, considering steps to streamline and reengineer the process the process. This was made possible by the identification of the cost of performing each type of activity involved.

5. **If agencies contracted out work to certified public accounting firms, how would they ensure that the auditors paid adequate attention to what they considered important?**

There are at least two ways for an agency to ensure that a certified public accounting firm pays attention to what the agency considers important. First, the agency's contracting officer negotiates and develops the contract for reporting on management assertions concerning internal controls and/or compliance with applicable laws and regulations. The contracting officer relies on one or more agency subject-matter specialists to provide suitable requirements and other input that the contracting officer needs to develop the contract. For instance, the scope of work (including applicable standards), contract deliverables, milestones, due dates, and so on that are specified in the contract should be furnished by one or more subject-matter specialists.

Second, a contract normally contains provisions for the agency to review the products or services provided to ensure that all applicable contract provisions have been met prior to payment. In this case, it is up to the agency's contracting officer or contracting officer's representative (subject-matter specialist) to monitor the contract. The contracting officer can direct that corrective action be taken, as warranted, and refuse to pay the certified public accounting firm until the firm has met all of the requirements specified by the agency's contracting officer.

Mr. HORN. Thank you very much, Mr. Williams. We will wait until all of your colleagues have also presented their initial statements.

Next is Mr. Alvin Tucker, the Deputy Chief Financial Officer of the Department of Defense.

Welcome.

Mr. TUCKER. Thank you, Mr. Chairman.

Thank you for the opportunity to discuss with you, this afternoon, financial management in the Department of Defense. The DOD at every level today is committed to improving the quality and reliability of its financial information. We are also intent on maintaining our internal management controls and on strengthening them in those areas where they have been found deficient.

We are working hard to develop performance measures for our activities and at linking those measures to financial data, both cost data and budget data. We are dedicated to developing new and better accounting systems that, in time, will produce more reliable financial data and financial statements that can be audited. Simultaneously, we will reduce the cost of DOD's finance and accounting operations substantially.

Mr. Chairman, I believe these are the goals that your committee and the Congress had in mind when it enacted the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. We in the Department of Defense support those goals.

Secretary of Defense William Perry and DOD's Comptroller, who is also our Chief Financial Officer, Dr. John Hamre, and the rest of the department's senior leadership recognize the need for financial management reform. In our view, comprehensive financial management reform in DOD is absolutely essential to assure America's future military strength.

Let me just touch on a few things that we are doing to attain these goals. The department has embarked on an effort to standardize and modernize its accounting systems. Today, the movement of information often requires labor-intensive, error-prone efforts to reenter data manually from one system into other systems. We are working toward the effective use of electronic communications among systems in different functional areas.

Another pivotal effort is our effort to reengineer our business practices to integrate more effectively the actions of disparate DOD organizations. The result will be procedures that are less complex and much less error-prone.

In addition, the Defense Finance and Accounting Service has been charged with the task of streamlining DOD's financial management systems. In this role, DFAS already has become a key agent of change. For example, 2 years ago DFAS had 11 separate military payroll systems; today we operate only 3. For civilian payroll systems DFAS inherited 18; we now are down to only 2.

Mr. Chairman, as a result of problems identified in past audits of DOD's financial statements, as well as other problems disclosed by the closest scrutiny engendered by the CFO Act, the department has 11 initiatives directed at improving internal control and accounting deficiencies. I will not elaborate on all 11, but I will hit a few of the highlights.

First was the establishment of the Senior Financial Management Oversight Council. This council, chaired by the Deputy Secretary of Defense and attended by the Secretaries of the Military Departments, meets on a regular basis, generally monthly, to address existing and emerging financial management weaknesses and deficiencies and to approve plans for proactive solutions.

Another one is, we have established a new policy to stop expenditures for accounts in deficit. On March 31, 1994, the CFO of the Department of Defense, Dr. Hamre, issued explicit guidance to cease the disbursement of funds when such disbursements would be in excess of available balances. This policy is consistent with the provisions of the Antideficiency Act and assures minimum standards of sound financial management.

Dr. Hamre has also established an Acquisition and Financial Management Panel to identify and develop a course of action to correct the systemic problems that cause problem disbursements. The panel is co-chaired by Dr. Hamre and the Principal Deputy Under Secretary of Defense for Acquisition and Technology. The purpose of the panel is to design and oversee a long-term solution to the problems of unmatched disbursements and the lack of connectivity between financial and acquisition systems.

Mr. Chairman, the department now has 4 years' experience with the attempt to produce auditable financial statements, and the effort has proven what all parties knew at the outset, that DOD's accounting systems cannot yet produce financial statements that meet the standards required for audit.

Nevertheless, the attempt has been useful. We have uncovered problems of which we were not fully aware. It has highlighted the importance of solving long-standing problems, such as problem disbursements, which must be overcome before an audit can be successful. It has shown us internal control problems in maintaining proper documentation for accounting adjustments.

It has shown all of us, the military services, the DODIG, and the GAO how difficult and time-consuming it will be to redesign and reconfigure our accounting systems, but we will not let these difficulties we are experiencing overwhelm our efforts to implement the act. We will continue working on performance measures, on accounting standards, and on making costs more visible, as well as toward the goal of auditable financial statements.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Tucker follows:]

STATEMENT OF ALVIN TUCKER

DEPUTY CHIEF FINANCIAL OFFICER

DEPARTMENT OF DEFENSE

BEFORE THE

HOUSE GOVERNMENT REFORM AND OVERSIGHT COMMITTEE

SUBCOMMITTEE ON GOVERNMENT INFORMATION AND TECHNOLOGY

JULY 25. 1995

Mr. Chairman and members of the Committee:

Thank you for the opportunity to discuss with you this morning financial management in the Department of Defense (DoD).

The DoD at every level today is committed to improving the quality and reliability of its financial information. We are also intent on maintaining our internal management controls and on strengthening them in those areas where they have been found deficient. We are working hard to develop performance measures for our activities and at linking those measures to financial data, both cost data and budget data. We are dedicated to developing new and better accounting systems that, in time, will produce more reliable financial data and financial statements that can be audited and we plan to reduce the costs of DoD's finance and accounting operations substantially.

Secretary of Defense William Perry, DoD Comptroller John Hamre, and the rest of the Department's senior leadership recognize the need for financial management reform. Comprehensive financial management reform is absolutely essential to assure America's future military strength. Because of scarce resources, we cannot accept anything less than streamlined and highly effective financial management.

Mr. Chairman, these are the same goals that you, your committee, and the congress, had in mind when it enacted the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. We in the Department of Defense believe we have been in the vanguard of the effort to implement the both Acts throughout the Federal Government.

Mr. Chairman, the Department's agenda for financial management includes meeting Congressional requirements--and much more. These Acts have helped us define the standards by which to measure progress and to identify specific deficiencies. Compliance--with these and other statutory requirements--is a major motivation for reform, but our goals reach well beyond that.

ACTIONS UNDERWAY

In short, Mr. Chairman, the DoD supports the CFO Act and has undertaken bold and innovative steps to achieve the goals of the Act.

Let me briefly touch on a few of those steps.

Standardize data, definition and concepts. In 1991 the Department consolidated its finance and accounting operations into a single agency--the Defense Finance and Accounting Service, commonly called the DFAS. The Department, through the DFAS, has embarked on an effort to standardize and modernize its accounting systems. Some of our biggest problems today are caused by the inability of our automated systems to communicate effectively with each other. I am not referring only to financial systems, but to a lack of communication among all the systems required to establish reliable departmental financial information. Today, the movement of

information often requires labor intensive, error prone efforts to re-enter data manually from one system into other systems. We are working toward the effective use of electronic communications among systems in different functional areas, such as between personnel and payroll systems, financial and acquisition systems, financial and logistics systems, and financial and property systems.

Re-engineer DoD business/organizational practices. The main reason why DoD financial management reform is so difficult is that this Department consists of numerous stovepipe organizations, traditionally each with a unique and incompatible management system. These systems were designed to report information vertically up through a chain of command, not horizontally across to other DoD organization. A pivotal part of our reform is to re-engineer our business practices to integrate more effectively the actions of these disparate DoD organizations. The result will be procedures that are less complex and much less error prone.

Comply with statutory requirements. Our current financial management systems may be inefficient and redundant, but we have to make them work better while we are in the process of changes. We must implement and comply with statutes --and we have been making progress. The DoD Comptroller also has acted aggressively to streamline the investigation of potential violations of the Antideficiency Act and to cease further expenditures for any accounts that appear deficient.

Consolidate and revamp DoD finance and accounting systems. The establishment of the Defense Finance and Accounting Service was a giant step forward in the task of streamlining DoD's financial management systems. And the DFAS really has become a pivotal agent of change for

financial management. For example, two years ago we had 11 separate military payroll systems; today we operate only 3. For civilian payroll systems, we inherited 18, and now we are down to only two.

Practice candor and engender confidence. Mr. Chairman, this Department historically may have been defensive when challenged about financial mismanagement. However, my superiors and I believe that candor is essential to convincing you in the Congress and the American people that we are serious about effecting financial management reform.

Let me assure you that full compliance with the CFO Act is the very basis of this Department's Financial Management Reform initiative. From its initial implementation of the CFO Act in FY 1991, the Department realized that the true benefit to be derived from preparing auditable financial statements was the improvement it would drive in the quality of the underlying financial information maintained by the Department. The attainment of unqualified opinions--by independent auditors--on DoD's financial statements will lend credibility to the underlying financial information and enhance the reliability and usefulness of that information to decision makers. Consequently, the preparation of financial statements that successfully can withstand rigorous audit is a goal to which DoD's top level management are committed.

Mr. Chairman, the Department has eleven initiatives directed at improving the internal control and accounting procedural deficiencies identified in the audits of its FY 1993 and FY 1994 financial statements. Those initiatives are:

(1) Establishment of the Senior Financial Management Oversight Council. This Council, chaired by the Deputy Secretary, meets on a regular basis, generally monthly, to address

existing and emerging financial management weaknesses and deficiencies, to approve plans for proactive solutions to financial management weaknesses and deficiencies, to assign responsibility for correcting financial management problems, and to monitor progress in reforming the Department's financial management. The Council includes the Secretaries of the Military Departments, the Vice Chairman of the Joint Chiefs of Staff, the Under Secretary of Defense (Acquisition and Technology), the DoD Comptroller/Chief Financial Officer (Executive Secretary), the DoD General Counsel, the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) and the Director of the Defense Performance Review. The Inspector General, in order to avoid a conflict of interest, is not a member of the Council but serves as an observer, and at the request of the Chair, provides support to the Council. The Director, Defense Finance and Accounting Service also attends the Council meetings. Based on the subject matter being addressed at a Council meeting, other senior officials may be invited to attend Council meetings. In short, the Council provides the necessary framework and clout to focus attention on problem areas and exert pressure to make things happen.

(2) Revitalization of Efforts to Address Antideficiency Act Violations. The Department has undertaken an initiative to renew emphasis on compliance with the Antideficiency Act, and to be more proactive when potential violations of the Antideficiency Act are discovered. This initiative includes a reissuanceof the underlying directive to strengthen procedures for dealing with potential or actual violations, and to address the need to (1) establish minimum training requirements and other qualifications for personnel conducting investigations, (2) establish guidelines regarding the time frames for conducting investigations, (3) have independent investigating officers, and (4) involve senior officials throughout the process.

(3) Establishment of New Policies to Stop Expenditures for Accounts in Deficit. On March 31, 1994, the Comptroller of the Department of Defense, issued explicit guidance to cease the disbursement of funds when such disbursements would be in excess of available balances. The former practice of continuing disbursements under such conditions was inconsistent with the provisions of the Antideficiency Act and violated minimum standards of sound financial management.

(4) Implementation of Computer Security Initiatives. The Department of Defense has established a program to enforce compliance with existing security procedures at Financial Data Processing Installations and reduce the vulnerability of computer networks to intrusion. Also, existing policies and procedures are being revised and updated to eliminate ambiguities and reflect current state of the art operating procedures. There is renewed emphasis on strengthening countermeasure resources in DoD. Finally, we are creating an active fraud detection program for identification of possible individual intrusion into financial systems for illegal personal gain. This latter initiative will involve several DoD organizations and will use a methodology of matching various computer data bases of pertinent financial data to look for identified situations. Examples are civilian employees who never take leave, vendor payments matched to various government records to verify that the companies exist, and military retirees having no personnel records.

(5) Improvement of the Federal Managers' Financial Integrity Act Process. The Secretary of Defense has placed an even greater emphasis on sound internal controls and the correction of control weaknesses. Office of the Secretary of Defense (OSD) senior managers have been tasked to play a more active role in the identification, reporting and correction of internal control weaknesses. Previously, these responsibilities were primarily those of the various

individual DoD Components, and many senior OSD managers played little or no active role in this process. However, new roles and responsibilities require senior OSD managers, in addition to the DoD Components, to identify major systemic and other weakness and internal control problems within the functional area under their purview when such weaknesses or problems have not been reported by a Military Department or Component. This responsibility encompasses both those weakness or problems that may be unique to one DoD Component, as well as those that may be common to, or affect, all or multiple Components. Once such weaknesses or problems are identified, OSD managers also are responsible for requesting, and ensuring, that the affected DoD Component(s) take responsibility for reporting the weakness or problem in the DoD Annual Statement of Assurance and taking appropriate actions to eliminate the weakness or correct the problem. For those issues that impact more than one Component, applicable OSD functional managers are responsible for working with the affected DoD organizations to provide a single reporting of the systemic weakness or problem, and overseeing a joint effort to address and resolve it. The DoD FY 1994 Annual Statement of Assurance reflected this new approach.

(6) Establishment of an Acquisition Financial Management Panel. In addition to the efforts of the Defense Finance and Accounting Service, the Military Departments and the Defense Logistics Agency to reduce the current backlog of unmatched disbursements, a senior level panel, the Acquisition and Financial Management Panel, was established to identify and develop a course of action to correct the systemic problems that cause unmatched disbursements. The panel is cochaired by the DoD Comptroller and the Principal Deputy Under Secretary of Defense for Acquisition and Technology. The panel also includes the Under Secretaries of the Army, Navy and Air Force, as well as the Director of the Defense Finance and Accounting Service and the Director of the Defense Contract Management Command. The purpose of the

panel is to design, and oversee, a long-term solution to the problem of unmatched disbursements and the lack of interconnectivity between finance and acquisition systems.

Because this issue is so critical, a working group was formed by the panel to provide short-term improvement recommendations aimed at resolving the causes of unmatched disbursements. The working group has prepared a final report that identifies a strategy for implementing needed systemic improvements. One focus is on expanded use of standardized Electronic Data Interchange (EDI) transaction formats to transmit contract data between systems. This will greatly reduce manual data entry, improve timeliness, and ensure consistency between the contract administration, payment and accounting systems. Another focus is on improving the payment computation and validation process. Work already has begun on a number of high priority actions needed to resolve existing deficiencies.

(7) Reduction of Current Problem Disbursements. The Defense Finance and Accounting Service, in conjunction with the Military Departments and the Defense Logistics Agency, has established a project to reduce the current backlog of unmatched disbursements. This effort has focused not only on resolving existing unmatched transactions, but also on making improvements in existing procedures and systems to begin readdressing this problem. The project had a goal of reducing unmatched disbursements by approximately 50 percent. Through the joint efforts of all parties involved, reductions of about 41 percent have been achieved over the past 21-month period, and we are confident that further reductions will be achieved.

(8) Revitalization of the Financial Management Steering Committee. This Committee oversees the development of functional requirements, facilitates implementation of product and policy recommendations, and addresses other issues involving financial management

systems and practices outside the Defense Business Operations Fund. The Committee is chaired by the Chief Financial Officer, and includes the Assistant Secretaries for Financial Management in the Military Departments and the Defense Logistics Agency, and a senior official from the Office of the Assistant Secretary of Defense (Command, Control, communications, and Intelligence). While this Steering Committee has been in existence since 1990, it laid dormant for an extended period of time (August 1992 through March 1994) until the DoD Comptroller/Chief Financial Officer revitalized the Committee in April 1994 to address Department-wide finance and accounting issues not involving, or broader than, the Defense Business Operations Fund. The Committee has focused on such issues as compliance with internal controls, policies and procedures, the selection of non-DBOF (i.e. appropriated fund) systems and the need for a standard budget and accounting code architecture. The Department has completed and approved its standard budget and accounting code structure and will begin implementing the new coding in March 1996.

(9) Establishment of the Defense Business Operations Fund Corporate Board and Completion of the DBOF Improvement Plan. Secretary Perry directed a review of the Defense Business Operations Fund and the development of a plan to correct identified deficiencies and otherwise improve the operations of the Fund. The Defense Business Operations Fund Corporate Board was established as a result of that review. The Board monitors implementation and operation of the Fund, including policies, rates, cash flow analysis and criteria for inclusion of business areas in the Fund. The establishment of a Defense Business Operations Fund Improvement Plan also was a key output of the review, and progress against the Plan is something that the Defense Business Operations Fund Corporate Board carefully monitored. To assist it in its task, the Board established separate subcommittees to address areas such as cost reductions,

policies and performance. Each of these subcommittees was specifically tasked to bring proposed solutions to specific problems, or to provide recommendations for improvement, to the Corporate Board.

The Improvement Plan has been completed and we feel very successful in our accomplishments to date.

Procedures have been implemented to ensure that financial policies involving the Defense Business Operations Fund are reviewed and fully coordinated before being implemented. Overarching policies and reporting guidance for Defense Business Operations Fund activities have been drafted and provided to the DoD Components for comment/coordination and will be incorporated into the DoD Financial Management Regulation. As indicated above, a Special Committee for Oversight of Policy Actions has been established and is expediting review of additional Defense Business Operations Fund policies. The Committee has forwarded policy recommendations to the Corporate Board, and those recommendations have been approved.

(10) Attack on Fraudulent Actions. In recent years, the Department has been confronted with a number of fraudulent actions. In many cases, the ability of the individuals to perpetuate such fraudulent actions, and to go undetected for a period of time, has been enhanced by systems deficiencies and inadequate internal controls. However, another, and at least equally important, factor has been the individuals' knowledge of such weaknesses, and therefore, the ability to exploit those weaknesses. In each case where fraudulent actions have been discovered, the Department has reviewed the circumstances that permitted such actions, thoroughly assessed changes needed to preclude such fraud from recurring, and disseminated that information, along with direction to take specific actions, to the applicable activity, as well as other activities performing similar functions. However, we are not content simply to react to the findings of

others. We must be, and are being, proactive in both detecting fraud itself, and preventing it from occurring in the first place. Also, in conjunction with the Justice Department and others, the Department has been pursuing, and will continue to aggressively pursue, the prosecution of those who attempt to perpetuate a fraud on the Department.

(11) Reduction, Clarification and Reissuance of Policies. Numerous nonstandard financial management policies have been promulgated within the Department in the past. This condition existed because, in part at least, when the Office of the DoD Comptroller issued policy guidance, that guidance was not always widely disseminated by the various DoD Components. Instead, the DoD Components frequently interpreted the guidance and published internal implementing procedures. Too often, the Components' interpretation and implementing procedures resulted in the inconsistent application of DoD policy. In response to this situation, we have commenced an effort to issue a single DoD Financial Management Regulation that can be used on a DoD-wide basis. The regulation, which will include both policies and implementing procedures, will promulgate guidance involving the Department's appropriated funds, its Defense Business Operations Fund, as well as its other funds, and replace a myriad of existing DoD Comptroller policy guidance, clarify existing guidance where appropriate, and include additional guidance as needed. The initial stage of this effort--that is, the consolidation, clarification, and expansion (where appropriate) of DoD Comptroller policy and the Defense Financing and Accounting Service related procedural guidance is on schedule to be completed by mid 1996. Subsequent to this initial effort, and in conjunction with the resolution of Component unique system issues, separate financial management policy and procedural issuances of the DoD Components will be eliminated and incorporated into the regulation as appropriate. This effort is expected to eliminate over 70,000 pages of sometimes conflicting guidance and provide the

Department with a sound basis for achieving standard policies and procedures. To date, nine of 15 volumes are in hardcover and 5 of the remaining 6 have are in the last stages of the approval process.

The Department now has 4 years experience with the attempt to produce auditable financial statements, and the effort has proven what all parties knew at the outset--that the DoD's accounting systems cannot yet produce financial statements that meet the standards required for audit. Nevertheless, the attempt has been useful. We have uncovered problems of which we were not fully aware. It has highlighted the importance of solving long-standing problems such as problem disbursements that must be overcome before an audit can be successful. It has shown us internal control problems in maintaining proper documentation for accounting adjustments and I think it has shown all of us--the Services, the ODoDIG, and GAO--how difficult and time consuming it will be to redesign and reconfigure our accounting systems and business procedures to meet this particular goal of the CFO Act.

But, we will not let the difficulties we are experiencing in this one area of CFO Act implementation overwhelm the other efforts we are making to implement the Act. We will continue working on performance measures, on accounting standards, and on making costs more visible, as well as working toward the goal of auditable financial statements.

Thank you for your time and I will be happy to answer any questions.

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY
FOLLOW-UP QUESTIONS FOR
MR. ALVIN TUCKER, DOD DEPUTY CHIEF FINANCIAL OFFICER
FOR TESTIMONY ON JULY 25, 1995

Question 1: The GAO has reported several times on the need for greater clarity on the respective roles and responsibilities of the Military Services and the Defense Finance and Accounting Service (DFAS) for the accuracy of the services' financial statements. Presently, DFAS prepares the Services' financial statements based to a large degree on the information the services themselves produce and submit to DFAS. Under such a scenario, it becomes extremely difficult to attach ultimate accountability for the accuracy of the services' financial reporting. Yet the consistently disappointing results of audits conducted on the services' financial statements clearly pinpoint the need to establish specific accountabilities in this area.

This lack of accountability and responsibility resulted in an embarrassing moment for the Navy, as well as DFAS, when they had to go through the process of recalling their fiscal year (FY) 1993 Treasury reports because of $160 billion in obvious errors identified by the GAO while performing a review.

I understand that DFAS prepared a draft plan detailing the responsibilities between the Services and DFAS centers in November 1994. When did this draft plan become final and was it made part of DoD policy? If the plan is not yet finalized, what is causing the delay, and when will it be finalized? What has the plan done to identify and pinpoint individual accountability and responsibility for the fairness and accuracy of the Services' financial statements? Have any other actions been taken to identify and pinpoint individual accountability and responsibility for the fairness and accuracy of the Services' financial statements? Regarding the errors made on Navy's FY 1993 Treasury reports, how can such blatant mistakes be made and not detected?

Who was held accountable for the mistakes made on Navy's FY 1993 Treasury reports, Navy or DFAS? Could you please describe any disciplinary action that was taken as a result of these errors?

Answer: With respect to the penultimate paragraph of the above question, the Department is in the final stages of drafting policy which details the responsibilities between the Services and the Defense Finance and Accounting Service (DFAS). The Office of the Under Secretary of Defense (Comptroller), prepared an initial draft and distributed the draft for comments in the fall of 1994. This was followed by the distribution of a second draft for additional comments in mid-1995 (including the DoD Inspector General). Final comments now have been received from all DoD organizational entities and it is anticipated that the policy will be finalized in late calendar year 1995. This policy, will be incorporated into the "DoD Financial Management Regulation,"

and will specify the responsibilities for the preparation and issuance of DoD Component financial reports, and the review of the resulting reports to assess the accuracy and appropriate corrective action where needed. The editing and validation of original transactions and the control over these transactions as they are processed from the originator (generally the Military Services) to the DFAS are vital parts of that policy.

With respect to the errors made on the Navy's FY 1993 reports to the Treasury Department, those reports were developed and transmitted manually. The feeder reports were not in any standard format or unit of measure (i.e., dollars, thousands or millions). Therefore, there was difficulty encountered in compiling these feeder reports into the final report. Human errors occurred, due in part to excessive end-of-year workload. These clerical errors impacted the balance sheet, but not the statement of operation (income statement). The $160 billion in obvious errors that was referred to was the result of the inadvertent exclusion of zeros that resulted in billions being reported as millions or thousands in several instances.

With respect to accountability for the mistakes made on the Navy's FY 1993 Treasury reports, no government properties/moneys were lost and no fraud was involved. No one, specifically, was identified as being responsible for differences in reports resulting from human error. However, as an added precaution against future incidents of this type, management reemphasized the requirement to double check feeder and final reports at each stage.

With respect to disciplinary action, since no government properties/moneys were lost and no fraud was involved, no disciplinary action was taken. However, the DFAS did implement new desk procedures and reemphasized management oversight responsibilities to preclude a recurrence of this situation.

Question 2: An essential element necessary to meet the goals of the CFO Act is the preparation of audited agency-wide financial statements. GAO testimony and other information indicates that DoD's progress toward producing auditable financial statements has been far less than that of most government agencies. This is ironic because DoD organizations were among the first in government to voluntarily prepare and subject financial statements to the scrutiny of a financial audit. Specifically, the Air Force has had its financial statements audited every year since fiscal year 1988. That audit, and virtually all subsequent audits of DoD entities have resulted in qualified, adverse, or disclaimers of opinions because of the unreliability of the reported financial data. Why has so little progress been made in preparing auditable financial statements over the past seven years? Will DoD be able to comply with these new requirements? If not, what year can we realistically expect a reliable financial statement from any of the Military Services?

Answer: With respect to the concern about progress over prior years, while considerable effort has been expended by the Department to prepare accurate and timely financial statements, the systems used to generate the information for those financial statements were not designed for

that purpose and simply are inadequate. These systems problems remain a serious challenge to the Department and realistically will require a number of years to correct.

With regard to compliance, we do not expect that the Department will be able, within the next two years, to comply with the requirements of the CFO Act for the preparation of auditable financial statements. The overarching problem that prevents a qualified or unqualified opinion on the financial statements of the Military Services is the lack of an integrated general ledger or account oriented transaction files in. the accounting systems that support those financial statements. The Department continues to work on the integration of accounting systems and "non-financial feeder" systems (such as payroll, personnel, logistics, contracting and property) within the context of the OMB Circular A-127, which specifies that a financial system should be planned, managed and operated in an integrated fashion.

While the Department recognizes that most of its financial statements have not yet received an unqualified opinion, the Department believes that, on balance, its financial reports are reliable.

Question 3: DoD spends hundreds of millions of dollars each year on financial management system development efforts. However, DoD continues to be criticized for not providing accurate, timely information on the financial results of operations. In 1989, DoD began an effort called the Corporate Information Management (CIM) initiative, to improve its financial management and other information systems. One effort which CIM is focusing on is the consolidation of approximately 250 separate finance and accounting systems. DoD's interim strategy is to relay on data from a relatively small number of its current inventory of 250 systems. In the longer term, DoD plans to either develop new systems or improve existing systems to use as DoD-wide standard systems. However, to date, this effort has achieved very limited progress.

When will CIM be completed implemented? Since CIM was initiated in 1989, how much has been spent on system improvement initiatives? What progress has been made in selecting these accounting system? How many accounting systems is DoD planning to select to account for DoD financial management? Each DFAS Center is developing approaches to reduce the number of legacy accounting systems. Have you reviewed the plans and do you agree with the approaches?

Answer: The DFAS now is overseeing implementation of the CIM vision. Implementing procedures are being issued by the DFAS to support the process models, and the DFAS Centers are determining the system impacts. Once all system impacts are known, near and longer-term solutions will be identified and undertaken to complete the CIM process.

In the financial systems area, the DFAS has made significant progress toward the consolidation and standardization of finance systems and operations. It has selected and modified major finance systems for military, retired and annuitant, and civilian pay; debt management; contract

payments; and transportation payments to meet Department-wide requirements. These are being implementing as migratory systems for use throughout the Department. As a gauge of progress, in 1991, 54 finance systems were in use in these areas. By 1997, the DFAS will have reduced the number of such systems to eight, i.e., the Defense Joint Military Pay System; Marine Corps Total Force System; Defense Retiree and Annuitant Pay System, Defense Civilian Pay System, Defense Business Management System, Defense Debt Management System, Mechanization of Contract Administration Services System, and Defense Transportation Payment System.

In addition to the above listed standard migratory finance systems, standard interim migratory finance systems also have been selected for disbursing, travel, and vendor payments. As the DFAS consolidates finance and accounting operations into its Centers and Operating Locations, these interim systems will replace the finance legacy systems in use at the locations being closed. These systems migrations, which began in FY 1994, are expected to be completed by FY 1997. The interim migratory finance systems that have been selected are:

DISBURSING

Standard Accounting and Reporting System
(STARS-FL One Pay Module)

Standard Finance System - Redesign, Subsystem I
(SRD-I)

Integrated Paying and Collection System (IPC)

TRAVEL

Integrated Army Travel System (IATS)

VENDOR PAY

Standard Accounting and Reporting System (STARS-FL One Pay Module)

Commercial Accounts Payable System (CAPS)

Integrated Accounts Payable System (IAPS)

With respect to system support for the Defense Business Operations Fund (DBOF), the DFAS developed a two phased migratory strategy which was approved by the DBOF Corporate Board in February 1994. That strategy provides an interim phase that consolidates DBOF accounting systems along DoD Component and/or business area lines, converts key legacy systems to interim migratory systems, maintains current operations during the transition period

and achieves compliance with the accounting and reporting objectives of the Federal Managers Financial Integrity Act (FMFIA) and the CFO Act. This strategy will reduce the over 78 DBOF systems into 26 systems as show below:DBOF Accounting Systems

Function	1991	1995	1998
Distribution Depot	23	23	12
Depot Maintenance	28	28	3
Supply Management	2	2	1
Information Services	1	1	1
Base Support	3	3	1
Transportation	1	1	1
Printing & Publications	17	16	6
Research & Development - Navy	3	3	1
TOTAL	78	77	26

The interim phase accommodates existing unique capabilities of current DoD Component operations and structures. The approach permits rapid, simultaneous migrations and consolidations of systems by select DFAS Centers, while maintaining existing management information system requirements. The second phase of the system migration strategy encompasses a transition from the interim to the ultimate migratory systems.

Current projections call for initial deployment of interim migratory DBOF accounting systems in FY 1996. Implementation will take several years to complete; however, additional system consolidations and eliminations are anticipated as the Department transitions to the second phase of the DBOF system migration strategy.

In the General Funds area, the Department is committed to, and has undertaken, a major effort that consolidates and improves its accounting systems. Much progress already has been made. In fact, the Department already has transitioned from 92 systems to 76 systems, and plans for further a consolidation to 52 systems by FY 1998 as shown below:

General Accounting Systems

Function	1991	1995	1998
Installation level	51	39	23
Departmental	20	16	8
Security Assistance	8	8	8
Non-Appropriated Funds	9	9	9
Trust Funds	4	4	4
TOTAL	92	76	52

With respect to funding under the CIM initiative, the DFAS was directed, in mid-FY 1992, to fund software development and modernization of finance and accounting systems. By the end of FY 1995, the DFAS will have obligated approximately $280 million for this purpose. However, not all of these funds supported DFAS management initiatives designed to reduce costs and improve productivity. Approximately 20 percent of the DFAS budget for software development/modernization was used to implement changes to account for legislated changes in entitlements, changes in DoD policy, and changes required to interface with other systems.

Question 4: Is DoD experiencing any problems in complying with the requirement that payments over $5 million must be obligated before a payment is made? Will there be any problems complying in October 1995 with the requirement that payments over $1 million must be obligated prior to actual payment? Does DoD have any plans to reduce this threshold to an amount less than $1 million? If so, when?

Answer: The Department establishes obligations for contracts and orders in its accounting systems upon the award of a contract or the issuance of a delivery order. Such action normally is taken well in advance of receiving the goods or services and generating the related payment request. The Department began validating proposed payments of $5 million or more against related obligations in the official accounting records on July 1, 1995. To date, there have been limited delays for some payments when the initial attempt to match the obligation was not successful. When the match is not successful, the cause of the mismatch must be identified and the data errors corrected before the payment can be made. It is too early to determine whether payment delays will be a serious problem when the Department begins matching all payment request of $1 million or more on October 1, 1995. The Department intends eventually to reduce the threshold below $1 million; however, that will not be done until an automated matching process has been installed in the various accounting and payment systems and the Department can be reasonably certain that such a change will not cause widespread payment delays.

Question 5: DoD has made significant changes in its financial organization and operations. DFAS, DoD's "Accounting Firm," was created in January 1991 as part of its efforts to consolidate all finance and accounting activities throughout the Department. Today, DFAS is still undertaking consolidation initiatives designed to further centralize control of the department's financial operations. The DoD Inspector General recently tried to audit DFAS' own financial statements. However, similar to the Military Services and other DoD Components, even the statements of DoD's "Accounting Firm" apparently could not be audited. Please evaluate the ability of DFAS to carry out consolidated DoD-wide finance and accounting functions in light of this information. Can we expect DFAS to produce statements which will receive an unqualified opinion in the near future? How will you ensure that each of the centers and locations selected to carry out DoD's financial operations have sufficient personnel with the required experience and skills to carry out assigned responsibilities?

What have you done to ensure that the Cleveland Center will have adequate personnel to carry out the complex task of preparing the Navy's financial statements, for the first time?

Answer: Concerning its ability to effect consolidations, the DFAS has developed a comprehensive, disciplined, and structured approach to carry out the consolidation of finance and accounting operations in its 5 Centers and 21 Operating Locations. The Department is confident in the ability of the DFAS to consolidate these functions.

With respect to the milestone for producing unqualified financial statements, the Department has many obsolete, unreliable and nonintegrated systems that were designed for appropriation accounting and reporting rather than for private sector-type financial management and financial statement reporting. The Department is attempting to replace, reengineer and improve these systems as fast as possible to satisfy financial management and CFO financial statement reporting requirements. However, the magnitude of the effort precludes early resolution. Therefore, except for the most simple operations, very few DoD organizations will have accounting systems in the near future that can produce CFO financial statements which would receive unqualified opinions. Because the DFAS uses the same systems as its customers, the DFAS will not be able to produce viable financial statements for itself any sooner than it can produce such statements for others.

With respect to personnel requirements, the DFAS has developed a structured approach to its consolidation of finance and accounting operations. Special teams of experienced personnel have been identified to help in the workload transfer, provide training to personnel, and manage this critical effort. The DFAS Operating Locations will be staffed with personnel reassigned from the DFAS Centers or the Defense Accounting Offices, trained employees accessed from other areas, or new hires specially trained in a specific functional area.

Regarding qualified personnel at the DFAS-Cleveland Center, that Center continues to seek additional resources to support the task of preparing financial statements, and it actively is preparing to do the job well. The DFAS has initiated a task force consisting of Navy, DFAS-Kansas City Center and DFAS-Cleveland Center personnel to generate a plan for the preparation of FY 96 general fund Chief Financial Officer (CFO) statements. The Cleveland Center also has contracted with Coopers and Lybrand to help identify data elements that systematically need to be included in the Cleveland Center systems that support CFO statement preparation. Site visits were made to the DFAS Indianapolis and Denver Centers to identify lessons learned and best practices. The Cleveland Center currently is in the process of finalizing the plan and submitting it formally to the Assistant Secretary of the Navy (Financial Management and Comptroller) for approval. We expect to have that plan finalized by the end of August 1995.

Question 6: The DoD has recognized the seriousness of not being able to properly match disbursements with obligations. To correct this problem, you issued guidance in March 1994, May 1995, and June 1995 regarding the future disbursement of funds and the Department's

attempt to reduce its $28.8 problem disbursement total. The March 1994 guidance directed that (1) payments not be made form accounts that are "in the red" and (2) beginning in mid FY 1995, additional obligational authority must be provided to cover unliquidated obligations. The May 1995 guidance suspended the review of old negative unliquidated obligations and unmatched disbursements transactions. The June 1995 guidance delayed full implementation of DoD's March 1994 guidance until June 1996.

As of the end of March 1995, DoD had about $5 billion of negative unliquidated obligations and unmatched disbursements in the old "M" accounts that had not been resolved. How much of this $5 billion will be affected by these decisions?

What assurance do you have that none of the suspended negative unliquidated obligations and unmatched disbursements involve overpayments made to contractors?

The May 1995 guidance states that the exemption to suspend the reviews expires on September 10, 1995. What happens after September 30, 1995.

The June 1995 guidance states that the Navy continues to have a substantial number of disbursement problems. What indications do you have that Navy will be able to fully comply with this guidance by October 1996?

How many appropriations will partial compliance with DoD's March 1994 guidance place "in the red?"

What is the latest value of DoD's problem disbursements broken down by component?

Answer: With respect to the $5 billion in negative unliquidated obligations and unmatched disbursements in the old "M" accounts, the Department expects that those transactions will be significantly affected and resolved within the next few months.

Regarding assurances about contractor overpayments, the Department cannot say absolutely that there are no overpayments involved in the affected transactions that are eligible for suspended action. However, we do believe that the approved criteria minimizes that risk. And, since the Office of the DoD General Counsel and the Inspector General both have concurred in the criteria, we believe that they also see the risk as minimal. For example, one criterion for contracts is that the contract was audited and closed with no outstanding claims. If this action has been completed, it is not likely that an overpayment will exist. Another criterion for contracts is that the final contract payment must have occurred prior to January 31, 1989. (As records for such payments are not required to be maintained for more than 6 years and 3 months, it is unlikely that such records still would be available.) If, in the unlikely event that an overpayment actually has occurred, there probably would be insufficient documentation available so that the Department could sustain a claim against a contractor.

The Department's exemption to suspend reviews expires on September 30, 1995. After September 30, 1995, all such transactions must be subjected to policies governing the review of such transactions.

Concerning the timing of resolving Navy disbursement problems, the Navy and the DFAS are working closely to reduce problem disbursements. They jointly developed an action plan to define and improve research efforts and to address causes of problem disbursements. In addition, the guidance of June 30, 1995, requires the Navy to provide a plan, by September 30, 1995, for resolving older problem disbursements by October 1, 1996.

The implementation of the June 30, 1995, guidance has not caused any appropriation to go "in the red." The Department will initiate investigations for possible Antideficiency Act violations, if there are overobligated appropriations resulting from implementation of the June 30 1995, guidance.

The following table reflects balances of DoD's problem disbursements, as of June 30, 1995, immediately prior to implementation of the current policies:

$ in Millions

Army	930
Navy*	18,419
Air Force	4,122
Defense Agencies	1,476
Total	$24,947

* The Navy figures includes the U.S. Marine Corps.

Mr. HORN. Thank you.

Now we ask Mr. Dennis Fischer, Chief Financial Officer of the General Services Administration, to summarize his statement.

Mr. FISCHER. Thank you, Mr. Chairman.

It is an honor to be here and describe how GSA is dealing with the CFO Act and GMRA. I am a career Federal employee. I was selected as GSA's first CFO in July 1992, and I have the pretty much classic CFO responsibilities of full budget responsibility, accounting, financial management and financial management systems. I am also responsible for our strategic planning, Executive Information System, and implementation of the Government Performance and Results Act.

When I came to GSA, things were in relatively good shape. We had a good, well-defined organization. It fully met the requirements of the CFO Act. Each of the major parts of the organization had strong controllers. There was an appropriate relationship that I could deal with them on. The agency had had unqualified audit opinions on its financial statements since 1988. We are very proud that that record has continued.

The one change that I made was to focus our organization more on financial management systems by creating a systems office. And we found that, while these modern systems are absolutely a necessity for us to survive and continue, we have also got to look at the underlying rules, regulations, opinions and, in some cases, laws, that drive what we do.

We have set up full-scale reengineering efforts in accounts payable, budget execution, cost accounting, and travel, and that's just the first step. But it is essential for us to look at these processes, reengineer them, change them wherever we can before we get too heavily into automation, or we are just automating cow paths, in some cases.

I would like to offer one broader, substantive thought, if I might. Often we find, as we focus on our processes, the problems are of our own making, and they are internal agency or they are OMB or Treasury circular, or the like, but in some cases they are laws. And I just want to offer one example, and it is somewhat arcane, but it nonetheless is one of those things that makes you shake your head.

We had a senior member of our agency transfer here from California. As he came to work he said, "How do I get my car here?" And he said, "I want to put it on the truck with my household goods." And we said, "Well, unfortunately, we can't do that."

So the upshot of it was, he said, being very financially oriented, "You mean you're going to fly me back to California, pay my salary to have me drive this car across the country, pay all my expenses, which would cost several thousand dollars, as opposed to just sticking it on the truck?" I said, "Yes. Unfortunately, that's the situation we find ourselves in, and that's because there's a statute there."

So what I would urge is, as we in our own community, with OMB, Treasury, the Joint Financial Management Improvement Program, find situations like this, and I think they are rife throughout Federal financial management, we would hope we

would be able to bring them to you and find a receptive climate to get some of these impediments cut out from underneath us.

Finally, I would just also like to personally thank you, as Tony already has, in hosting the CFO Council last week. I think that was a landmark experience for us and one that all of us who are involved in both enjoyed and look forward to the next go-round. It is, again, an honor to be here, and I look forward to answering your questions later.

[The prepared statement of Mr. Fischer follows:]

Statement by
Dennis J. Fischer
Chief Financial Officer
General Services Administration

July 25, 1995

Hearing on
Chief Financial Officers (CFO) Act of 1990 Oversight
before the
Subcommittee on Government Management, Information and Technology

Mr. Chairman and Members of the Subcommittee, it is an honor to appear before you today to describe how the General Services Administration (GSA) is implementing the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994.

I am Dennis Fischer. I am a career Federal employee who was selected to be GSA's first CFO in July 1992. My responsibilities as GSA's CFO include: budget formulation, budget execution, finance and accounting, financial management analysis, and financial management systems. I also have responsibility for GSA's Strategic Planning efforts, our Executive Information System, and GPRA implementation.

When I came to GSA, I found the fundamental aspects of good financial management in place. The CFO organization and responsibility were well defined and in full accord with the CFO Act. Each major program area (the Public Buildings Service, Federal Supply Service, and Information Technology Service) had a strong Controller in place with an appropriate relationship to me. We had achieved unqualified audit opinions on our financial statements since 1988.

The one organizational change I made was to create, from existing resources, a new Office of Financial Management Systems. This centralized responsibility for planning for and development of GSA's central financial systems (accounting, payroll, etc.) as well as the agency's overall planning for financial management systems and linkages to program systems. This office is our vehicle to attain the required modern, agency-wide automated financial management system in an integrated environment.

While modern systems are a necessity, we find that we must first take a fresh look at the underlying rules, regulations, and processes that drive financial operations. To that end we have full scale re-engineering efforts underway in accounts payable, budget execution, cost accounting and travel. As these finish, re-engineered processes will form the basis for much-needed automation.

For optimal GSA financial management, both process re-engineering and automation are essential. We have set a goal of being better, cheaper, faster, easier, and smarter. This is a significant challenge but one which I believe we can attain.

If I may be allowed one broader substantive thought, it would be to enable all of us in Federal financial management to fully re-engineer our financial processes. We often find that our own internal rules and regulations are the problem. But often there are laws, mostly from long ago, which limit our ability to operate more efficiently and cost less. We in the Federal CFO community, through the CFO Council, the Joint Financial Management Improvement Program and OMB, are working to make changes. In those cases where legislative change is necessary, I hope we can find a receptive agent for change in your Subcommittee.

Mr. Chairman, again it is an honor to be here, and I will be glad to respond to questions.

RESPONSES TO FOLLOW-UP QUESTIONS

1. Do you think that a centralized Office of Financial Management Systems is important in ensuring that the agency or department can produce auditable financial statements quickly and efficiently?

Historically, establishing a centralized Office of Financial Management Systems within a Federal agency has not necessarily ensured that auditable financial statements can be produced quickly and efficiently. This is because there are several other prerequisites to accomplishing this goal, such as having competent and well-trained financial and accounting personnel, having sound accounting policies, procedures and practices, and having sound management and accounting controls.

However, my experiences clearly indicate that having an Office of Financial Management Systems supports the preparation of auditable financial statements by:

- Promoting more cost-effective and integrated financial systems planning, development and implementation on an agency-wide basis;
- Ensuring that the agency-wide financial management system produces complete, consistent, reliable, and timely financial information;
- Ensuring cost-effective agency-wide compliance with applicable Federal financial management systems requirements;
- Ensuring cost-effective use of information technology to provide internal and external users of financial information with accurate, timely, and complete financial information; and
- Ensuring that a sufficient cadre of well-qualified and competent personnel are available to support and continuously improve the agency's automated financial management system and related financial management processes.

2. Please describe your re-engineering efforts in cost accounting. Do you use activity-based costing or some other method? Have you used FASAB guidance in designing the system?

Several months ago, we at GSA, recognized the need to improve our agency's cost accounting system and started a major re-engineering project to improve our agency's capabilities in this area. This re-engineering effort is currently in its formative stages and will focus initially on educating GSA management about the importance and use of cost information for program management purposes, and subsequently identifying and analyzing their varied

cost information requirements. After this groundwork is completed, GSA's current cost accounting system and related accounting classification structure will be improved, as necessary.

With regard to activity-based costing, one of GSA's three major Services, the Federal Supply Service, has developed and implemented a costing capability to break out costs for each of their major business lines and functional areas. This capability enables program managers to prudently manage, monitor, and analyze their program costs on a recurring basis. However, activity-based costing as a generally accepted costing technique is not yet used extensively within the agency. As part of the planned cost re-engineering project, the use of activity-based costing will be considered in a more comprehensive, agency-wide manner. In this regard, it should be noted that GSA has also started to apply a rudimentary form of activity-based costing for its major business lines to determine whether its major activities should be retained in-house or possibly, accomplished through another more cost-effective operating arrangement. We plan to closely examine these initial attempts at activity-based costing, to assess the feasibility of doing so with current accounting system information, and to identify possible areas for further systems improvement. We also plan to examine the adequacy of present labor and overhead distribution capabilities and systems in this regard.

We are generally familiar with soon-to-be-issued Federal Accounting Standard Advisory Board (FASAB) guidance regarding cost accounting, and plan to incorporate its specific requirements within our re-engineering efforts. We understand that this guidance will be finalized in the near future by FASAB and disseminated to agencies for their use at that time. Notwithstanding this guidance, however, we believe that cost information systems at GSA should be redesigned to better serve the needs of its primary users, GSA's program managers, the Office of Management and Budget and the Congress.

3A. If agencies contracted out work to certified public accounting firms, how would they ensure that the auditors paid adequate attention to what they considered important?

Since 1988, GSA has contracted out the audit of its financial statements to an independent public accounting (IPA) firm. The responsibility for this contract under the CFO Act rests with the Office of Inspector General (OIG). The OIG's contract with the CPA firm, defines the applicable government auditing standards that the firm is to follow in carrying out the audit. Specifically, these standards are:

- Government Auditing Standards (GAGAS) Yellow Book, (1994 revision);
- OMB Bulletin 93-06, Audit Requirements for Federal Financial Statements; and
- Generally accepted auditing standards (GAAS) and other applicable standards established by the American Institute of Certified Public Accountants (AICPA).
- Other OMB guidance including OMB Bulletin 94-01, Guidance on Form and Content of Financial Statements.

Within these standards, the IPA plans and carries out the audit which includes identifying financial control and reporting processes, procedures and practices considered important to the fair presentation of GSA's financial statements. In accordance with the audit standard on auditor independence, the determination of what is important under the professional standards is largely left up to the IPA.

Nevertheless, to ensure that issues deemed as significant by the OIG are addressed and in general that the audit is performed in a quality manner, the OIG devotes 2 staff years to overseeing the audit work of the public accounting firm. Specifically, the OIG:

- reviews the CPA's approach and planning of the audit (client profile, general risk analysis, account risk analysis, workprograms, and other similar documents);
- evaluates the qualifications and independence of the CPA firm's auditors;
- monitors the progress of the audit at key points by reviewing progress reports and attending significant meetings. In particular, the OIG discusses major accounting and auditing issues identified to date and matters that could impact a) the opinion on the financial statements, b) the opinion on the internal control structure, c) the report on compliance with laws and regulations, and/or d) the deliverable due dates;
- examines the CPA's working papers and auditor's reports to evaluate compliance with **Government Auditing Standards**; and
- performs other procedures the OIG deems necessary in order to provide an opinion on whether the CPA firm conducted the audit in accordance with applicable audit standards and terms of the contract.

3B. If certified public accounting firms were asked to report on management's assertions on, for example, internal controls or compliance with applicable laws and regulations, these engagements would not necessarily be done under generally accepted auditing standards but under the new standards for attestation engagements, which would require the agency to determine what it wants the CPAs to examine and to specify what procedures should be included in the

engagement. Who would negotiate and write these contracts? Who would monitor them?

The Office of Inspector General would be responsible for negotiating, writing, and monitoring contracts with public accounting firms to acquire services attesting to management's assertions on internal control's and compliance with laws and regulations. Since 1988, the OIG contract with an IPA firm has exceeded the OMB's audit requirements by requiring the firm to perform work necessary to render an opinion on GSA's internal control structure over financial reporting. Prior to the new Statement on Standards for Attestation Engagements (SSAE) Attestation Standard (AT) No. 2 **Reporting on an Entity's Internal Control Structure Over Financial Reporting**, the IPA performed this work following the audit procedures of the Statement on Auditing Standards (SAS) No. 30 **Reporting on Internal Accounting Control**. Under the new attestation standard, the OIG now requires the IPA to attest to management's assertions about the effectiveness of GSA's internal control structure. But it also continues to require the firm to follow the SAS No. 30 audit standards as the "agreed upon procedures" for performing this attest function.

4. The CFO Act gives the CFO responsibility for recruiting and training financial management staff. As opportunities to expand existing financial staff may be limited as a result of the current trend to downsize government, training existing staff becomes even more important. Please describe how you enhance the skills and knowledge of your financial management staff, your formal training program, and how you support staff certification and continuing professional education expenses.

The CFO completed a Financial Management Information Strategy Plan (FMISP) in March 1994. Specific projects to improve financial management at GSA were recommended in the plan. One of the major projects was the institution of a financial management training program. As a result of this recommendation, the CFO's Office has an effort to establish a unified financial management training program at GSA. The goal of the program is to ensure that employees in the financial community have the appropriate training to effectively perform assignments and to help them incorporate a financial component into the program decisions. GSA is also facing reductions in staff meaning that remaining employees must take on additional responsibilities, thereby increasing the need for training.

The approach used to carry out this project was to form a steering committee consisting of representatives from the financial community. The main purpose of the committee is to evaluate the training needs and determine a unified approach to

best meet the needs. The steering committee has categorized needed training into three types:

National Electronic Accounting and Reporting (NEAR) Training - Comprehensive course on NEAR, GSA's accounting system, to be developed and training provided nationwide to all users. This training is critical to ensure that employees understand and fully utilize existing reporting capabilities.

Academic training - An academic program is considered necessary to develop an agency-wide basis for financial decision making, and to offer employees an opportunity to add to their current knowledge base through formal training. These courses will be offered or developed by local universities and be given for undergraduate or graduate credits.

Service program training - This training will focus on the "business line" of a particular GSA Service. This training program is necessary to ensure that program decisions reflect appropriate financial concerns. The purpose of this training will be to improve operational efficiency, and to give employees a better understanding of how to accomplish their job.

This project is a major line item in our Financial Management Systems Plan as well as the CFO Annual Performance Plan. A portion of the funds from the unobligated balances will be used to finance this effort. A combination of the training described above will be provided as funds permit.

5. Do you have an integrated financial management system which can produce reliable information? If not, discuss where and how you put together the information in your financial statements.

GSA has a centralized accounting system that passes the test of audit, produces accurate reports for audited CFO Act reporting, other external submission and internal use, pays bills on time, and protects GSA's assets. The system complies with the Joint Financial Management improvement Program's (JFMIP) Core Financial Systems Requirements and the U.S. Standard General Ledger reporting requirements through a "crosswalk" program. To underscore the excellence of GSA's processes, GSA has for more than 30 years served as one of the primary service providers of accounting, payroll, and personnel services. In addition to managing about 115 funds, GSA provides cross-servicing support for 49 client agencies. Through the third quarter of fiscal year 1995, GSA processed $7.4 billion in billings for supplies and services, made more than 1,390,800 payments totaling $6.3 billion, and saved $2.3 million by earning 96.7 percent of available early payment discounts.

In a broader financial management context, however, GSA has recognized that this accounting system does not provide sufficient management information for program decision-making. Our vision for financial management systems at GSA is to have completely integrated financial management systems that facilitate sharing of data among program systems that support both financial and program functions. One of the major roles of the Office of Financial Management Systems (OFMS) is to make this vision a reality. OFMS is developing a Financial Management Systems Plan which contains an overall strategy, projects and milestones necessary to achieve this goal. We are currently working with our Services and Staff Offices to get input and finalize the Plan. It is critical that the integration of financial management systems at GSA take place in a coordinated manner. Several projects are currently underway and others will follow.

Mr. HORN. Thank you very much. Your car example is a good one. Is that an actual authorization statute, or is it an appropriations bill prohibition?

Mr. FISCHER. It is, unfortunately, an authorization statute.

Mr. HORN. Interesting. Because I remember 30 years ago when I did a book on the appropriations process, I remember running into things like that. But now it's in statute somewhere, OK. Well, you're right. Let's take a look at it and see what the implications are.

We next have Bonnie R. Cohen, the Assistant Secretary for Policy Management and Budget and the Chief Financial Officer of the Department of the Interior.

Ms. Cohen.

Ms. COHEN. Thank you. I appreciate the opportunity to be here today.

Under Secretary Babbitt, we have given great emphasis to the financial systems of the Department of Interior. At this point, we have 90 percent of all of our transactions on one accounting system. We have 6 of our 10 bureaus who have received clean audits. And we have, for the first time—and actually I just got it—for the first time a draft audited statement for the entire department. So we feel we are making progress.

We recently launched a comprehensive review of our financial operations, which we refer to as a best practices effort to systematically review all accounting and financial processes within the department that could be standardized, streamlined, or eliminated to improve efficiency and customer service while reducing cost.

In connection with this opportunity today, I thought over my 2 years of experience as a CFO in the Federal Government. In my case, we have been able to integrate the budget and finance functions. I am responsible for both in the department. I think that one question that was raised to me by your staff was whether I felt that that was important, and I honestly do.

I have had those combined responsibilities in two other CFO jobs, and I find it particularly important in the Federal Government at this point in time. As we downsize and reduce resources in the Federal Government, there is an enormous temptation to first take the money from financial programs. When you have both the budget and finance functions together, you can be sure that you protect the financial systems.

In our case, we are taking a 30 percent reduction in FTEs involved in finance, but I am still able to see that the resources are there to provide adequate coverage of the financial systems. And I think that's very important, so I would argue for the combining of those two responsibilities.

A second issue that I would raise, that I have noticed particularly, is the—and I don't think that there's an answer to this—but as we implement the three financial acts that we are discussing today, the timing of the Federal budget process is very important to financial decisionmaking. It is lengthy and complex, and typically spans 3 years.

At the present time, we are managing our fiscal year 1995 funds appropriated by Congress. We are presenting to Congress proposals for the upcoming fiscal year 1996 budget, and we are just submit-

ting the fiscal year 1997 budget to OMB. So you can see that, as we develop fiscal year 1997, for example, we don't really yet have the information from the operations of 1995; we haven't begun to implement 1996.

This is dramatically different from private industry where you are dealing in real time. So I raise that issue for you.

We have also been asked to talk about the Government Performance and Results Act. We have taken a number of actions to create a performance framework within the department.

Since January 1994, the department has submitted four pilot GPRA projects, which have been approved by OMB: a royalty management program at the Minerals Management Service; a program at the Fish and Wildlife Service; a Northwest Forest plan at the Bureau of Indian Affairs; and the USGS National Water Quality Assessment Program. We have a department-wide strategic planning steering group representing each bureau to continue to implement this.

With regard to our experience with these pilots, the news is somewhat mixed. In the case of MMS, the Minerals Management Service, where the purpose of the pilot is to assure efficient, timely, and accurate collection and disbursement of minerals leasing and production revenue, we have been very successful. That is something that lends itself to quantification and rigorous systems. And we find that that has produced useful information.

In connection, though, with others of our programs, like the Fish and Wildlife Service, their pilot, the North American Waterfowl Pilot, deals with wetland acreage and waterfowl populations. In that case success is very difficult to measure, and it's very difficult to measure on a 1-year basis. What your ultimate objective is, is an increase in the number of waterfowl. What we are measuring is wetlands. They aren't necessarily the same thing, and in any given year a flood or lack of rain can impact those measurements.

So I would like, particularly in the case of our programs, to raise cautions, as we move forward implementing this, that we should not focus on too few measures or focus only on those that are easy to quantify and sacrifice what really is the complexity of what the Government does.

As Mr. McNamara recounted in his recent book, the proliferation of performance measures about nearly every aspect of the Vietnam War did not prevent us from implementing flawed public policies. I believe that an important lesson to be learned is that the quantification and measurement of performance carries no guarantee of the soundness of public policies being pursued.

Thank you very much.

[The prepared statement of Ms. Cohen follows:]

STATEMENT OF BONNIE R. COHEN
ASSISTANT SECRETARY FOR POLICY, MANAGEMENT AND BUDGET AND CHIEF FINANCIAL OFFICER
DEPARTMENT OF THE INTERIOR
BEFORE THE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY
JULY 25, 1995

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Mr Chairman and members of the Committee, I appreciate this opportunity to be here today to discuss the relationship between the Chief Financial Officers' Act, the Government Performance and Results Act and the Government Management Reform Act. As Assistant Secretary for Policy, Management and Budget and Chief Financial Officer for the Department of the Interior, I am responsible for overseeing implementation of these Acts within the Department. In my view, these Acts establish the basic foundation for improving the integrity and accountability of Federal programs. Integrity and accountability are critical elements to assure the public that taxpayer dollars are being used appropriately and that public assets are safeguarded.

Recent CFO Act Accomplishments

I would like to briefly discuss some of the accomplishments we have had thus far in fulfilling the objectives envisioned by the CFO Act.

In recent years the Department has made good progress toward improving its financial management infrastructure. In the financial systems area, we have implemented a modern accounting system that meets all Federal requirements. The system is now operational in seven bureaus which account for over 90% of all transactions within the Department.

The purpose of any financial system is to provide timely and reliable information about the results of operations; to support the decision making process; and to provide accountability to our stakeholders. When the CFO Act was passed, the Department decided to prepare financial statements on an entity-wide basis. Thus, we have been producing bureau-wide financial statements in each of our bureaus since Fiscal Year 1992, and are presently

developing consolidated Fiscal 1994 financial statements for the Department on a pilot basis. As a result, I believe that the Department is well positioned to comply with the Government Management Reform Act requirement to prepare consolidated Departmental financial statements by 1997.

With regard to audited financial statements, six of the Department's twelve entities received "clean" opinions for Fiscal Year 1994 results. They are: the Minerals Management Service; Bureau of Mines; Bureau of Reclamation; National Biological Service; Office of Surface Mining; and the Office of Territorial and International Affairs.
In my view, the discipline associated with audited financial statements reinforces our accountability to taxpayers for the public resources entrusted to us, and I hope to add several more bureaus to the "clean opinion" list during my tenure as the Department of the Interior's Chief Financial Officer.

As we have moved forward with our CFO Act initiatives, we recently launched a comprehensive review of our financial operations – which we refer to as the "Best Practices" effort-- to systematically review all accounting and financial processes within the Department that could be standardized, streamlined, or eliminated to improve efficiency and customer service while reducing cost. To carry out this plan– which will reduce the number of accounting and finance personnel within the Department by some 30% by 1999, we established a Finance Officers Partnership. The Partnership, which consists of senior Finance officers from each bureau, is presently carrying out 15 initiatives which resulted from our "Best Practices" effort.

The Budget and Finance Linkage

In my view, one of the most important consequences of the CFO Act has been to encourage a greater integration of budget and finance functions within Federal agencies. At the Department of the Interior, I am responsible for both budget and finance. Obviously, these two functions are closely related. Good, reliable financial information is an absolute requirement once the budget is enacted. In the course of any given fiscal year, it is the financial function that provides feedback on the availability of funds and lays the framework for adjustments to changing situations. At the Interior Department those changed

situations can include a particularly heavy forest fire season, an earthquake, a flood, or a large jump in visitor use of parks, refuges or public lands-- to just name a few. Knowing what we are spending is an absolute necessity so that appropriate adjustments can be made quickly.

Having the budget and finance areas under the CFO is also helping us to coordinate the objectives envisioned by the CFO Act. In today's environment, if budget functions are not well integrated with financial results, the ability to compare actual performance against budget estimates will be extremely limited, at best. If we can't explain to our stakeholders what we have done with the resources provided to us -- then we are not really being accountable.

This is not to understate the practical difficulties in integrating the budget and finance functions in the Federal setting. The Federal budgeting process is lengthy and complex, and typically spans a three year period. At the present time we are managing FY 1995 funds appropriated by the Congress ; presenting the Department's proposals for the upcoming 1996 fiscal year ; and beginning to formulate the Department's budget for 1997. The first round of decisions on the 1997 budget to be submitted to the Office of Management and Budget will be made before the end of the current fiscal year and before final financial statements for that year (FY 1995) are available.

Despite these complexities, budget and financial functions are becoming more closely aligned than ever before. As we move towards increased use of performance measurement, budgets will be developed containing key indicators (performance measures) that will be used to request funds to manage programs and monitor progress, and to determine if we have met our objectives. Consequently the link between budget and finance will become even stronger. Having both these functions report to the CFO is clearly desirable. Meanwhile, the Department has begun to routinely include performance measures in the annual financial statements, in anticipation of the requirements of the Government Performance and Results Act.

<u>The Government Performance and Results Act</u>

Mr Chairman, in the era of diminished resources, rising expectations, and calls for greater accountability -- that has categorized the 1990s thus far --

producing sound, timely financial information is not enough. Our stakeholders – the Congress, the Administration, and taxpayers want to know the results achieved for the resources expended. In this respect, the Government Performance and Results Act (GPRA) builds upon the CFO Act requirement to establish systematic measures of performance, and will stimulate efforts to establish a "performance infrastructure " within the Federal Government.

At the Department of the Interior, we have enthusiastically supported the principles embodied in GPRA, and have taken a number of actions to create a "performance framework" within the Department. Since January 1994 the Department has submitted four pilot GPRA projects which have been approved by OMB. These are:

- The Royalty Management Program of the Minerals Management Service
- The Fish & Wildlife Service's North American Waterfowl Management Plan
- The Northwest Forest Plan of the Bureau of Indian Affairs
- The U.S. Geological Survey's National Water Quality Assessment Program

These four GPRA pilot programs represent a microcosm of the Department's programs, and were selected to provide a sound base of experience to improve the Department's ability to meet the GPRA requirements for 1997 and beyond.

In February 1995, we established a Department-wide Strategic Planning Steering Group, which includes representatives from each bureau, the Office of Financial Management, and the Office of Budget. A key objective for the Steering Group is to provide guidance and assistance to bureaus in developing additional program performance measures, and in preparing strategic plans. As of this date, we have developed a number of performance measures, indicators for key programs, and preliminary strategic plans for a majority of the Department's bureaus.

At this point I would like to share what we have learned from our experiences with GPRA thus far..

Lessons Learned From GPRA Pilots

With regard to our experience with the GPRA pilots, the news has been somewhat mixed.
On the one hand, I believe that the GPRA pilot involving the Royalty Management Program of the Minerals Management Service has been quite successful. The mission of the Royalty Management Program is to ensure the efficient, timely and accurate collection and disbursement of minerals leasing and production revenue due to the U.S. Treasury, States, and Indian tribes and allottees. During Fiscal 1994, some $4.4 billion in minerals collections were made.
The Royalty Management GPRA pilot involved an effort on the part of MMS employees to develop a series of program performance measures which correlate with the stated objective of ensuring that revenues due are paid accurately, voluntarily, and on-time, the first time. The MMS team succeeded in developing a "compliance index" which directly measured actual performance against the stated goals for the program. In retrospect, the factors which are contributing to the success of the Royalty Management Program effort include:

- A program mission which is limited in scope;
- Outcomes which could be measured and expressed in monetary terms;
- The ability to develop a set of lower level performance measures which relate directly to the outcome measure.

By comparison, the results from the other three GPRA pilots have been somewhat less successful thus far. Since all three of the remaining pilots involve variations of ecosystem projects, I will briefly summarize the experience we had with the North American Waterfowl pilot, as it illustrates some of the problems and challenges which must still be overcome.

This pilot combines the activities of the North American Waterfowl Management Plan and the North American Wetlands Conservation Act. Faced with rapidly declining wetland acreage and waterfowl populations, the Canadian, U.S. and Mexican governments signed the Waterfowl Plan, with the goal of restoring waterfowl populations to the levels observed in the 1970's.

The Plan established specific habitat objectives for each joint venture for

habitat protection, restoration and enhancement. The Wetlands Conservation Act established a matching grant program to stimulate partnerships to protect and restore wetland ecosystems and the migratory bird populations and other fish and wildlife that depend on these habitats.

After one full year of operation, a number of observations are apparent. First and foremost, habitat improvement and ecosystem management necessarily involve outcomes which take many years to effect. As a result, it is much more difficult to relate the results of specific expenditures at a given point in time to any particular outcome.
Secondly, because of the long term nature of efforts to protect our natural resources, factors other than direct resource expenditures can influence program outcomes-- and possibly in very significant ways. These would include such uncontrollable factors as drought, floods, erosion, predators, disease, etc.

Challenges and Limitations of Performance Measurement

From our experience thus far, it is obvious that the ability to accurately relate resource expenditures to specific program outcome measures involving natural resource improvements is, and will likely to continue to be, very challenging.

I fully understand the pressures on Congress today to reduce public spending, and to measure the results of resources expenditures in terms of outcomes achieved. I would be seriously remiss, however, if I did not share my concerns that the pressures to quantify and justify public expenditures may encourage Federal agencies to favor performance indicators that are "easy to quantify" -- rather than those which are meaningful from a public policy standpoint.
Given the limitations of our existing knowledge regarding natural resource management, the temptations to quantify the results of expenditures may serve to provide a false sense of assurance that we are achieving worthwhile public policy objectives -- when we are not, in fact.
As Robert McNamara recounted in his recent book titled The Tragedy and Lessons of Vietnam, the proliferation of performance measures about nearly every operational aspect of the war, did not prevent us from implementing

tragically flawed public policies. I believe that an important lesson to be learned is that the quantification and measurement of performance carries no guarantee that correct public policies are being pursued.

Concluding Remarks

Mr. Chairman, I believe that the Federal Financial management community is at an important crossroads today, as we face unrelenting pressures to do more with less. The decade of the 1990s will prove, I believe, to be one of the most challenging, dynamic periods ever faced by public managers. The challenge facing all CFOs is to rethink the ways we conduct the government's business; provide the necessary leadership to efficiently manage resources; to provide timely and accurate financial information for stakeholders and program managers; and, most importantly, to restore the public's faith in government. I believe that the CFO, GPRA and GMRA Acts are useful vehicles for improving financial management and program performance and can assist us in meeting these challenges. No single approach is a panacea. Each has its limitations. Nevertheless I believe that we are building the framework for more timely and relevant financial and program data that will assist us all.

At this time, I would be pleased to respond to any questions you might have.

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Hearing on the Implementation of the Chief Financial Officers Act Follow-up Questions

Question #1: The Inspector General at your department has reported for the past three years that financial statements at three of your component agencies are not auditable. These agencies are: a) Bureau of Indian Affairs, b) National Park Service, and c) U.S. Geological Survey.

What are the problems that make these financial statements unauditable? What are you doing to solve the problems? When will auditable financial statements be produced by these agencies?

Answer #1: As a point of clarification, the Inspector General performed CFO Act financial audits on a bi-annual basis prior to Fiscal Year 1994. Thus, the bureaus referenced were audited or surveyed only once prior to Fiscal Year 1994.

A. Factors Contributing to Disclaimers:

The most common reasons for disclaimers of opinion were:

1) Lack of detailed subsidiary records or reconciliations for one or more general ledger accounts, such as accounts receivable, accounts payable and/or fund balance with treasury; and
2) Deficiencies in accounting for inventory, real property, and other property, plant and equipment accounts. These accounts have historically been maintained by property management personnel, outside of the financial accounting system. Property accounting is further complicated by the fact that many of the Department's significant properties do not have identifiable costs associated with the items.

In addition, the Accounting Operations of the National Park Service were found to be a material weakness, and reported as such in the Department's 1994 Federal Managers' Financial Integrity Act Annual Reporting. A comprehensive correction plan has been developed and the material weakness is targeted for correction by 1996.

B. Steps underway to solve the problems, and expected timeframe for auditable financial statements:

1) The National Park Service formed a task force in January, 1995 to develop and reconcile subsidiary listings and

correct general ledger balances in order to ensure that: (1) Fiscal Year 1995 financial records are auditable; and (2) procedures are in place to maintain and regularly reconcile the accounts in the future. The Bureau expects to receive a qualified opinion by the Office of the Inspector General on the Fiscal Year 1995 financial statements of NPS.

2) The US Geological Survey has worked cooperatively with the Inspector General to identify and correct property accounting issues, and to determine alternative procedures for verifying the reliability of USGS's financial data. Based on procedures performed to date, the Bureau expects to receive a qualified opinion by the Office of the Inspector General on the Fiscal Year 1995 financial statements of USGS.

3) The Bureau of Indian Affairs has prepared a detailed schedule for reconciliation of subsidiary records and completion of the Fiscal Year 1995 financial statements. Progress briefings are held no less than monthly. Based on procedures performed to date, the Bureau expects to receive a qualified opinion by the Office of the Inspector General on the Fiscal Year 1995 financial statements of BIA.

Question #2: Do the Interior agencies that had unauditable financial statements for fiscal year 1994 have highly qualified CFOs?

Answer #2: While not required by the CFO Act, the Department has chosen to apply the same qualification standards to bureau CFOs as it does for the Departmental CFO. As a result, we believe that, as a group, bureau CFOs are extremely well qualified to carry out the responsibilities mandated by the CFO Act. Finally, continuity of the CFOs has been acceptable although, in the case of the Bureau of Indian Affairs, continuity has proven to be a problem.

Question #3: The Interior Office of the Inspector General spent $2.4 million and almost 6,000 staff days to audit the fiscal year 1994 financial statements. That is a significant investment, and warrants attention to the results of those audits. What procedures do you have in place to ensure that findings and recommendations from these audits are adequately addressed? Why have the auditors continued to find the financial statements of some bureaus and offices unauditable year after year when

corrective actions should have been taken to fix the problems?

Answer #3:

A. Audit Costs of $2.4 Million

The Office of the Inspector General spent approximately 10% of its annual budget (of $24 million) to perform financial statement audits for Fiscal Year 1994. The value to the Department is two fold. First the audit process requires increased discipline within the financial operations of a bureau and focuses attention on good financial management to produce auditable financial statements. Second, producing financial statements provides a valuable form to present the results of operations to the public. Bureaus have found the overview portion of the financial statements are of particular value in communicating bureau performance.

In assessing the costs and benefits of the financial audit program, it is important to note that the Department has been producing (and auditing) entity-wide financial statements in each of its bureaus since 1991. The decision to prepare bureau financial statements has undoubtedly increased the audit costs incurred by the Inspector General. However, it has also placed the Department in an excellent position to comply with the requirements of the Government Management Reform Act of 1994, which requires agencies to prepare consolidated financial statements by 1997.

B. Processes to Ensure that Findings and Recommendations are Adequately Addressed

The Department uses a number of mechanisms to ensure that audit findings and recommendations are being adequately addressed. First, the OIG discusses all material audit findings and recommendations at exit conferences with bureau management. Audit findings and recommendations are then formally reported in final audit reports and management letters.

The unimplemented recommendations in final audit reports are referred by the OIG to the Department and entered into the Departmental audit followup tracking system. While the Department's overall goal is to implement audit recommendations as expeditiously as possible, the nature of certain corrective actions, and resource constraints may prolong final implementation for periods of up to one year or more. Bureau progress in implementing audit recommendations is tracked and the status reported to Congress on a semi-annual basis in the Secretary's Semi-Annual Report on Audit Followup. During the past two years, the Department has made significant progress in

reducing the number of pending audit reports with unimplemented recommendations.

Finally, in some instances the deficiencies identified during the audit of bureau financial statements were significant enough to warrant reporting as material weaknesses in the Department's Federal Managers' Financial Integrity Act Annual Report. In each instance, a detailed corrective action plan with major milestones is prepared by the bureau, and the Department tracks bureau progress toward achieving those milestones on a quarterly basis.

C. Why the Financial Statements of the Three Bureaus Continue to be Unauditable

The reasons for the audit disclaimers are discussed in our response to Question #2. As noted in that response, the Department expects to have auditable financial statements in each of its bureaus for Fiscal Year 1995.

Question #4: How successful have you been in placing well qualified financial management executives in each of the Department's bureaus and offices?

Answer #4: As noted in our response to Question #2, the Department believes that, as a group, the bureau Chief Financial Officers and Deputy Chief Financial Officers are extremely well qualified to carry out the responsibilities mandated by the CFO Act.

Question #5: How does the training program for Interior's financial management staff compare to the requirement in the audit community that auditors maintain their skills by obtaining 80 hours of training every 2 years?

Answer #5: The Department of Interior recognizes that the rapidly changing environment for financial management makes it essential to maintain and upgrade the professional skills of the financial management staff. The Department has responded to this challenge by committing to the development of a department-wide financial management training and development program, which is presently under review by the Department's CFO Council.

The training and development program curricula closely

parallels the recommended training approach proposed by the Joint Financial Management Improvement Program (JFMIP). Several notable features of the plan include a provision for cross training personnel, and a process of certification for several levels of proficiency.

The departmental program compares favorably with programs offered within the audit community. However, continued uncertainties surrounding our budget may preclude the full implementation of the program in the foreseeable future.

Question #6: How much training are financial management staff currently required to obtain each year?

Answer #6: Traditionally, the Department has encouraged bureaus to provide finance and accounting staff with at least 40 hours of training annually. In recent years, budget reductions and other circumstances (such as buy outs, streamlining, and changing missions) have adversely impacted our ability to provide the full 40 hours of training. However, the Department believes that through its financial management training and development program, it may be able to reduce the cost of training, and provide training that more uniformly meets the needs of the Department and its bureaus.

Question #7: How does the Department monitor the training obtained by financial management staff, both at the Department level and the component agencies?

Answer #7: The Department does not currently monitor financial management staff training at the Department level. Individual components are responsible for training of staff. However, the Department has recently hired an individual to develop a training and development program for the Department. This training and development program has a provision for monitoring financial management staff training at both the Department level and at bureau and office levels. A monitoring mechanism is necessary to certify individuals completing the various levels of proficiency, and to track certified financial managers maintaining their certification. The program calls for the program coordinator to be responsible for tracking program participants. This would be done through the individual development plan (IDP) which is submitted annually to the program coordinator. The program coordinator would then track the

employee to determine if the IDP is being adhered to and to provide a quarterly report to managers on the progress of their employees in terms of obtaining certification and maintaining certification.

Question #8: Does Interior have an integrated financial management system?

Answer #8: OMB Circular A-127 defines an integrated financial management system as

> "_ _ _ a unified set of financial systems and the financial portiones of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public.

Since implementing the Federal Financial System in the past few years, the Department has made substantial progress toward complying with the OMB definition for an integrated financial system. However, the Department does not, at the present time, meet the OMB definition in two respects. First, not all operating systems are linked electronically to the core financial system operating at the bureau level. Secondly, the Department continues to operate two core financial system applications (FFS and ABACIS), because the funding necessary to migrate to one system, though requested by the Department, has not been appropriated in recent years.

To integrate financial data from various financial management systems, the Department is currently in the process of implementing, on a pilot basis, a Decision Support System/ Executive Information System, which will integrate data from the two core financial system applications as well as data from certain other financial management systems within the Department. This system will be tested during the Fall of 1995.

Question #9: What are the key ingredients in the process for developing an integrated financial management system at the Department of the Interior?

Answer #9: There are three main ingredients in Interior's migration to an integrated financial management system.

First, the Department uses available commercial off-the-shelf (COTS) software to support financial management systems requirements. COTS software generally costs less than in-house system development efforts. Moreover, the use of COTS software allows for a more timely system implementation and provides for integration of related functions such as federal ledger management, funds management, payment management, receipt management, cost management, and financial reporting in the core financial system.

Second, the Department uses cross-servicing to its own bureaus, as well as other Federal agencies as a systems strategy for providing consistent, high quality support for financial management services. Cross-servicing is provided through the use of two Administrative Service Centers (ASCs). The ASCs provide standardized financial management systems; provide cost effective, routine administrative processing; enable bureaus to devote mainframe computer capacity to program/mission support; and reduce the need for administrative computer support in individual bureaus.

Third, the Department is undertaking efforts to establish financial management systems with standardized information and electronic data exchange between the core financial system and other financial and mixed (program and financial) systems. Various initiatives are underway within the Department to establish Departmentwide standardized financial data classifications and improve electronic transmission of data between financial systems.

Question #10: What is your plan, timetable, and cost estimate for implementing an integrated financial management system?

Answer #10: The Department's plan is to provide an integrated financial management system that encompasses electronic linkages of the personnel/payroll, procurement, and property systems with the core financial system.

An electronic linkage between the personnel/payroll system and the core financial system already exist.

The electronic interface between the procurement system and the core financial system is targeted to be completed by January 1996.

A property module, with an electronic linkage to the core financial system, has been developed and implemented in two bureaus. In Fiscal Year 1996, planning will commence regarding

the possible implementation of this integrated property module in other bureaus.

Additional initiatives aimed at further integrating the financial management system will to be undertaken within funding limitations.

Question #11: Do the current financial management systems in the Department and its component agencies consistently produce accurate and reliable financial information?

Answer #11: All bureaus prepare financial reports consistent with OMB Form and Content guidance, and communicate trial balance information to the Department and Treasury based on the Government-wide Standard General Ledger. Additionally, the Department has launched a multi-year Data Stewardship initiative -- to assure that financial information conforms to the highest possible standards for consistency and veracity in the future.

Question #12: (A) If agencies contracted out work to certified public accounting firms, how would they ensure that the auditors paid adequate attention to what they considered important?

(B) If certified public accounting firms were asked to report on management assertions on, for example, internal controls or compliance with applicable laws and regulations, these engagements would not necessarily be done under generally accepted auditing standards but under the new standards for attestation engagements, which would require the agency to determine what it wants the CPAs to examine and to specify what procedures should be included in the engagement. Who would negotiate and write these contracts? Who would monitor them?

Answer #12:

(A) Assurance that External Audits Paid Attention to Priority Problems

As noted in Section 304 of the CFO Act, financial audits may be performed by either the Inspector General, or by an independent external auditor under the direction of the Inspector General. Thus, if an external auditor were to be engaged by the Inspector General, the external auditor would very likely be briefed on issues deemed important by the Inspector General, and

the subsequent audit work plan would undoubtedly reflect these priorities. At the Department of the Interior, we work closely with the Inspector General in identifying areas requiring priority attention; establishing financial audit work places and schedules; and participate in regular progress reviews of financial audits. This arrangement has proven to be quite satisfactory.

(B) Management Assertions on Internal Controls and Compliance with Laws and Regulations

Audit assertions regarding internal controls and compliance with laws and regulations are a required and integral part of a financial audit under the CFO Act. The procedures to support these assertions would have to comply with audit standards published by the General Accounting Office (yellow book), irrespective of whether the financial audit is performed by an IG or by an outside CPA firm.

There may also be instances where agency management desires a more detailed, comprehensive review of certain areas (beyond that which would normally be provided in a financial audit). In those instances, agency management would develop agreed-upon procedures, which would be carried out by the external auditor.

As noted above, however, assertions regarding internal controls and agency compliance with laws and regulations, are an integral part of a Governmental financial audit, and are subject to the provision of the GAO Yellow Book.

Mr. HORN. Thank you very much. We appreciate the testimony of all of you.

Let me ask a few questions, and all of you can feel free to chime in. This isn't limited to any one of you. Some of these are very general questions.

The Comptroller General, in his prepared statement, which has been filed for the record, said, "Seriously inadequate automated financial management systems are currently the greatest barrier to timely and meaningful reporting." Would each of you agree with that statement, and do his comments apply to your agency?

Why don't we start with Mr. Williams.

Mr. WILLIAMS. Yes, Mr. Chairman, we would wholeheartedly agree with that statement that our cardinal, fundamental problem in producing good, reliable financial statements is in our financial systems. We've got a constellation of, originally, 43, now 29 agencies, all speaking different languages, if you will, in terms of accounting. I heard one wonderful phrase called "mom and pop systems." We've got many of these mom and pop systems out there.

The only way you can proceed is in a phased, incremental, what we call chewable bites way. What we have tried to do is, one, establish one official information architecture, or to use a better term, one set of standards or language for everyone; and two, focus on the foundation, proceed from that foundation to look at the individual agency systems and begin to rethink them and reengineer them.

Another thought is that, as we talk about consolidation, we believe the best way, ultimately, to proceed with consolidating all these systems is through—because I think this is another angle at producing good flow of information—you are less likely to have a problem with your flow of information if you're using one or two systems, as opposed to, you know, 80 or 90. Rather than issuing a decree from on high saying, "You will now have one system," use cross-servicing as a device to try to get at this, with a kind of Kevin Costner theory that, if you've got a good system, people will come.

I think, to echo what Bonnie has said, if you've got a cross-servicing exchange between the different agencies, you also tend to share better information between and among them.

Mr. HORN. I think there has been great praise in previous testimony for your New Orleans operation. Isn't that where you have it, or am I wrong on the city?

Mr. WILLIAMS. That's correct, Mr. Chairman. We appreciated the Comptroller General's advertisement for the NFC.

Mr. HORN. Who is giving the guidance in terms of common software, let's say? Because you all have basically the same financial problems. Have we got a standardization on the software from OMB, or what?

Mr. WILLIAMS. I think Al can speak very authoritatively on this. Al.

Mr. TUCKER. I'm the chairman of the CFO Council's Financial Systems Committee. We have a program to acquire and put on a GSA schedule contractor-developed, off-the-shelf software.

We don't dictate what that software should be like in terms of architecture, and so forth. We do have standards or core requirements that the contractors have to meet, and we test them to see

that they meet these core requirements. And then the agency that wants to acquire that particular software has to determine whether that software can fit its environment and do what they want to do. Often it has to be tweaked and modified in order to handle the uniqueness of a given agency.

Ms. COHEN. Mr. Chairman.

Mr. HORN. Yes.

Ms. COHEN. If I could add to Mr. Williams on your question, is our single biggest handicap automated financial systems, good automated financial systems? I think that that is a real problem, but I also think a problem is the training and background of the individuals involved.

We were implementing a major system last year, and we're downsizing and bringing on a lot of new automation, and we have been trying to obtain funds to train people to use these systems. And that's very difficult to do. Without that training, people can't really use these systems to the fullest.

Mr. HORN. That's a good point, and obviously this has come up before in hearings and discussions I've had with Chief Financial Officers. Where is the responsibility for that training, with the agency, with OPM, what?

Mr. FISCHER. Mr. Chairman, the CFO Council has a Human Resources Committee which has helped us bond together to try to offer, on a collective basis, training. I think that's getting at something that's very, very needed. I think also all of us, and I certainly, as a CFO, feel specific and direct responsibility that all the financial people in our organization get the maximum amount of training, be it available, if you will, off the shelf or from other sources, or things that we just need to develop in-house.

I think, also, that one of the things that doesn't happen nearly enough is that we get true, meaningful, on-the-job training, including experiences in other organizations. Al and I have both been, I think, very fortunate to have served in different major departments where you get a different perspective. I've often said, if I could change one thing, it would be that we would do a lot more movement of our resource in our people around. The military does a superb job with their people. On our side, we don't get at that nearly as much as we should, in my opinion.

Mr. HORN. I completely agree with you. The whole purpose, I would think, of the senior executive service was to move generalists around, and yet I know the mentality, whether it be the private sector, universities, or the public sector, which is, "We're unique. You can't move us around. That person can't come here. They won't understand what we do." It's utter hogwash. They do understand; and could probably put it in a broader perspective.

I can't think of anything really unique, let's say, about the Department of Defense that private corporations that have inventory, assets, and are very complicated, have not also dealt with.

Mr. TUCKER. We often bring people in from private industry for appointed positions who have those kinds of experiences. So they definitely are applicable.

Mr. HORN. Sure. And I think the idea of sharing the training—now, does the question get down to, will the agency pay the cost

of that person being trained to the agency training them? Is that one of the problems?

Ms. COHEN. In our case, the problem is appropriations. As the budget goes down, they are taking out the training money first.

Mr. HORN. Who is "they"?

Ms. COHEN. The appropriations committees. I think that the underlying rationale is that the policies, major missions of the department, are being squeezed, so they try to protect those by reducing the training. In connection with the Park Service, we did have in a major request for training funds, and that was reduced. We also have the same problem within the department. We have limited resources, and we're fighting to keep the training money as we develop our budgets.

Mr. HORN. What usually gets priority by the department over training? What sort of things do they put ahead of it when they are squeezing training?

Ms. COHEN. Visitor services in the Park Service. We're talking about, in this case, financial training, not ranger training.

Mr. HORN. Sure. Exactly. Exactly.

Ms. COHEN. Visitor services in the Park Service.

Mr. HORN. So that's where they want the training, because that's their prime mission.

Ms. COHEN. Sure.

Mr. HORN. And the attitude is, "You can pick up after I finish." I think I know the attitude. Of course, the CFO Act was put on the books to try and turn some of that around so we would know what it cost when you finished, which is important if you're making judgments on what type of services you're going to offer or not offer, or could you have offered them in a more fiscally prudent way and a more effective way.

That concerns me. Is there going to be a report from the CFO Council on this? Because we need to educate a few people up here on some of the appropriations subcommittees, I'm sure, plus the authorization committees. I don't exclude us.

Mr. WILLIAMS. Well, there is, Mr. Chairman, a report from the Committee on Human Resources that Dennis referred to that doesn't completely cover this issue but certainly talks about the role of training in improving financial management and some of the challenges we face. I think we may have included that in your briefing materials in that meeting; if not, we would be happy to share it with you.

Mr. HORN. If a bright new member of the Civil Service decides to go to the Department of Agriculture graduate school, pay for it out of their own pocket, or go to a private or public university, what kind of reward does that person get in the Civil Service? Is there any flexibility for that to be recognized in promotion?

Mr. FISCHER. Mr. Chairman, I think there is. One of the things that we've encouraged at GSA is people to study for the Certified Public Accountant exam. And we have a policy that if someone decides to go for the CPA, we will pay for the preparation, we will give them time off, we will pay for the direct examination fees. And it gets a little dicey when you then say, "If you pass it, we'll give you an additional bonus," but that usually happens, maybe not so directly, but just to try to encourage that very development.

Mr. HORN. Sure. Has anybody looked at that particular aspect of trying to encourage CPAs to stay with the Government, or do they just feel, "Gee, we're going to invest in this person, they are going to spend a couple of years here, know all the system, go out to private industry and figure out how to access it and work it to the particular grantor or grantee, as the case may be?"

Mr. FISCHER. My personal experience has been that has not happened to any great degree.

Mr. HORN. You feel they have stayed with the Government?

Mr. FISCHER. They are committed to public service and stay with it and perform, and we get our money's worth back many, many times from those kinds of investments.

Mr. HORN. Under the CFO, what kind of structure and hierarchy related to the Civil Service position system does one normally have, and what is the highest to which a professional, who is very well-trained, well-educated, has the practice, has done the job effectively, what is the most he or she can hope for in that hierarchy?

Mr. WILLIAMS. I can speak for Agriculture, Mr. Chairman, wherein we have proposed to the Secretary an organization where we would have working with Ted and I, my Deputy and me, two associate CFOs. These would be career SES positions: one would be an associate CFO for policy for the financial systems, financial standards, if you will, Government performance and results; the other for operations such as the NFC.

Someone coming into the organization at the beginning level could aspire to one of those jobs very easily.

Mr. HORN. What would they come in at; what position in the general schedule?

Mr. WILLIAMS. I think it depends on the position in the organization.

Mr. HORN. If you have a college degree, with a bachelor's in business administration, what does that get you in the general schedule?

Mr. WILLIAMS. I think something like a 13 or 14. Would that be right?

Mr. TUCKER. No, no, no.

Mr. FISCHER. Actually, Mr. Chairman, I think it would be probably like a GS–7, maybe a 9, depending upon being an outstanding scholar.

Mr. HORN. If you had a Ph.D., what would that get you?

Mr. TUCKER. It depends how you come in, Mr. Chairman. I've been Deputy IG, and we hired a lot of accountants and auditors, and it just depends how you come in. If you're coming in with a bachelor's degree with good grades, you can start at a 7. If you're coming in with a graduate degree, you can also start at a 7. But if you come in under certain kinds of programs, you can move up fairly rapidly.

And we compete. We compete very well in university systems. Particularly if we go to smaller schools, we're able to get the best students.

Mr. WILLIAMS. We're talking about someone entry level now.

Mr. HORN. Yes, that's right, entry level.

Mr. WILLIAMS. I mean, with no prior financial experience.

Mr. HORN. Yes. Let's have the staff deal with OPM and the agencies and work it out. As I remember, 30 years ago, you are correct. If you had a bachelor's degree and pretty good grades, you could start for sure at a 5, and you might even get a 7. If you had a doctorate, you would probably start at a 9 and maybe even get an 11, and so forth. Nobody ever seemed to worry about 8 and 10 somehow, but maybe times have changed.

That is one of our concerns as a committee, and we want to be helpful on this. There ought to be an organized sort of academy, it seems to me, that focuses in this area, of people with financial management skills that can see an upward career progression. So we would welcome any thoughts you have, and we will try to educate some of our colleagues.

It is the oldest game in town, essentially, in Congress, to save program money by whacking something in the Secretary's office. Now, with the fattening and thickening of Secretaries' offices over the last six or seven administrations I've watched, that's probably not a misplaced arrow. On the other hand, it can sometimes do real damage, and we've just heard about some of it, where training is cut, and all of this, that might be in the Office of the Secretary, under the human resource end.

Well, any other comments on some of those initial questions? Because I've got a long list here. Until the voting bell goes, I'm probably willing to go.

Mr. FISCHER. Mr. Chairman, I would offer one thought on what the CFO Act did do. It caused the kinds of changes in elevation of people involved in financial management, that Tony just mentioned, and I'm confident, if we counted the number of Senior Executive Service people who were involved in Government financial management in 1988 or 1989 and counted it today, that the number would be substantially increased. I know it is in the places I've been and, obviously, I think is in Agriculture and elsewhere.

Mr. HORN. You think members of the Civil Service see a real career opportunity then?

Mr. FISCHER. I do, sir, yes.

Mr. HORN. So there's something to aspire to?

Mr. FISCHER. Yes, sir.

Mr. HORN. Well, I would hope that would be it.

Let me go back a minute to the on-the-shelf/off-the-shelf question that we argue about, whether you are talking hardware or software. Do you find that in the setting up of these systems in various agencies, not necessarily talking about your own, but your mixing with your counterparts in other agencies, small and large, that they will try to say, "We have special problems that we must design into this," or they have preferences for certain types of hardware, and all the rest?

When you look at what has happened due to technology and the tremendous capacity you can get out of much smaller units properly linked together, and that industry already has much of the software that one needs for decent financial operations, I'm just curious the degree to which we're doing what the Pentagon regularly does, what FAA has done in utter failure, is to keep adding all the bells and whistles on until the whole project collapses.

I wonder what the feeling is, how practical people are.

Ms. COHEN. I think, in Interior, people are becoming increasingly practical, but the problem you raise is a real one. When we first came in, the 10 bureaus, each bureau was free to develop its own systems. At the simplest level, we had four video conferencing systems that couldn't talk to each other. We had personal computer systems running financial systems that couldn't talk to each other, and each bureau felt that they had a unique problem.

We've been working on that and developing standards, and it's my sense, as I talk to other people, that most of the other Government agencies are trying to develop those same kinds of standards, and we are recognizing that we have a lot more in common than we have differences.

Mr. HORN. Has that been your experience also, Mr. Tucker?

Mr. TUCKER. Yes. Well, when agencies buy or agree to buy an off-the-shelf system, it very often needs to be customized, because the agencies already have business processes, and they have information that is already there, and they really aren't able to change their business processes at the rate the technology changes. If technology is changing every 18 months, we can't get the money from Congress to change our process every 18 months.

So the systems have to be adapted, very often, to the processes we have. And that is sometimes frustrating to people, because they would hope that they could go and get something off the shelf that would serve their needs immediately, but it never really can. It needs to be fixed to do the particular things that they want done.

Mr. HORN. Well, have we tried to add up all these unique things people want? Other agencies must have run into the same uniqueness. And is it really unique? Again, I don't understand, when a very complex agency on the domestic side solves the problem, why a lot of that can't apply to the military side.

Mr. TUCKER. Well, I think some of the things are very unique. Even if you take a look at something like civilian personnel, which everybody says, well, you know, it's the same Government rules, there still are a lot of differences in Government rules for different kinds of civilian personnel. We have, for instance, civilian mariners who work for the Department of Defense. We have DOD schoolteachers who work for the Department of Defense.

We have particular needs that our systems have to accommodate that other systems don't accommodate. Consequently, we have to make changes if we're going to take on some system to do that.

Mr. HORN. Well, let's take schoolteachers. You have the American schools abroad, and do you pay them directly or do it on contract?

Mr. TUCKER. They are direct employees.

Mr. HORN. Direct employees.

Mr. TUCKER. Yes.

Mr. HORN. Are they in the career service?

Mr. TUCKER. They are paid under different rules. I think they are career employees, but there's a different set of rules for them than there are, for instance, for Dennis and me.

Mr. HORN. I mean, were these mandated by OPM or mandated by Congress?

Mr. TUCKER. Probably most of them are congressional, because they have the types of pay that they can get, when they can get

them, when they are employed, and such. And particularly, if they are overseas, they have overseas allowances that have to be added to their pay, and such.

Mr. HORN. OK. But the State Department faces that; USIA faces that. When an agricultural attache goes overseas, conceivably they face that.

Mr. TUCKER. Yes, they have a different salary scale, because State Department has foreign service officers and the associate foreign service officers, and such.

Mr. HORN. Well, I would love to have, from any of you who want to, at this point in the record, some of the examples of uniqueness that we have to tailor these systems to accommodate, when you think that we're talking fiscal matters.

Yes, Mr. Williams.

Mr. WILLIAMS. I was just going to say, Mr. Chairman, what we're trying to do is strike a balance between, on the one hand, the extreme where you're just doing everything yourself and reinventing the wheel, and that's certainly something that we all condemn; on the other hand, taking something off the shelf with no adaptation or modification, and that's not going to work either.

I think what we want to do is, as much as possible, take the system off the shelf, use its properties as a kind of baseline common denominator, and wherever possible reengineer on the basis of that.

Mr. FISCHER. I would add, Mr. Chairman, that many years ago, as we looked at financial systems, we saw them as an integrated, nice, simple kind of laid out schematic, a whole series of steps, and of course the customer saw as one gigantic black box. I think what technology has brought us is that the overall system is going to look like a quilt, and they are going to have little pieces that are going to be patched together, and they are going to talk back and forth, and, hopefully, we will be able to move those pieces in or out.

I had the opportunity to go up and speak with a counterpart from the Canadian Government. One of the common things that we felt we learned from that was something Tony mentioned earlier, that to do these things, you've got to do them in small, bite-sized increments. I, frankly, am scared to death of the multimillion-dollar, big, single system, because you put all your dice on it and they come easily up wrong.

I think we're learning to take smaller pieces and adapt technology and, frankly, in many cases, to get out of that unique, has to be done here, it all has to look elegant, and all together syndrome that has plagued us.

Mr. HORN. I think you're right. You do get to the point, though, if the GAO is trying to audit the Federal Government, does all the uniqueness in separate systems enable it to do a proper audit? Maybe it does. I don't know. What is your experience when GAO has come in on just even a pilot basis? Can anybody really have—I mean, is there difficulty in accessing the records and auditing, when they are used to certain standards in private industry? Are they getting those same standards in the Federal Government?

Mr. FISCHER. Our financial statements are audited and have been for a number of years by a private CPA firm.

Mr. HORN. And there has been no problem?

Mr. FISCHER. They don't seem to have much difficulty. I mean, there are unique ways we do business and different businesses we're in, but my sense is, in talking with them, they are not too greatly different than what they encounter whether they go to Lockheed Martin or General Foods. They have to be adaptable, and they are the same basic processes, and they just find them and audit them.

Mr. HORN. At each of your agencies, I'm curious how the Inspector General has reported on the issue of adequacy of automated financial systems.

Has there been any problem in the Interior?

Ms. COHEN. We have 10 bureaus, and we have 6 that are easy to audit, probably 2 that are somewhat more difficult and improving every day, and 2 that are difficult.

Mr. HORN. What makes those differences; can you put your finger on it?

Ms. COHEN. I think the differences are the financial systems, the training of the individuals involved, and the backgrounds, the history. In the case of something like the Minerals Management Service, where the function has been around for a while and people know and understand it, they have good historical records. In the case of a bureau that is more difficult, not only are the systems weak, but the historical information is not readily accessible or well-organized. That makes for a very difficult audit.

Mr. HORN. How about GSA?

Mr. FISCHER. We've really not had any problems in the auditing of our systems, although I would comment that our systems are ancient, and yet we've been able to, with a lot of good people and some good processes and a businesslike approach, achieve unqualified audit opinions since 1988. We've got to replace them to survive, but they have stood the test of time. Unfortunately, some of the time is running out on the technology to actually keep them operating.

But, generally, with our audits by the Inspector General, they tend not to just focus on the system but the entire process and the result, rather than coming in and looking just at the automation.

Mr. HORN. How about Defense?

Mr. TUCKER. The IG has identified systems as one of the major problems, if not the major problem, in preventing the auditors from giving us clean opinions on our statements. Our systems are basically fund accounting systems for the most part; they are not transaction-driven, double-entry systems. Much of what is in place in the Department of Defense, on the logistics side, for instance, are separate, stovepipe systems.

So when you need information for posting in a general ledger account, you have to go to another system and get the information, and if that system doesn't have the sort of audit trails in it that the auditors would look for, it's very difficult for them to reach an opinion on those systems. So systems are our biggest problem.

Mr. HORN. Do you know the history of that system, how they went in that direction and didn't tie in the acquisition logistics portion with the financial system?

Mr. TUCKER. Well, yes, it goes back to the fact that the main interest of the Department of Defense or the Government or the Con-

gress at that time was to control how money was spent. And we developed a financial system to control that. Once the money was spent, we were concerned about how the equipment was used, who controlled it. And when you're going to war, you need to be sure you have the control of the inventory system, that you have the logistics, stuff that was another perspective and another group of people in the department who were responsible for that.

Mr. HORN. And they weren't talking to each other? And there was no need at that time; is that it?

Mr. TUCKER. There was no need to talk to each other at that time. You procured and you provided the equipment, and then the operators accounted for and used the equipment and the inventory.

Mr. HORN. Well, we've heard good things about the Air Force; they apparently have a pilot project now going, trying to straighten their system out. Is there any similar activity on the part of the Army or the Navy?

Mr. TUCKER. The Army has a very proactive program in relationship to its financial statements. Army financial officials have been working very closely with the Auditor General of the Army and with the IG. The Navy is just beginning, and I think their first audit is of their 1995 or 1996 statement coming up.

Mr. HORN. I note in fiscal year 1992 and fiscal year 1993, the Navy had no audit performed.

Mr. TUCKER. That's right. The CFO Act at that time named only the Air Force and the Army as pilot organizations.

Mr. HORN. Now, both the Army and the Air Force for those fiscal years said "Disclaimer." How do we translate that so we can all understand it?

Mr. TUCKER. Well, it means that the auditors were not able to reach an opinion about whether the statement fairly represented the financial operations of the organization at that time. It is no opinion; unable to reach an opinion.

Mr. HORN. We can't translate that as they simply threw up their hands and didn't know what they were digging into, because they couldn't tell what related to what?

Mr. TUCKER. I think that would be a little bit of an exaggeration.

Mr. HORN. You think I'm being harsh.

Mr. TUCKER. They didn't throw up their hands; they certainly worked long and hard at it. They spent over—I'm not sure how many man years—I think over 400 man years. So they didn't just give up; they did the audit and did the tests they thought were necessary, but they were unable to reach an opinion as a result of those tests.

Mr. HORN. Yes. I note here there's—apparently, specifically the Air Force has had its financial statements audited every year since fiscal year 1988. That audit and virtually all subsequent audits of DOD entities have resulted in qualified, adverse, or disclaimers of opinions because of the unreliability of the reported financial data. What generally leads to that unreliability of financial data? I mean, is it that they are missing something?

Mr. TUCKER. It's, again, the systems, the systems that were not designed to develop a financial statement, were not designed to provide that kind of information. It's not within the accounting system. You have to go and get the data and post your general ledger

from other systems, and you have to then rely upon the reliability of those other systems. And they weren't designed to provide the sort of tracking that an auditor would like to have.

Mr. HORN. We read in the paper recently—I've forgotten the exact amount—but it was around $15 billion that was floating around somewhere in the Pentagon; nobody could find it. They thought it probably hadn't been misused, but nobody knows where it is. Are you familiar with that situation, Mr. Tucker?

Mr. TUCKER. Yes. I don't doubt you could have reached that conclusion from the media report on that, but that was an exaggeration.

Mr. HORN. You mean it's only $14.9 billion?

Mr. TUCKER. No, no.

Mr. HORN. What's the exaggeration?

Mr. TUCKER. No, that money was spent to pay just debts of the U.S. Government that were properly presented and properly certified by people who were in a position to certify that we owed this bill and we needed to pay it to the public, for one reason or another. But because of our accounting system, we were unable to, in all cases, track that payment back to a specific obligation on the books. We might be able to tell, generally, where the obligation is, but not the specific obligation.

So it's more of an accounting/bookkeeping problem as opposed to losing the money. We did not, in almost every one of those cases, spend the money improperly. We spent it for something that was necessary, and the bill was a just debt of the U.S. Government.

Mr. HORN. I note, and I will put in the record at this point, the letter from John J. Hamre, who is the Under Secretary of Defense/Comptroller, a letter to the chairman of the authorizing committee, Mr. Young of Florida, who heads the Subcommittee on National Security.

[The letter referred to follows:]

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON DC 20301-1100

COMPTROLLER

MAY 22 1995

Honorable C. W. Bill Young
Chairman, Subcommittee on National Security
Committee on Appropriations
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On May 14, 1995, the Washington Post printed a startling article about the condition of our finance and accounting operations in the Department of Defense. I feel it is necessary to write you about this article because it implies that the Department's finance and accounting systems are so flawed and error prone that you can't trust the budget we have submitted to you. That is flatly not the case, as I explain below.

Let me say at the outset that we do have serious problems in our finance and accounting operations. Secretary Perry has given me very specific direction to get our house in order, and as I hope this letter will show, we are making good progress. No one is hiding our problems and I am very willing to review them in any detail you desire. But it is essential that these problems be placed in a proper context. I feel that the Post article failed to do that. Since you undoubtedly will hear from your constituents about the problems, I must take this means to provide you that context.

First, our accounting problems can be separated from the makeup and quality of the annual Defense budget. While we have serious accounting problems, our budget is based on best estimates of future needs and expected costs. Further, it is based on the obligation of funds, over which there is strict oversight. Those obligations reflect the award of contracts for goods and services. There has been very little dispute about the accounting for obligations, i.e., for what is on contract. Likewise, we have in place an elaborate system to determine whether goods or services have been delivered. Rather, our problems have concerned the matching of expenditures to obligations, which are an important part of accounting, but a less relevant factor in the development of budgets or the measurement of budget execution.

When I arrived, I learned that the Department had serious problems in matching obligations and disbursements. These were not the makings of my predecessor. These problems, in varying degrees go back 50 years to the founding of the Department.

Indeed, had it not been for Secretary Cheney's pathbreaking decision to combine the various finance and accounting offices around the Department into a consolidated Defense Finance and Accounting Service, our problems would be dramatically worse, and we would not be in a position to attack these problems now.

In the fall of 1993, Secretary Perry (then as Deputy Secretary) directed us to cut our problems in half within a year. In the process, we learned the problems were even bigger than we thought. The following chart summarizes the status and progress we have made. (GAO criticized us for understating the problem earlier this year, so I am using the most all-encompassing definition called for by GAO in these comparisons.) The three measures are disbursements not matched to any obligation, disbursements that exceed obligations (negative unliquidated obligations), and disbursements that are in process now.

	(Dollars in Billions)		
Category of Disbursements	6/93	6/94	3/95
Unmatched Disbursements	23.0	14.4	13.3
Negative Unliquidated Obligations	8.8	7.3	5.9
In-Transit Disbursements	16.9	13.6	9.6
Total	48.7	35.3	28.8

As you can see, over a 21-month period we have reduced the total problem from $48.7 billion down to $28.8 billion. That is a 41 percent reduction, and I am very proud of that. We have had thousands of people working very hard to make progress. In some areas the progress has been nothing short of stunning. The Army has reduced its problem disbursements by nearly 60 percent during this period. This is an incredible achievement, made possible only by exceptional efforts. Unfortunately, we still are left with a large number of problem disbursements which we must resolve.

I should point out, however, that these problem disbursements occurred during the past 10 years during which we disbursed over $2.5 trillion. This means our problem disbursements total approximately 1 percent of total disbursements, and during the past 21 months we solved nearly $20 billion of these problem disbursements and correctly matched our cancelled checks with their proper accounting records. I hope we will cut this in half during the next year.

So why are we making errors in the first place? In brief, we have flawed business practices that have built up over the past 40 years. When the Department was created, every organization developed its own accounting systems. When the DFAS was created, there were over 250 major accounting systems in operation. Some 30 years ago, the Department adopted a system where any one of the 300 plus finance offices can write a check on behalf of anyone else in the Department (cross disbursing). Although, we never write checks unless (1) there is a valid

contract and (2) the invoice is accompanied by an independent report from a government receiving activity indicating that we received the goods and services, this cross disbursing process resulted in a situation where checks were written for valid bills without checking first that there was a clear path back to the accounting record in one of those 250 accounting systems. The result was a business practice (and a culture) of "pay now, account for it later."

That has to stop. In March of last year, I issued directives suspending all payments from accounts "in the red." Since that time, we have held up over 20,000 payments to over 1,500 contractors. Today, we are still holding up 367 payments totaling $19.2 million. We lowered the problem through the research efforts of the past year. Also at that time, I issued new guidelines for matching unmatched disbursements and "negative unliquidated obligations." That policy change has had a huge effect in reducing the problem.

The ultimate solution is to preclude payment until we have a clear match with the accounting record. We will start doing that in July. We will start slow, first with payments over $5 million, dropping to all payments over $1 million on October 1. Eventually we will drop that to zero. Because we process 2.5 million invoices a month, we can't insist on prevalidation immediately or we would freeze up all payments overnight.

The second serious allegation made in the Post article was that we were willy nilly paying contractors more than we owed them, and that often we didn't even know about it. That too is wrong. Here are the facts.

	Contractor Overpayments ($ in Millions)
FY 1993	792
FY 1994	294
FY 1995 (projected)	270

As you can see, back in FY 1993, we did pay contractors $792 million more than we should have, but we did recover those overpayments. Since that time, we have devoted considerable effort to correcting these problems and have reduced the FY 1995 overpayment to $137 million through March 1995. The projected FY 1995 level is roughly a 65 percent reduction, and again, I am very proud of that.

This too must be put in context. We made these overpayments at the Columbus DFAS Center which pays some $90 billion annually. We disburse $35 million an hour at the Columbus Center. This means, we overpay contractors about .3 of 1 percent, or in other words, they get it right 99.7 percent of the time. I don't excuse our mistakes, and we are working to correct them. But I have to ask that you put this in perspective.

Now you may ask (as did GAO) how do you know the problem isn't worse? Indeed, the figures above represent just what the contractors have returned. How much more haven't they returned?

There could well be more that we don't know about. By law it is a criminal penalty for contractors to hold onto money when they know they have been overpaid. And every contract is audited before it is closed and that is usually when we catch overpayments that have occurred.

I am not making excuses for poor behavior. We have to get better. The problem already has been reduced by 65 percent in the past two years and we will continue to work on it until we get it totally corrected. But please remember we still have a 99.7 percent success rate.

Let me conclude by saying that there have been countless calls for "holding someone accountable" for this mess. I ask you to hold me accountable. The bulk of our problems are the product of innocent mistakes inside a very complex system where typographical errors produce thousands of mismatched records that require subsequent research. Some 46,000 people work in this area (the average grade is a GS-7) and they are working hard overcoming the limitations of the overly complicated system we have given them. We are fundamentally overhauling our business practices in this area--cutting by 90 percent the number of offices, cutting by over 80 percent the number of finance systems, cutting by half the number of people in the field, and so forth. Hold me responsible for progress. We are making progress, and I hope to earn your confidence.

Please let me know if I can provide additional information or insights into this important area.

Sincerely,

John J. Hamre

cc: Honorable John P. Murtha
Ranking Democrat

Mr. HORN. They noted that in the fall of 1993 Secretary Perry, then as Deputy Secretary, "directed us to cut our problems in half within a year. In the process, we learned the problems were even bigger than we thought. The following chart summarizes the status and progress that we have made.

"GAO criticized us for understating the problem earlier this year, so I am using the most all-encompassing definition called for by GAO in these comparisons." All that is in brackets or parentheses. "The three measures are disbursements not matched to any obligation, disbursements that exceed obligations (negative unliquidated obligations), and disbursements that are in process now."

So we have the category of disbursements as to unmatched disbursements, negative unliquidated obligations, in transit disbursements. And as of June 1993, there was a total of $48.7 billion in that category. That dropped in June 1994 to $35.3 billion, roughly $13 billion, and down in March 1995 to $28.8 billion.

And you are optimistic that some of the matching will occur, or is it just hopeless now, given the state of the records?

Mr. TUCKER. No, no. We have—for instance, in the last 15 months, I think, we have resolved about $15-billion worth of mismatches or unmatched. And basically we found all of those to be accounting problems that we were able to correct. It is a massive effort. It does take time, but it can be done, and we are embarked on doing that.

We began this month now with what we call prevalidation, which is, we will not make a payment that exceeds $5 million until we have matched the proposed disbursement with the obligating documents. And, beginning October 1, we will extend that process to all payments that are $1 million or more. Eventually, we hope to get to prevalidation for all disbursements, which is how we plan to overcome this problem.

Mr. HORN. I note that, in the Department of Defense's Fiscal Year 1995 Appropriations Act, the Congress passed legislation requiring DOD to verify that, beginning in July 1995, for payments over $5 million, the payments must be obligated before a payment is made. The amount of proposed payment subject to this requirement decreases to $1 million in October 1995. Does that help matters?

Mr. TUCKER. Yes, that's what I was talking about. That is the agreement that Dr. Hamre reached with the Congress on how we are going to proceed here. There was a feeling, initially, that we would match everything before we pay, but that would bring our current payment system to a collapse. So we agreed that we had to bring this on board gradually, and eventually we hope to get to prevalidation of all payments.

Mr. HORN. Are you experiencing any difficulty to comply with the $1 million requirement?

Mr. TUCKER. Well, right now we're complying with the $5 million requirement. We began that in the first week of July. I have not heard of any problems on that yet.

Mr. HORN. What is the ultimate aim, to comply with all the requirements, or just to stop it at $500,000, or what?

Mr. TUCKER. No, no.

Mr. HORN. To the guy in the average barber shop across America, that sounds like pretty big money. In fact, it sounds like pretty big money to me.

Mr. TUCKER. Oh, I understand that, yes. No, our plan is to eventually prevalidate all disbursements.

Mr. HORN. Well, let's hope so. With all the money we give the Pentagon, you would think they could get the financial accounting system straight. And I must say, my other squabbles with them are on just some of the silly things they invest in and waste billions of dollars, but that's another story. We will be pursuing that in another forum.

What I'm interested in here is, could you indicate whether you have the responsibility, each of you as CFOs, for budget formulation and execution, and whether having both is important, in your judgment, for improving financial management. Are there any of you who are not involved in the budget formulation and execution role?

Does Agriculture have it?

Mr. WILLIAMS. I don't, sir.

Mr. HORN. You don't. So you have strictly the financial management role, in terms of the CFO.

Mr. WILLIAMS. That's correct.

Mr. HORN. Who does the budget formulation and execution at Agriculture?

Mr. WILLIAMS. There is an Office of Budget Program and Analysis that reports to the Deputy Secretary.

Mr. HORN. How about in Defense?

Mr. TUCKER. In the Department of Defense, our CFO is also our Comptroller, so he is responsible for budget. If I understand you on "execution," and I'm not sure that I know what you mean by the term exactly, once the money is made available by the Congress and the Comptroller apportions the money, or it's proportioned to us and then we dole it out to the services, then the services are mostly responsible for the execution of the programs.

Mr. HORN. Yes, but the tracking of that money.

Mr. TUCKER. The tracking of that money is the responsibility of Defense Finance and Accounting Service, which does report to Dr. Hamre.

Mr. HORN. Right. How about GSA?

Mr. FISCHER. Yes, sir, I have both budget formulation and budget execution, and we have a centralized accounting operation. We also have strong financial management in our components. And one of the things that is an important area is that I have to agree with the selection of the controllers in each of our components, and I have to sign in and agree upon their annual appraisal and bonus, if any, because they all are in the Senior Executive Service.

And I would also opine, having been in three different departments, that I think for a CFO to function appropriately, you have to have the budget execution, budget formulation, financial accounting, and financial management systems responsibilities.

Mr. HORN. Now, is there a separate Office of the Budget in GSA?

Mr. FISCHER. It is, but it works for me. So I have an Office of Finance, an Office of Budget, an Office of Financial Management Systems, and an Office of Financial Management.

Mr. HORN. Could one, in these terms, however defined—and that's what I'm interested in—have, as a CFO, the budget formulation responsibility and its execution and still have a separate budget office?

Mr. FISCHER. I don't think so, sir. I think, if there's a separate budget office, it has got to be involved at least in the formulation of it.

Mr. HORN. Well, I can understand it in laying out the practice and pattern in the past. I can understand it in making sure all the numbers are accurate and we are counting what we think we're counting, and so forth and so on.

Conceivably, one could say that you then have a more policy-oriented office that is carrying out the wishes of the Secretary or the administrator, and you're putting values on it that maybe in the budget formulation, in the more staid view of that word, you wouldn't be doing. You would simply be making sure that what the budget people are saying is accurate and has properly been drawn from the data base.

Ms. COHEN. I think that with the three important financial acts, it grows increasingly difficult to separate budget from finance, because the budget loop is going to be the loop that's involved, as is the finance loop, in these performance measures.

Mr. HORN. Right.

Ms. COHEN. And one of the things you want to be sure is that that information feeds back into policy decisions. Without having those two functions closely related, I think, under the CFO, you can't be sure that that information is the basis of policy decisions in the future. It may just result in reports that sit on shelves.

Mr. HORN. Yes, I can see that. But apparently some of you do operate without the budget. Agriculture has a historically very powerful budget office. From the days of W.A. Jump in the 1940's, that's been a dynamic operation. So you're dealing with one with a real cultural history there.

Mr. WILLIAMS. Right. It's a goal of the administration. The administration encourages all the organizations to include both budget formulation and execution in the CFO's duties and responsibilities, strong belief of the CFO Council that, as Bonnie says, you've got to have this continuum or, as Ed DeSeve mentioned to you earlier, sir—that you've got to have this continuum and this feed of information. We believe that it's the responsibility of the CFO, if you will, to present you with a menu. You choose from that menu, as a policy official, but the CFO has got to be in the kitchen preparing the different items for your selection.

Mr. HORN. Yes. Any other comments on this? Because it seems to me some of you are operating with it and some without it.

I'm wondering how much it cripples you, as Chief Financial Officer in Agriculture, not to have that function under you?

Mr. WILLIAMS. We've got the administration goal. On the other hand, the administration recognizes that there has got to be flexibility for the agencies or departments. It recognizes their different traditions and histories, and so on and so forth. Sir, it's like our financial system, we've got to just do everything in incremental, chewable bites. I think our organization is the same way: focus on

our top priority objectives and try to accomplish those, and in the out years look at the bigger picture.

Mr. HORN. When the Secretary has a meeting of his top staff, I take it you, as CFO, are in that meeting?

Mr. WILLIAMS. Right. I attend the subcabinet meetings. But like any new officer—and I think the Secretary would certainly understand this—like any new officer, spend enormous time—and this is just, I think, at any institution—getting your office organized, getting an office, I mean, just all the basics require a lot of effort and work.

Given the choices that were made, I think the Deputy Secretary has made a good decision. He basically had to create a new CFO office out of existing offices. Anytime you do that, you're going to raise problems. And the fact that all of us have some consternation about the end result I think probably means he made a good decision, because if you've got everybody unhappy, there's probably some good, basic, sound judgment.

Mr. HORN. So, essentially, the principal managers meet with the Deputy Secretary, do they, in Agriculture, not the Secretary?

Mr. WILLIAMS. In terms of your mission support, everything is integrated at the Deputy's level.

Mr. HORN. Who represents the Budget Office in that meeting?

Mr. WILLIAMS. There is—well, on many, many issues, as it relates to policy and strategy, there is a Chief Budget Officer who will meet with the Deputy. Some of those meetings we're involved; some we're not.

Mr. HORN. Would that be the Assistant Secretary for Administration in Agriculture?

Mr. WILLIAMS. No, this is a different person, sir. This is a career SES position.

Mr. HORN. Who is the Chief Budget Officer.

Mr. WILLIAMS. Who is the Chief Budget Officer.

Mr. HORN. And then there's also an Assistant Secretary for Administration?

Mr. WILLIAMS. There is also an Assistant Secretary for Administration.

Mr. HORN. OK. Then when we get over to Interior now, you wear both hats.

Ms. COHEN. Yes.

Mr. HORN. What percent of your day do you spend on being CFO, 10 percent?

Ms. COHEN. It doesn't work by the day; it works by the issue.

Mr. HORN. Help us get a—average it out over the year. I mean, are we talking about—when you are Assistant Secretary, you've got a tremendous portfolio under you.

Ms. COHEN. I would say that more of the time during certain parts of the year goes to the budget, and the remainder of the year, more of the time would go to the CFO functions. But it's not quite as clean as that, because you're having financial issues related to audits arising all the time, in the Inspector General's audits or financial problems you discover yourself.

So I can't give you a perfect answer.

Mr. HORN. Well, you inherited that split—I mean, that combined function.

Ms. COHEN. Yes.

Mr. HORN. Do you have any idea of the institutional history in Interior on why they did that, when most have a separate CFO. I would think the law probably should have been a little more specific. But how did they go that route?

Ms. COHEN. I don't know the history. And as I said, coming from outside the Government, in two other jobs I had them combined. I must say it didn't occur to me that they would have been separate, and I doubt I would have done the job if they were separate.

Mr. HORN. What were your titles in the other jobs outside of Government?

Ms. COHEN. CFO; Chief Investment Officer.

Mr. HORN. I see. And you had the budget function there, and you had the personnel function, and did you have other traditional staff, public affairs, whatever?

Ms. COHEN. Not public affairs.

Mr. HORN. Not public affairs.

Ms. COHEN. But the traditional financial functions and personnel administration. But, in the financial area, I always had both the budget and the controlling.

Mr. HORN. But you haven't got a real fix on how much time you spend as CFO.

Ms. COHEN. Well, I think budget and—the controlling functions are the functions of the CFO. So I would say that that really is how I spend my time, as the CFO.

Mr. HORN. Well, I'm wondering—it seems to me, when we've got the mess we have in a lot of Federal departments—now, you're pretty fortunate so far, but you don't have all your subsidiaries, if you will, on the plan yet, and of those you had, as I remember, four were doing pretty well.

Ms. COHEN. Six are doing pretty well.

Mr. HORN. Six doing pretty well; one or two are sort of a mess, I gather. And then the question comes down to, you know, this is a tough business, how can one focus to solve the problem? That's all I'm asking.

Ms. COHEN. Well, you focus—and I'm trying to give you an accurate answer—you focus, for example, a lot of time on the areas that are a mess and try to improve them. Of the functions that report to me, very little of my time is spent on personnel, but most of my time is spent on the financial functions.

Mr. HORN. GSA, you have both?

Mr. FISCHER. I have all the traditional budget formulation through accounting and analysis functions. We have a separate Associate Administrator that has the bulk of the remaining functions that Interior has, personnel, procurement, management support. And we work very closely on a lot of things, but 100 percent of my focus is on CFO functions.

Mr. HORN. Now, in Defense, Dr. Hamre has what under him?

Mr. TUCKER. Dr. Hamre has the Comptroller position established by law. When the CFO Act was initiated in 1990, it created a position called the CFO. In 1994, the Armed Services Committees rewrote the law to stipulate that the Comptroller and the CFO would be the same person. So he holds both titles. And that was also true in the last administration. Our Comptroller, Sean O'Keefe, held the

title of Chief Financial Officer also. And that includes budget as well as execution in the way you defined it.

Mr. HORN. Yes. Historically, as you know, the Comptroller role in Defense has been a tremendously powerful role.

Mr. TUCKER. Absolutely.

Mr. HORN. Starting from 1947.

Mr. TUCKER. Yes. Dr. Hamre is now an Under Secretary of Defense.

Mr. HORN. Right. Well, we thank you all for coming. We will have some more questions, and we will be sending them to you, and give us your best shot as an answer. I will put them in the record.

I want to thank the staff. First, let's thank the reporter, Mr. Edward Greenberg. We appreciate your work.

And the staff director, Russell George; Anna Young, to my left, the professional staff member specifically assigned to the hearing; Tony Polzak, legislative fellow, from the Department of the Army, as a matter of fact—hopefully, he's learning something—and Andrew G. Richardson, our clerk. And the minority staff, Matt Pinkus. Thank you, Matt. Thank you all.

With that, we are adjourned.

[Whereupon, at 3:10 p.m., the subcommittee was adjourned, subject to the call of the Chair.]