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Statement of

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President

National Academy of Public Administration

Before the

U.S. House of Representatives
Committee on Government Reform

Subcommittee on Efficiency and Financial Management

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Mr. Chairman:

As President of the National Academy of Public Administration, an independent, non-partisan organization chartered by Congress to give trusted advice to public leaders, I am pleased to appear before you to provide you with my perspectives on the impact of the Chief Financial Officers (CFO) Act passed nearly fourteen years ago and the evolution and development of Federal CFOs. The views presented today are my own and are not necessarily those of the Academy as an institution.

Thirteen years ago, I was the U.S. Office of Management and Budget's Acting Assistant Director for Financial Management, the precursor to what is now the Office of Federal Financial Management. At that time, what was to become the CFO Act was being "debated" both within the administration and in Congress. That debate focused on many issues, including the placement of the government-wide CFO, the qualifications for Departmental CFOs and Deputy CFOs, their status as either political appointees or careerists, the role of financial statements and audits, and the agencies that should be the pilots to determine whether financial statements and audits could actually be accomplished within Federal agencies.

Shortly before the enactment of the CFO Act, I was recruited to become the first Controller and then CFO of the Internal Revenue Service (IRS). IRS, as with all or certainly most large Federal entities, was not required to prepare financial statements. Yet the CFO Act named the IRS as one of the first pilots to undergo the financial

statement preparation and auditing process in the Federal government. The IRS was quite unprepared for this when I arrived, demonstrated by the fact that there were fewer than five accountants in the newly created CFO office, six non-integrated regionally-controlled accounting systems for their appropriated accounts as well as other significant shortcomings. In fact, the U.S. Government Accountability Office (GAO) and the Inspectors General also had to gear up and prepare for their new roles. Furthermore, the Act called for a then-undeveloped series of accounting standards against which agencies would be audited. As a consequence, the next decade was one of learning, adapting, and many successes balanced by some notable failures.

Fast forward 14 years to the present day. Most departments and agencies, as well as the government as a whole, prepare financial statements and receive audits, either from the GAO, or more often their Inspector General, or private firms hired by either. Twenty of 23 cabinet-level agencies have received unqualified opinions. Hundreds of millions of dollars have been spent on new financial systems, training, and new personnel to achieve the major objectives of the CFO Act which is, in my mind, to bring credibility to financial and related information through which the government functions and to enable improved decision making with public resources. But, what have been the results in more practical terms as viewed by a 34 year practitioner? My bias regarding public governance favors creating clear lines of responsibility, providing broad and strong authorities to carry out those responsibilities, and minimizing the development and creation of management stovepipes that would confuse those clear lines of responsibility.

Let me share my perspectives on what the CFO Act and 14 years of concerted effort have enabled.

- **The quality of CFOs at the Departmental level is high and CFOs have the ear of the political leadership.** At the most fundamental level, quality and effectiveness all begin with people. In 1990, there was considerable debate whether CFOs at the Departmental level should be political and whether their deputies should be careerist. That approach proved to be the outcome and I

believe it has served us well. I have worked as a career deputy to several political CFOs in a large independent agency (EPA) and as a career CFO in a large bureau reporting to the IRS's politically appointed Commissioner directly but dotted-lined to the Treasury Department's political CFO. I believe the "qualification" listing contained in the CFO Act, which was strong but not too limiting, coupled with the significant responsibilities listed in the Act and other related statutes as well as Congressional oversight, have created an environment in which only individuals with financial management qualifications are likely to become Departmental CFOs. The Act's evolution toward placing CFOs in significant positions of authority has enabled Presidents to draw into the Federal financial environment very high quality leaders. In addition, as responsibilities have grown and stakes increased, Deputy CFOs at the Departmental level also have dramatically improved; they bring continuity, history, and a built-in learning system for new political leadership. At the bureau and operating agency level, I believe improvement in the quality of leadership remains an ongoing process.

- **The integrity and usefulness of financial data have greatly improved.** That most Departments and many bureaus have received unqualified opinions on their financial audits does mean there is improved integrity in those data. Such success lays a stronger foundation for enabling increased use of financial data for complex decision making within agencies and among stakeholders. Indeed, it builds an appropriate sense of public awareness that the Federal government operates its basic financial processes in a professional manner. Most important, more credible and available data enable the next crucial step: integration of financial and programmatic data for performance evaluation.
- **The CFO has moved from the back room to the board room.** CFOs now have a place at the management table. There clearly is value in having a statutory basis for such broad spans of authority. The Act's requirement that the Departmental CFO report directly to the agency head has helped to enable the CFO to move from the back room to the government's version of the board room. The impact has been healthy and often has occurred at the operating bureau level. This organizational placement frequently—but not always—permits good things to

happen, and it is unlikely that many financial management improvements would happen as quickly without this statutory foundation.

- **CFOs are positioned to be key players in Departmental decision making.** The authorities contained in the CFO Act, the Clinger-Cohen Act, the Government Performance and Results Act and others have given increasingly powerful authorities to the CFO to integrate financial and programmatic information to improve agency operations. Not all CFOs have the internal organizational authorities to accomplish this, but they can better position themselves to improve agency decision making based on improved financial information integration if they effectively utilize the statutory mandates contained in these Acts.

So, what are the challenges that still face Federal Departments and agencies when improving their financial operations and advancing the cause of better decision making?

- **First, we need to recognize that management functions must be re-integrated.** There has been an increasingly statutory balkanization of the Federal government's management functions. Although the Chief Information Officer (CIO) and Chief Human Capital Officers (CHCO) have more recent statutory authorities and framework, neither is as powerful or prescriptive as the CFO Act. In my mind, they should not be. I believe financial management is the most central and potentially integrating function in management. But, all three crucial management operations need to be more unified and less balkanized. My biases are clear: Whatever model we wish to create for the future should rely on a single management operation, comprising these three operations and reporting to the Secretary. Some CFOs operate as the CFO and in effect the Chief Management Officer. That is an excellent model. Yet there is a wide array of CFO responsibilities even at the Departmental level; this inconsistency should be examined closely with the objective to consolidate authorities so that CFOs in Departments and large agencies and bureaus have the broadest financial management responsibilities possible and a leadership role as the integrator of

management. An Under-Secretary for Management might be an answer to the consolidation of all management functions short of the Secretary or Agency head.

- **Second we need to leverage our financial management investments to focus on internal performance.** We need to focus as much on improving decision making at the program operation level as we have for accounting. We have invested hundreds of millions of dollars on improving financial operations. However, we must move beyond improving accounting operations, speeding up payments, and providing financial reports concentrated on external audiences, primarily auditors. We need to better ensure that CFOs utilize their investments in people, processes, and very expensive systems to improve program analysis and evaluation throughout their organizations. We need to leverage these investments to better understand the cost, efficiency and benefits of programs. The CFO can and must provide the tools and information—in conjunction with program operations—for improving program decision making. Managerial cost accounting, which I believe is the key mechanism linking dollars spent and outputs and outcomes achieved, needs to be implemented with a vengeance in the Federal government. The standards have been in place for about a decade yet there has been little or no progress in their full implementation. It is important, also, that this work be focused on the operating bureaus although with appropriate guidance and structure from the Department level.
- **Third, CFOs need to take advantage of being at the table.** We must ensure that CFOs are not only at the table but that they know what to do once they are there. Many bureau CFOs come out of a particular discipline, usually accounting or budgeting. Often their focus has been relatively narrow. As they find themselves in a position of significantly broader authority, they need to understand the power and potential benefit of being an active player in improving broad organizational improvement, rather than a simple narrow discipline. Through oversight during the CFO selection process, more thought should be given to the applicants' abilities to move beyond what might otherwise be narrow technical specialties.

- **Finally, continuing attention by this Committee and the Administration is crucial in maintaining the momentum of the successes of the past 14 years**. Departments and agencies still must undertake Herculean efforts to achieve unqualified opinions. Continued improvements in process, systems and people must continue with appropriate oversight before and after that is financially supported. There remains a long way to go to achieve more seamless integration of financial and program data to better understand organizational performance. But, nothing is more crucial then the type of senior management attention that this Committee and this Administration have given to what too often appears the more mundane operations of government: financial and program management.

Thank you, Mr. Chairman, for allowing me to share with you my observations on the implementation of the CFO Act.

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