

A Report by a Workgroup of the

# NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

for the U.S. House of Representatives, Committee on Government Reform,  
Subcommittee on Government Management, Finance and Accountability



## MOVING FROM SCOREKEEPER TO STRATEGIC PARTNER:

IMPROVING FINANCIAL MANAGEMENT  
IN THE FEDERAL GOVERNMENT



October 2006



NATIONAL ACADEMY OF  
PUBLIC ADMINISTRATION®

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**C. Morgan Kinghorn**, *Chair*  
**Jonathan Breul**  
**John Callahan**  
**G. Edward DeSeve**  
**Hannah Sistare**  
**Hal Steinberg**

WORKGROUP STAFF  
**Richard F. Keevey**, *Project Director*  
**Eric Landau**

The views expressed in this report are those of the Academy workgroup.  
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National Academy of Public Administration  
1100 New York Avenue, N.W.  
Suite 1090 East  
Washington, DC 20005  
[www.napawash.org](http://www.napawash.org)

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## SECTION ONE

### BACKGROUND AND INTRODUCTION

This project arose from a request by the Chair of the House Subcommittee on Government Management, Finance and Accountability, who asked the Academy to examine ways to strengthen the financial management of the federal government in the 21st Century. The Chair sought wide-ranging analysis that focused on 10 key issues:

- the possible need to consolidate and streamline financial management laws and regulations in order to enhance the associated benefits
- an assessment of the long-term objectives for financial management—“where the government should be”
- methods needed to improve internal controls and overall financial accountability
- methods needed to enhance the strategic focus of financial managers
- elimination of burdensome requirements and reporting
- ways to facilitate the effective and efficient implementation of financial systems
- the need to improve financial management systems, especially budget systems
- the need to integrate performance, budget and accountability activities
- ways to make financial data more usable to decision makers
- ways to best organize the delivery of financial management services and integration of finance with other core administrative functions

To address these issues, the Academy formed a workgroup of Academy Fellows and expert staff<sup>1</sup> to examine potential reforms. The workgroup members and staff have significant background in the financial management environment and brought their expertise to bear on this effort. The workgroup conducted 10 meetings with approximately 50 management experts from the federal government and private industry and received input on how best to improve federal financial management. These experts were drawn from among chief and deputy chief financial managers, financial management systems designers and implementers, private sector representatives and the inspector general and program management communities.

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<sup>1</sup>The workgroup members and staff are listed in the Appendix.



## HISTORICAL BACKGROUND

“Government policymakers and managers are facing formidable financial management challenges in today’s complex economic, political and social environment.”

—*Managing the Cost of Government: Building an Effective Financial Management Structure*,  
U.S. General Accounting Office, 1985

Twenty-one years ago, the then-U.S. General Accounting Office (GAO) released *Managing the Cost of Government: Building an Effective Financial Management Structure*, which concluded that federal financial management processes did not adequately provide reliable and consistent information for policy formulation and management control. Furthermore, the report outlined specific problems facing the financial management community, including:

- poor quality of financial management information
- poor linkages between the phases of financial management process
- inadequate attention paid to monitoring budget activity and comparing it with actual results
- primary emphasis on fund control
- inadequate disclosure of assets, costs and liabilities
- antiquated and fragmented financial management systems

GAO noted major innovative improvements to financial management that had been made in prior years, including creating the President’s Budget; implementing the Planning, Programming and Budgeting System in the U.S. Department of Defense; unifying the federal budget; and establishing the congressional budget process. Other reforms produced more limited improvements. Although the reforms may no longer exist in their original forms or failed entirely, worthwhile components remain, including aspects of zero-base budgeting, management by objectives, and productivity measurement and improvements.

GAO asserted that a solid conceptual framework for financial management should encompass all or part of the following processes and functions: planning and programming, budgeting, budget execution, accounting, audit and evaluation. Further, it identified seven underlying concepts as key to establishing sound financial management and guiding financial management reforms:

1. Use a structured planning and programming process for evaluating and choosing alternatives for achieving desired objectives.
2. Make resource allocation decisions within a unified budget.
3. Budget and account on the same basis.
4. Use accounting principles that match the delivery of services with the cost of the services.
5. Encourage financial accountability.
6. Measure outputs as well as inputs.
7. Prepare consolidated reports.

GAO observed major weaknesses in sound financial information and meaningful feedback on results, as well as significant gaps and “weak links” in the process resulting largely from a failure to integrate the budget execution and accounting phases with priority setting and allocation of resources. The link between program and budget choices and the use of funds—and the results achieved—often relies on ad hoc reporting and analysis. This ad hoc reporting is time consuming, labor intensive and, in many cases, simply unreliable.

The GAO document recommended major reforms, which fell roughly into four broad categories:

1. Design financial systems to produce timely, reliable and consistent information.
2. Focus financial management systems on major issues and costing of alternatives.
3. Design a more manageable budgeting process that is more integrated with planning, programming and accounting.
4. Examine results of government activities, as well as costs.

The Chief Financial Officers Act of 1990 was a major step toward achieving these objectives. It produced a framework for addressing the concerns outlined in GAO report and provided leadership in bringing more effective financial practices to the federal government.

The Academy workgroup believes that steps have been taken to address several of the most important shortcomings, and that these have produced significant results. Specifically:

- Over the past few years, all but two of the 24 CFO departments and agencies have received an unqualified audit opinion on their financial statements.



- Most financial transactions are processed in updated and highly efficient accounting systems. The use of e-commerce and other forms of information technology has significantly improved productivity and enabled financial information needed for decision making to be available on a more timely basis.
- Performance-based budgeting has found its way into many federal agencies.
- An organizational structure with a chief financial officer in charge has been established to solidify responsibility and authority in all departments. Many agencies themselves have established similar structures.

Traditionally, the person responsible for the financial function had occupied the role of organizational “scorekeeper,” reporting financial information with little if any personal influence on the final outcome. Since passage and implementation of the Chief Financial Officers Act, financial executives have moved into a much more active decision-making role, with a place at the policymaking table where many are not valued as strategic business partners. There is no doubt that passage of the act has had a significant and positive impact on the financial management of the federal government.

During interviews with senior federal officials and private sector executives, however, the workgroup learned the following:

- Financial management statutes, circulars, bulletins and memoranda often act to obfuscate the operating environment of financial management; there is no effective integrated roadmap to govern policy and overall day-to-day operations.
- The key functions of financial management—strategic planning, budgeting, accounting and financial reporting—have not always been properly integrated.
- The federal government does not have an effective and uniform appropriation accounting structure by which to display and manage programs.
- Improvements to budget formulation systems have been nearly non-existent, especially when compared to comparable accounting systems.
- Some transaction processing requirements are extraneous, leading to expensive investments in systems and reflecting an unnecessarily complex operating environment.
- Financial data and reporting are not always user-friendly to decision-makers, including policy-makers and program managers.

- Cost accounting has not been widely implemented, except in some agencies for purposes of rate and price setting in a limited number of organizational components.
- Administrative functions, including financial management, do not always operate in a coordinated fashion, making them highly vulnerable to “stove piping.”
- Existing internal control procedures are not being utilized in a maximally effective fashion.
- Financial system implementations have not always been effective.
- Strategic planning needs to be integrated more fully into the financial management and budget formulation process.
- Better alignment is needed between budget systems and accounting systems.
- The Performance Accountability Report can be improved by stressing the integration of information and providing more summary data.
- The Line of Business (LOB) initiative being undertaken by the U.S. Office of Management and Budget (OMB) requires more careful analysis.
- Better coordination is necessary between OMB and the Department of Treasury.
- OMB and agencies should work to maximize the resources of the inspectors general.

Passage and implementation of Chief Financial Officers Act have produced marked improvement in the integrity of financial management data and systems. Indeed, organizational placement and responsibility have added relevance to the chief financial officer function. Requiring audited annual financial statements also has led to major improvements to financial management processes, including improved data integrity. The excessive accounting requirements noted above are due not to the act, but to the original approach taken to federal accounting, much of which is in the budgetary portion of the process and predates the act.

The passage of the Chief Financial Officers Act was an important milestone, but some changes and adjustments are necessary to further strengthen the federal government’s financial management. These are discussed in the following chapter.

## SECTION TWO

### CONCLUSIONS AND RECOMMENDATIONS

#### **1. Enact a single, integrated financial management statute.**

Numerous statutes have been enacted to improve financial management in the federal government, many of which overlap and sometimes conflict. Indeed, a collection of bits and pieces of statutes, circulars, bulletins and memoranda form the guidance for federal financial management. There is no sense of the relative importance of any of these components. And, there is no single document that provides the rules and financial roadmap by which a new financial executive can govern policies and day-to-day operations.

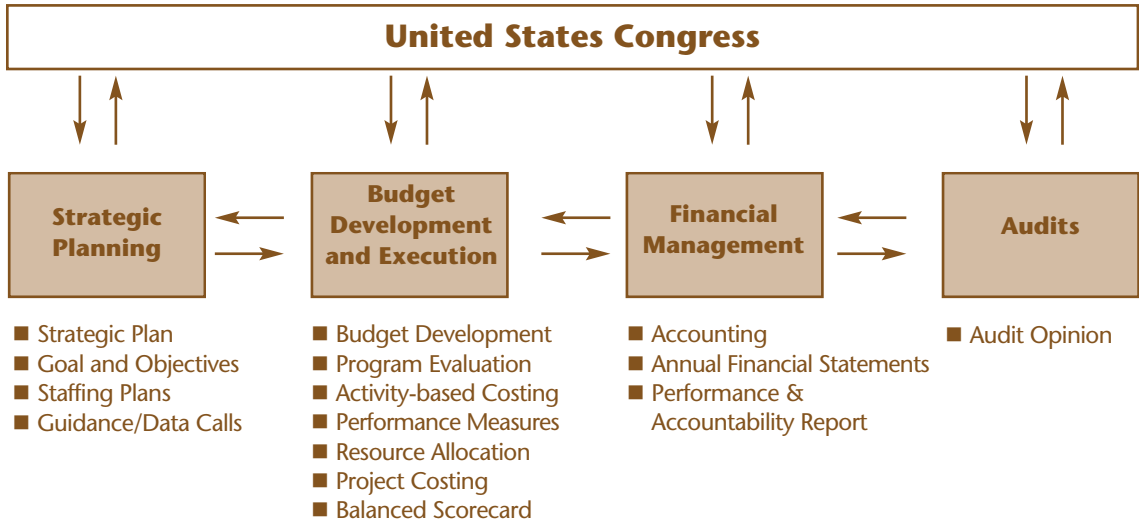
Furthermore, the workgroup's discussions with federal financial managers suggested that many view the world of financial management as a collection of disjointed sectors rather than a single, coherent community. Accountants, "budgeters," performance managers and strategic planners are perceived as separate players; in many organizations, they act that way. The financial world must be viewed—and ultimately operated—as a highly unified community.

Most important, the workgroup views the financial management community as an integrated system composed of these major disciplines. Given that the Executive and Legislative Branches are driven annually by the adoption and implementation of the budget, budgeting is the core conceptual activity within the financial management system. However, it cannot be effective without the strategic planning, record-keeping and financial reporting stages, and without the integration of such key elements as program integration, program evaluation, cost accounting and resource allocation. Figure 1 reflects the interrelationship among the four major elements of financial management, namely strategic planning; budget; accounting and financial management; and audit.

Improving financial management need not produce more legal requirements or circulars. Rather, there should be the development and enactment of a single integrated statute and a discussion of the relationships among the varied existing financial management statutes. This step would go a long way toward integrating the various disciplines of financial management. It also would stimulate the Executive Branch to combine and integrate financial management-related circulars into a highly integrated circular.

The workgroup concludes that no major additional legal requirements are necessary to achieve better financial management in the federal government. Instead, a comprehensive streamlining of existing statutes and improved integration of several OMB circulars are necessary to better organize and structure the way financial management is viewed and practiced throughout the federal government.

**Figure 1**  
**Financial Management Systems**



### Planning, Budget, Financial Management, and Audit Laws/Circulars

#### **Strategic Planning**

- Government Performance and Results Act

#### **Budget Development and Execution**

- Federal Acquisition Streamlining Act
- Information Technology Management Reform Act (Clinger Cohen Act)
- OMB Circular A-11 – Preparation, Submission, Execution of Budget
- OMB Circular A-76 – Performance and Commercial Activities
- OMB Circular A-94 – Guidelines and Discount Rates for Benefit-cost Analysis of Federal Programs
- OMB Circular A-129 – Managing Federal Credit Programs

#### **Accounting & Financial Management**

- Federal Managers Financial Integrity Act
- Chief Financial Officers Act
- Cash Management Improvement Act
- Government Management Reform Act
- Federal Financial Management Improvement Act
- Debt Collection Act
- Improper Payments Information Act
- Homeland Security Act
- Reports Consolidation Act
- Accountability of Tax Dollars Act
- Federal Information Security Mgt Act
- OMB Circular A-123 – Management's Responsibility for Internal Controls
- OMB Circular A-127 – Financial Management Systems
- OMB Circular A-130 – Management of Federal Information Resources
- OMB Circular A-134 – Financial Accounting Principles and Standards
- OMB Circular A-136 – Financial Reporting Requirements
- Bulletin 01-02 Requirements for Federal Financial Statements

#### **Audits**

- Inspector General Act

Congress could address this challenge by seeking unifying mechanisms that would enable financial management to be viewed as a coordinated function rather than disparate pieces. The result should be a revised, comprehensive and integrated Financial Management Act that logically displays related financial management requirements with proper vision and guidance statements. One approach would be to direct GAO to examine existing financial management legislation and guidance documents, and recommend the vision and integrated legislation. OMB could then prepare the integrating guidance in consultation with GAO. Figure 1 lists the major statutes and circulars related to all pertinent aspects of financial management.

## **2. Make the chief financial officer responsible for all financial management functions.**

The workgroup recommends that the chief financial officer be responsible for all major elements within the financial management function: strategic planning, budgeting and financial accounting and reporting. The position at the departmental and independent agency level would remain as a presidential appointment subject to Senate confirmation.

The workgroup also recommends that the chief financial officer and all associated financial management functions report through the Office of the secretary, deputy secretary or perhaps a deputy secretary or under secretary for management. This entity would coordinate all management functions, namely financial management, procurement management, information management and human capital management (see next page).

Senate confirmation for presidential appointees is time consuming. Since chief financial officers are not involved in delivering programs, the benefits of reconfirming credentials are marginal once they have been reviewed through the Senate confirmation process. If an individual has been confirmed as a chief financial officer in one agency, the president should be empowered to appoint him or her as one in another agency without further Senate action. Making the chief financial officer appointment “portable” would facilitate movement without needless delay and allow the President to move highly successful appointees to even more challenging agencies that face more difficult financial challenges.

Breadth of financial management was discussed by nearly every interviewee. Although some presented rationale for separate reporting channels, most believed that all finance functions, including budget formulation and execution, should be consolidated and report to the chief financial officer. Of the 24 departments and agencies with chief financial officers, twenty place budget formulation under the position, and twenty-three place budget

execution under it. Although the issue of chief financial officer responsibilities is viewed as highly important, little variation exists across the federal government. The workgroup believes that assignment of budget formulation and execution to the chief financial officer be compulsory.

**3. Establish a new “designated official” position to oversee all administrative functions, including finance, information technology, human capital and procurement.**

To foster integration and mitigate stovepiping, the workgroup recommends that the chief financial officer and all other substantive administrative functions report to a position which the workgroup refers to as “designated official.” Such a position might be a newly-created deputy secretary for management or a similar under secretary-level position.

The appointment of chief information officers, chief human capital officers and procurement executives, as well as the chief financial officers within agencies, has led some to call for the integration of these “chiefs” under a chief management officer or chief operations officer. Indeed, GAO itself has such an official, the chief mission support officer. Furthermore, GAO has recommended that the U.S. Department of Defense and other federal agencies establish a separate chief operating officer to oversee day-to-day management, a position distinct from the deputy secretary.

Some of those interviewed support the current arrangement in which the deputy secretary functions as the chief operating officer with program managers and management officials reporting to her or him (Directives issued by Presidents Bush and Clinton have designated the deputy secretary as the chief operating officer.). They argue that it is important for one person—the deputy secretary—to be charged with resolving program, policy, and resource and management issues.

The current chief operating officer concept has the distinct advantage of providing for a single nexus of responsibility, whether singularly management oriented or with a combination of management and program responsibilities. If one chooses the option of having a separate chief operating officer for management, another decision must be made about having a Presidential appointee position or a Senior Executive position.

The workgroup believes that the growing complexity of federal management issues necessitates the establishment of a separate deputy for management (or under secretary), particularly in large federal

departments. Moreover, given the need to have that position firmly established at the top of the leadership pyramid, the position must be a presidential appointment with Senate confirmation.

The workgroup urges that these positions be filled with qualified individuals who have demonstrated ability, knowledge and extensive practical expertise in the general management of large governmental or business entities.

**4. Use existing internal control evaluation and reporting processes to bring about the timely correction of previously-reported material weaknesses prior to expending substantial resources to obtain additional reports. Establish sanctions for agencies that do not correct these deficiencies within a concrete time frame.**

Agency internal control programs can be improved by expanding requirements beyond the financial community to include program and administrative activities and ensuring that these activities fulfill their objectives and expend resources efficiently and effectively. The workgroup believes that the Federal Managers Financial Integrity Act (FMFIA) has the essential ingredients for a good internal control program. Individual agencies can strengthen implementation by ensuring that all relevant personnel, including the program management community, are familiar with components of the program and are trained accordingly.

In some agencies, internal control is conflated with financial management. In reality, a good internal control program is concerned not only with proper accounting for revenues and appropriations and the integrity of financial systems, but with program efficiency and effectiveness; compliance with all applicable laws and regulations, including performance management; and ensuring that programs are administered with a level of integrity consistent with high ethical standards.

Under FMFIA procedures and OMB guidance, each program manager and principal functional manager must sign a “statement of assurance” for his or her area of responsibility before the secretary or deputy secretary for management signs the overall agency statement of assurance confirming the integrity of the internal control program. This is a best practice and good procedure that should be followed.

Most important, the Government Reform Committees should annually review existing material weaknesses reported by each agency head and auditors, including dates when the weaknesses were first identified, plans for corrective action and progress made in implementing them. This function could be executed through an official letter to the agency head and the establishment

of penalties for failing to correct long-standing weaknesses or implement action plans in a timely manner. Penalties might include more intensive oversight and hearings, or something more significant. The workgroup believes that the idea of implementing punitive measures requires further appraisal.

With respect to internal controls, the workgroup understands that OMB revised A-123 due to a concern that GAO, inspectors general or Congress might seek legislation to ensure that federal agencies meet the same Sarbanes-Oxley requirements as private-sector entities. This may have been excessive in the workgroup's view. Sarbanes-Oxley was enacted principally to prevent managers in publicly-traded companies from using unreliable financial reporting to mask self-rewarding activity. Federal managers do not face such incentives; thus, the revised circular requirement to provide additional assurances on internal controls over financial reporting seems unwarranted. Moreover, the new requirement will necessitate substantial expenditure of funds, with little likelihood that it will uncover internal weaknesses beyond those already reported. The workgroup urges Congress and OMB to revisit this issue.

The essence of this recommendation is implementing current requirements contained in FMFIA; emphasizing to departments and agencies that internal controls apply to all elements of their organization; and considering penalties for an agency's failure to correct material weaknesses.

#### **5. Require the budget and financial management communities to develop specifications for standard budget formulation and performance management system software.**

Efforts to improve the financial system have concentrated almost exclusively on accounting and financial reporting applications, to the exclusion of budget formulation and performance management applications. Over the past 15 years, hundreds of millions of dollars have been invested in financial systems focused on the former, while almost no monies have been invested in systems focused on the latter, despite the fact that such an investment would enable agency executives and program managers to plan and manage their resources more efficiently and effectively. Moreover, the Joint Financial Management Improvement Program (JFMIP)—now managed by OMB—historically has been responsible for certifying that software packages from vendors meet minimum federal requirements for the accounting modules of financial management systems; no effort was



dedicated to performing similar certifications for budget formulation systems. Since budget formulation is arguably the driving force—or should be—behind the entire financial management process, this asymmetry in effort and financial expenditure is highly anomalous.

Notwithstanding the importance of sound financial management systems for ensuring accurate accounting records and proper reporting, the workgroup's interviews led to the conclusion that these systems' outputs do little to help top decision-makers manage their individual programs or departments as a whole. The content of financial statements has influenced line management decision-makers in monitoring loan programs, modifying tax collection practices, adjusting inventory levels and tightening controls over fixed assets. These purposes, while important for some agencies, are relatively limited in the scope of their application.

In contrast, the budget and associated data drive the federal government on a day-to-day basis. Yet no efforts or funds have been invested in improving or standardizing the systems associated with managing them. One interviewee stated, "It is good to have a clean opinion and an accurate balance sheet, but few program managers or agency heads find the balance sheet of any value in managing a federal agency." Although this formulation overstates the issue, it typifies the widespread sentiment that the federal government would benefit from having specifications developed for a standardized budget formulation, execution and performance management system.

The system would support an agency's preparation of budget information during the formulation process, including establishing a budget baseline, tracking initial submissions and modifications, providing data for inclusion in the president's budget, and tracking the status of the budget request as it moves through the appropriations process.

Basic elements of the budget formulation, execution and performance system might include:

- Preparing program and budget issue papers.
- Rating and ranking funding proposals.
- Developing fixed cost estimates, such as pay and rental costs.
- Modeling "what-if" analysis.
- Utilizing the results of managerial cost accounting information as input to program decision-making and overall cost management.
- Performing strategic business assessments, such as program performance analysis and program results analysis.

- Assisting with departmental submission, including mapping proposed funding levels with strategic goals and objectives.
- Facilitating budget execution.

It is important to note that budget execution ends with apportionment, allocation and reprogramming of appropriations—and, of course, final obligations and payments. These activities reflect policy decisions. Any activities beyond this stage are accounting activities and should be actuated within the core accounting system.

**6. Encourage the Office of Management and Budget and department and agency heads to take a more aggressive oversight role in the implementation of financial systems, and ensure that sufficient resources are made available for this oversight.**

Financial management systems have been excessively costly to implement and complex to manage. Some agencies have tried several times to field a system without tangible results. Further, many agencies have a long way to go before basic standards are met and accurate data are produced without excessive manual intervention. A particularly striking example is the Department of Defense, where no compliant systems exist for the department as a whole or for any of its major service components, despite investments totaling hundreds of millions of dollars.

The reasons for these expensive, failed system implementations include:

- poor project management by the agencies
- excessive customization of Enterprise Resource Planning (ERP) systems by agencies, necessitated by a failure to reengineer their own business practices
- complex requirements generated by an overly complex financial management structure
- changing and conflicting standards between Treasury and OMB
- conflicts between the chief financial officer and chief information officer about where implementation responsibilities lie
- excessive accounting requirements
- overselling by contractors
- lack of sustained—in some cases, any—executive leadership and sponsorship

The workgroup recommends that OMB and agency and department heads take a much more aggressive role in ensuring that:

- The need for new systems is more carefully analyzed.
- Systems installed in one agency are adapted and used in other agencies, where applicable.
- Proper project management procedures are followed.
- The chief financial officer is responsible for financial systems implementation with the chief information officer playing an integral yet ultimately supportive role on the team.
- Customization of ERP software is limited.
- Business practices are reengineered to account for software capabilities and alternatives through a shared service arrangement are considered.
- Executive-level sponsorship is present at every phase of the process.
- Other roles between the chief financial officer and the chief information officer are clearly delineated.
- An Independent Verification and Validation (IV&V) process is established for all systems implementation efforts.

## **7. Authorize a study to explore the value and feasibility of a new and simplified approach to accounting transactions.**

Numerous interviewees indicated that how the federal government accounts for monies is unnecessarily complex. To understand why this is the case, it is important to trace the development of federal accounting practices. The federal government's initial accounting structure relegated to secondary importance such issues as the recording of assets, recognition of liabilities and identification of costs of government services. Instead, it concentrated on appropriation and obligation accounting.

The Chief Financial Officers Act recognized the importance of asset, liabilities and cost information. To allow financial systems to provide this information, the government simply expanded and automated existing budgetary accounting systems before reengineering the business process to accomplish the objectives in a logical and cost effective manner. Further, due to how these systems evolved and appropriations were enumerated, agencies were compelled to use a standard general ledger that placed accounts utilizing the self-balancing budgetary accounting system smack in the midst of accounts utilizing the self-balancing financial accounting system. The result was a confusing, costly, difficult to implement system badly in need of reform.

The workgroup believes that OMB and the Department of the Treasury should reevaluate current accounting and financial reporting requirements in the federal government. At the outset, initial standards were unrealistic and unworkable. Today, they have led to the need for extensive and expensive accounting systems.

The workgroup recommends a new conceptual approach to accounting that is less complex to execute, less costly to operate and less prone to error. A new approach would simplify how expenditures are recorded, particularly if the approach is based on an appropriations accounting structure in which budget authority lies first with the organizations responsible for undertaking programs, then with programs within those organizations, and finally with objects of expenditure within those programs. In addition, the approach should eliminate the requirement to record in the accounting system every step in the budget execution process.

Several workgroup members and interviewees noted that state and local governments, which have the same financial management and budgetary control needs and routinely obtain unqualified opinions on their financial statements, use a simpler approach to accounting:

1. At the beginning of the year, budget authority and revenue is recorded in temporary general ledger accounts. Adjustments and additional spending authority obtained during the year are recorded similarly. Appropriations allocated to operating units/locations are recorded in subsidiary ledger accounts.
2. Once the year begins, transactions representing the use of budget authority—commitments, obligations and expenditures—are made in permanent accounts. At any time during the year, the amounts available for spending can be obtained by comparing outstanding commitments, encumbrances and expenditures to appropriations.
3. At the end of the year, temporary accounts are closed when they no longer are needed to prevent overspending. Financial statements are prepared based on permanent accounts.

Lessons learned from this process would be highly beneficial to any re-engineering of the federal process. The approach would simplify accounting, reduce opportunities for error and be less costly to operate.

The workgroup appreciates that a procedural reform of this magnitude would be difficult, but it would be highly valuable in the long run. The biggest challenges to implementing this approach would be to define it in a way that is acceptable to stakeholders, and to implement it government wide without losing the ability to control it or providing necessary information during conversion. This new approach would have to be carefully thought out, well defined, understood by all parties concerned and widely accepted. Ensuring that control can be maintained would require a gradual design and conversion.

**8. Direct that the strategic planning requirements contained in the Government Performance and Results Act and evaluation discipline embedded in the Program Assessment Rating Tool process—or other similar evaluation processes—be integrated more fully into the financial management and budget formulation process and that secretaries, deputy secretaries, chief financial officers and program managers be involved in all phases of the process. Further, Executive agencies should provide more cost-effectiveness and efficiency measures to portray more explicitly the relationship between inputs and accomplishments.**

The Government Performance and Results Act (GPRA) and Program Assessment Rating Tool (PART) have done much to address the need for strategic planning, goal setting, performance management, program evaluation and development of metrics. In some instances, however, departments and agencies have not fully integrated these processes into the overall financial management and budget process.

Congressman Todd Platts has introduced legislation that would essentially accomplish the first part of this recommendation. The workgroup enthusiastically endorses that legislation.<sup>2</sup> Furthermore, it believes that the recommendations 2 and 3 will largely address these critical integration issues.

**9. Require agencies to develop better cost data for resource allocation and management. Require agencies to submit relevant cost data, as part of the Program Assessment Rating Tool process and Congressional Budget Justification, so that the full cost of all agency programs can be displayed accurately and readily understood.**

Effective cost accounting is one of the most important things an agency can do to get a better handle on the cost-effectiveness and efficiency of its programs. However, cost accounting has not yet been implemented in most federal departments and agencies. To properly manage programs and

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<sup>2</sup>More information about this legislation is available at <http://www.govtrack.us/congress/bill.xpd?bill=h109-185>.

determine their efficiency and effectiveness, it is essential that reliable, user-friendly cost data be produced.

Current accounting standards (Statement of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting) establish five requirements that must be adopted to achieve good cost accounting. They are not complicated, but fulfilling them can be difficult extremely time-consuming. As a result, most agencies have remained in noncompliance with the standards.

One way to enforce these standards and requirements is for OMB to continue to use the PART process to obtain measures of efficiency at the agency level. To provide this information, program managers would request cost information from financial officials, who in turn would build cost accounting systems to respond. There is no better way to link resource inputs with business processing, as well as to build a reversible analytic process that can explain the impact of funding variations on program outputs and outcomes.

Congress and appropriations committees also could require agencies to submit cost data for all or a selected number of their programs as part of their budget submission.

**10. Direct the Congressional Budget Office to work with the Office of Management and Budget and appropriate congressional committees to develop a proposed new budget structure. Direct the Office of Management and Budget to work with federal departments and agencies to produce better alignment between the budget and accounting systems.**

The federal government does not have an effective or uniform appropriations accounting structure to display and manage its various programs. In many instances, there is disconnect among the formats used to plan programs, those used to present budget data and the structure used to collect accounting information. Several departments and agencies do not have accounting structures that correspond with budget systems and structure.

Many interviewees—particularly private sector representatives—observed that the failure of budget systems to correspond to strategic and performance planning structures, and of accounting structures to correspond to budget systems, have created significant misalignment of data among key information systems. This complicates such tasks as

evaluating programs and collecting relevant performance metrics and cost data. Further, the president's budget displays data in different formats on a per-agency basis, making it difficult for Congress to comprehend the data.

The workgroup believes that it is time for Congress to discuss with the Executive Branch the need to achieve better alignment between budget and accounting systems and between budget structures and strategic planning structures.

**11. Request that the Office of Management and Budget provide a single website where all agency Performance Accountability Reports can be linked; consider ways to streamline and better integrate information currently in the Performance Accountability Report; and consider including a chart that highlights an agency's annual budget activity.**

The Performance and Accountability Report (PAR), prepared by federal departments and agencies, consolidates financial and management data in a single document. As structured, the PAR summarizes significant financial data, including financial highlights, annual financial statements, performance metrics and results, and management control practices and initiatives. Some departments and agencies include data on how they are addressing the President's Management Agenda and results of program evaluations required by GPRA.

The value of the PAR has been well demonstrated. Every agency has adapted to the requirement. Yet several interviewees suggested that many PARs have grown prohibitively large and excessively detailed. In fact, panelists at a March 2005 Academy-sponsored forum noted that that PAR has become so extensive that its effectiveness has been degraded. This problem can be addressed by having OMB issue better guidelines on the PAR's ideal length and level of detail. More importantly, OMB should ensure that the PARs provide more integrated information—for example, the costs of specific programs and amount spent on achieving results. Another idea suggested during the Forum was to make all PARs available and easy to find online, perhaps through a single website where PARs could be accessed and linked. The workgroup endorses this idea.

Given the central importance of budgeting, the workgroup recommends that an additional chart be added that compares final budgetary expenditures with congressional appropriations—information not easily discerned in the current standard PAR. The exact configuration and contents of such a chart would depend on further discussion; for example, it may or may not be desirable to include other forms of budgetary resources, such as contract authority, borrowing authority and spending authority, from offsetting receipts.

## **12. Convert to lines of business/shared service centers where systematic cost analysis demonstrates compelling evidence of a better value and lower cost.**

The lines of business concept and establishment of shared service centers advocated by OMB to reduce costs by providing agencies' financial management services on a cross-servicing basis, is in various stages of implementation. These concepts represent the next logical step in reducing the overall number of systems, and the workgroup believes that integration makes a great deal of sense. However, specific conversion decisions must be supported by an expanded business case.

OMB defines a shared service center as "a shared service solution where a single entity provides service for multiple organizations." Financial management has been designated as one of the lines of business for which shared service centers will be established. Other related lines include human resources, payroll and grants management.

It makes sense to use viable existing accounting service centers that already have modern accounting systems; doing so would save agencies from unnecessarily investing in new systems. This is especially appropriate for small agencies and mid-size departments. It also makes sense to move toward a small number of payroll operations to serve the federal government. Yet it is critical to analyze the overall impact on organizations that would potentially deal with multiple service providers for different elements of financial management; perceived economies of scale may not make practical sense in every case.

OMB has designated four federal agencies to act as shared service centers. The rationale is that other federal agencies can have their accounting services performed by service centers rather than invest funds to develop their own systems. This is a common industry practice.

In many cases, there is no need for an agency to perform payments processing, account for transactions or prepare monthly and annual reports. A shared service center with the right connectivity and service agreements should be able to provide the necessary services for another federal agency. This could save considerable investments on systems, reduce operating costs and allow the chief financial officer and related staff to concentrate on strategic issues. Overall, shared service centers have the following key advantages:



- They free a given agency to focus on core program activities.
- They free chief financial officers to provide financial analysis and advice, rather than simply perform a processing function.
- They reduce agency costs.

At the same time, agency size makes a difference, and the number of service centers serving a particular department can impact operational efficiency. Many chief financial officers interviewed expressed concern at having accounting and reporting functions removed from their purview. The workgroup believes that these concerns have merit, particularly in such large departments as Defense, Health and Human Services, Agriculture and Veterans Affairs. Further review, discussion and cost analysis should be undertaken before deciding to use or expand the financial management centers of excellence. The following should be done:

- Develop a planning guide to facilitate this migration.
- Develop a set of standard business practices for all federal agencies to employ.
- Modify the U.S. Standard General Ledger so that it is part of an expanded common coding structure that will accommodate government-wide accounting functions and agency-specific mission accounting functions; and provide for standardization of such data elements as Treasury account symbols and account funds symbols, internal fund code, budget fiscal year, program, organization, cost center, object class and budget function.
- Develop a series of measures to assess the performance of centers of excellence.

### **13. Initiate an effort to review and determine how the Office of Management and Budget and Department of Treasury could better coordinate their efforts in the direction and oversight of financial management in the federal government.**

The Chief Financial Officer Act recognizes that the major responsibility and authority for financial management should lie with OMB. However, several chief financial officers noted that accounting and systems requirements are developed by two separate agencies—OMB and the Department of Treasury—and that they did not always see coordination and cooperation between them. Although Treasury is a major player in the financial management world, many interviewees noted the department's poor timeliness of data and failure to improve systems tasked with collecting and monitoring data.

The extent of this issue is not yet completely clear, nor is there an obvious answer to the question of the Department of Treasury's role in the process. The workgroup recommends an effort to review and clarify the respective roles of OMB and the Department of Treasury in government-wide financial management.

**14. Encourage OMB and agency heads to maximize the use of inspector general resources to enhance management effectiveness, efficiency and economy. Have the inspector general play a more proactive and constructive role in assisting agency heads in addressing management challenges.**

The best way for inspectors general to be effective in “promoting economy, efficiency and effectiveness” and “preventing and detecting fraud, waste and abuse” in their agencies, as specified in the Inspector General Act of 1978, is to work with management as part of their overall responsibilities.

During a recent Academy Forum, *A Conversation with Inspectors General: Their Role in Helping to Ensure Accountability*, it became clear the inspector general community is extremely willing to play the role of helper and facilitator to individual agencies in financial management, in addition to performing its traditional financial and investigative oversight responsibilities. This impression was reinforced by subsequent interviews conducted as part of this project. During these interviews, inspector general representatives provided several helpful observations:

- There is too much focus on the year-end reporting process, at the expense of providing financial advice to top managers.
- Successful financial management depends on commitment and consistency at the top levels of management.
- There is a need to retain as chief financial officers individuals with broad and substantive experience in financial management.
- Limiting turnover in the chief financial officer position is highly important.
- There is a continuing need for chief financial officers and program managers to work together to obtain good cost data for decision making.
- In some agencies, an inordinate amount of time is spent on accounting for plant, property and equipment. OMB and agencies need to find better methods to ensure accountability in these areas.

- Retention and training are critical to continued success.
- Agencies are excessively compliance oriented.
- There are too many control levels; accounting is complex beyond necessity and agencies employ many more cuff systems than are necessary.
- Better risk management processes are needed to focus attention on critical areas.
- Program analysis is critical for success.

The inspector general community has much insight to offer agency heads with respect to management. Accordingly, agency heads should maximize their use of the inspectors general to improve management efficiency and program performance. This resource is crucial to better management and effective use of all available resources.

#### **15. Ensure that the composition and processes of the Federal Accounting Standards Advisory Board remain sensitive to the needs of preparers and users of federal financial statements.**

The degree to which federal accounting standards reflect the government's objectives, methods of financing and governance and control can, to some degree, be traced to the overall composition of the Federal Accounting Standards Advisory Board (FASAB) and the individual backgrounds of its members. FASAB establishes the accounting standards for financial statements of the federal government, departments and agencies.

FASAB initially was composed of members familiar with the federal government's unique objectives, financing, governance and control. Six members were drawn from the federal government directly, and three from the private sector whose prior employment and association with the federal government enabled them to appreciate FASAB's unique aspects. In 1999, the American Institute of Certified Public Accountants asked for changes in FASAB's composition and the manner in which its members were appointed. FASAB's sponsors agreed to them. One change was to reduce the number of members drawn from the federal government from six to three (subsequently raised to four). As OMB, Treasury, GAO and CBO each desired to retain its membership, the change eliminated any place for preparers or users of financial statements.

It appears that the process for selecting private sector members did not place a premium on experience with or demonstrated knowledge of the federal government. The implications of the 1999 change have yet to be fully realized; yet there is a distinct possibility that moving away from members with first-hand federal experience or knowledge, especially with the preparation and use

of federal agency financial statements, could hamper the financial reporting process. FASAB also would benefit from members with expertise related to budgetary issues and the relationship of execution to accounting requirements.

Congress and the FASAB's sponsors must become more sensitive to the effects of the 1999 change and monitor its implications as they unfold.

#### **16. Encourage the training, development and recruitment of the financial management community.**

The training and professional development of the financial management community is critical as it allows managers, supervisors and employees to continually upgrade their accounting, budget, systems and overall financial management skills. In addition, financial managers should be exposed to a wide variety of new management skills, including training and development opportunities focused on the role of the financial manager as strategic partner in overall operation and management.

In addition to upgrading the technical and strategic skills of financial management staff, Congress should be sensitive to the agencies' need to recruit new and capable staff. Several agencies—Interior and the General Services Administration, for example—have employed a government-wide financial management intern program. Such a recruitment program allows financial managers to operate on a level playing field with non-governmental organizations in employing individuals with an interest in financial management careers, and preparing them to be effective in that field.

Congress can be helpful by providing additional funds to expand training, development and recruitment programs. For example, the Treasury Board of Canada recently sought an additional \$35 million for training and development of government financial managers.

## APPENDIX

The initial impetus for this project was a request from the Chair of the House Committee on Government Reform's Subcommittee on Government Management, Finance and Accountability. The Chair asked the Academy for ideas on how to strengthen the financial management of the federal government in the 21<sup>st</sup> Century.

### WORKGROUP MEMBERS

**C. Morgan Kinghorn** is President of the National Academy of Public Administration and Chair of the workgroup. Prior to joining the Academy in 2003, he was Partner in charge of the Financial Management Solutions Services Practice at IBM Business Consulting Services (and the predecessor firms of Coopers and Lybrand and PricewaterhouseCoopers.)

Kinghorn served for more than 25 years in the federal government in a variety of senior and executive positions. He was the Controller and Chief Financial Officer of the U.S. Internal Revenue Service. At the U.S. Office of Management and Budget, he worked on environmental budget and regulatory policy and defense logistics, and he was Director of the Financial Management Division. In addition, Kinghorn was the Budget Director and Comptroller, Acting Assistant and Deputy Administrator for Administration and Resource Management for the Environmental Protection Agency.

**Jonathan Breul** is a Partner with IBM Business Consulting Services and a Senior Fellow at the IBM Center for the Business of Government.

In the federal government, Breul held several senior positions at the U.S. Office of Management and Budget, including Senior Advisor to the Deputy Director for Management, Chief of the Evaluation and Planning Branch and Senior Management Analyst. He was a Senior Grants Policy Specialist for the U.S. Department of Health and Human Services.

**John J. Callahan** was former Assistant Secretary for Management and Budget and Chief Financial Officer for the U.S. Department of Health and Human Services. He also was Acting Commissioner for the U.S. Social Security Administration.

Callahan held several senior positions in the U.S. Senate, including Chief of Staff to Senator Jim Sasser; Deputy Staff Director of the Senate Budget Committee; Staff Director of the Senate Governmental Affairs Subcommittee on Government Efficiency, Federalism and the District of Columbia; and Staff Director of the Governmental Affairs Subcommittee on Intergovernmental Affairs. He was Executive Director of the Legislators' Education Action Project.

**G. Edward DeSeve** is Professor at the Fels Institute of Government and the University of Pennsylvania. He was Professor and Director of the Management Finance and Leadership Program, School of Public Policy, at the University of Maryland. DeSeve was Deputy Director for Management and Controller at the U.S. Office of Management and Budget and Chief Financial Officer at the US Department of Housing and Urban Development. He served as Deputy Director for Budget and then-Director of Finance for the City of Philadelphia, and was Special Assistant to the Governor of the Commonwealth of Pennsylvania.

In the private sector, DeSeve was Partner and National Industry Director at KPMG, Managing Director at Merrill Lynch Capital Markets and President of Public Financial Management, Incorporated.

**Hannah Sistare** is Vice President for Academy Affairs and Director of the Human Resources Management Consortium at the National Academy of Public Administration. Prior to joining the Academy, she was the Executive Director of the National Commission on the Public Service, chaired by Paul A. Volcker. Previously, Sistare was Staff Director and Counsel of the Senate Governmental Affairs Committee for Chairman Fred Thompson.

Sistare was the Special Counsel to the Secretary of the U.S. Department of Health and Human Services and Chief of Staff to Senator Charles Percy.

**Hal Steinberg** is the Technical Director of the Association of Government Accountants CEAR and Certificate of Excellence in Service Efforts and Accomplishments reporting programs. A retired partner in KPMG LLP, he headed the firm's practice with state and local governments. During that time, he was co-author of the landmark Financial Accounting Standards Board research report titled *Reporting Service Efforts and Accomplishments*. Shortly thereafter, he was appointed to the Government Accounting Standards Board task force on reporting service efforts and accomplishments and still serves as a member.

Steinberg was the first Director of the Office of Federal Financial Management, established in 1991 to guide the implementation of the newly enacted Chief Financial Officers Act. In that position, he had a major role guiding federal agencies to establish and report performance measures, not only as required by the Government Performance and Results Act, but also to prepare annual Performance and Accountability Reports.

## WORKGROUP STAFF

**Richard F. Keevey** is Director of the National Academy of Public Administration's Performance Consortium and Project Director and principal drafter and editor of this report. He is a Visiting Professor at Princeton University and an Adjunct Professor at American University and the University of Maryland where he teaches courses in public finance. In the private sector, he was a Practice Director for budget and financial management at Arthur Andersen, LLP and a Project Director for Unisys Corporation.

In the federal government, Keevey was Deputy Under Secretary of Defense for Financial Management; Director of the Defense Finance and Accounting Service of the U.S. Department of Defense; and Chief Financial Officer of the U.S. Department of Housing and Urban Development. He served as State Budget Director and State Comptroller for the State of New Jersey under two Governors. He also was an elected member of his local school board.

**Eric Landau** is Congressional Affairs Associate at the National Academy of Public Administration. He previously was a Research Assistant at the Academy and an intern for Senator Paul Wellstone.





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**1100 New York Avenue N.W.  
Suite 1090 East  
Washington, DC 20005  
Phone: (202) 347-3190  
Fax: (202) 393-0993  
Web: [www.napawash.org](http://www.napawash.org)**