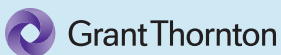


AGA's Corporate Partner
Advisory Group

Survey Series

October 2014

Annual Federal CFO Survey



**Driving Collaboration and Innovation:
Achieving the CFO Mission in
Uncertain Times**



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Executive Summary

“Necessity is the mother of invention.” The need to save and share resources in a time of increasing austerity is driving collaboration among federal financial managers. Effective teamwork is critical to the success of federal Chief Financial Officers (CFOs).

As we have since 1996, AGA, in partnership with Grant Thornton LLP, conducted a survey of government CFOs. We surveyed almost 350 federal financial management leaders using both in-person interviews and online surveys. When asked whether budget uncertainty was a major risk, CFOs said that it was by no means the only risk, though it does make planning and managing much more difficult. Declining budgets join recruitment and retention of badly needed talent and a range of financial management crises as additional risks to their success. New management improvement initiatives, part of the Obama administration’s ‘new management agenda,’ also test CFOs. The designs of fresh initiatives related to shared services, improper payments, risk management, grants management, benchmarking and transparency all enhance the role of the CFO. But they also add to existing CFO workloads.

Five major themes emerge from this year’s CFO Survey: risk management, analytics, transparency, shared services and workforce. In all areas, the financial management community has strong opinions. And, though CFOs embrace the intent of efforts to enhance financial management, they say they may not have the resources needed to address the initiatives they must lead. Consequently, there is a risk that CFOs won’t be able to implement all of the current improvement efforts.

Recent crises have renewed focus on **risk management**. Enterprise risk managers, sometimes referred to as ‘Chief Risk Officers (CROs),’ champion agency-wide efforts to manage and mitigate risk. But financial managers divide over the role, structure and purpose of the risk management function. *Although the Office of Management and Budget (OMB), U.S. Government Accountability Office (GAO) and others advocate a holistic approach, focused on applying risk management principles to program performance, reporting and compliance, just half of survey respondents acknowledge the existence of a formalized risk management function.* Accordingly, Congress and OMB have an opportunity

to clarify who has responsibility for risk management, and ensure that risk monitoring is the responsibility of the whole agency, not just the CRO.

CFOs are making steady progress in linking cost and performance data to **improve decision making**. *Many senior financial managers surveyed report an understanding of their agency’s cost of operations and corresponding costs for key financial management processes.* However, the focus in the public sector on compliance accounting — assurance that funds have been raised and disposed of legally — tends to obscure other information needed to manage government. Financial managers suggest they can’t drive financial analytics on their own, but they can enable it. Program managers are full partners on this front and need to integrate an analytical perspective into their culture and operations to get maximum value from the data they have.

Transparency is driving substantial work by CFOs. Because it’s almost 25 years after enactment of the Chief Financial Officers Act, we asked CFOs whether “agency managers see benefit in performing the financial statement audit.” *More than 60 percent say it*



is either unlikely or very unlikely that program managers think performing the financial statement audit is a benefit to either them or the agency. And consensus emerged that the public didn't understand the potential benefits of the financial statements. Though considered extremely burdensome, many saw the Digital Accountability and Transparency Act (DATA Act) as achieving more useful transparency into agency operations and performance. Unless agencies improve data quality, they won't achieve the ultimate goals of the DATA Act.

The move of agency financial systems to a **shared services** provider is now top of mind throughout the federal CFO community. *This year's CFO Survey shows greater acceptance of the mandate to accelerate adoption of shared services.* CFOs indicate they are no longer primarily concerned with basic financial activities such as external reporting and getting clean audit opinions. They now focus on value-added efforts such as providing better data to managers and reducing improper payments, and they are seeking proven solutions that shared service providers can more easily deliver. The use of shared services has also become the norm for functions such as payroll and travel, making the transition to shared service providers (SSPs) for core financial activities more comfortable to CFOs. They have experienced the benefits and costs of moving business processes and systems support outside their agency. CFOs are more and more confident that the move to SSPs will make agency and government-wide operations more efficient in the long run. Now that the focus is on how to best implement shared services at the department level, the CFO community, OMB and U.S. Department of the Treasury (Treasury) must work together to find the best approaches for SSPs, agencies and departments, and the federal government as a whole.

Possibly the greatest issue facing CFOs is the ability to successfully **recruit and retain a workforce** that can effectively address today's challenges and help lead the organization toward an Office of the CFO that delivers insights and value. *Respondents are finding it more difficult to attract qualified applicants now that the economy is gaining momentum.* In an attempt to combat higher salaries offered by the private sector, CFOs emphasize developing and enhancing non-monetary incentives. Declining resources and increasing requirements are dual pressures on the financial management workforce. Add to that lower morale across the federal government, increasing retirement eligibility, and a time-consuming hiring process, and you have a high mountain to climb just to keep up with turnover. Finding and keeping the right workforce is getting harder and harder. That's why it appeared as the most-often-cited challenge facing CFOs.

Like last year, we asked CFOs to list their top challenges of today and for the future. The lists didn't vary based on whether the respondent was describing short or long-term challenges. **Challenge #1:** difficulty recruiting and retaining the right people. **Challenge #2:** budget uncertainty and the difficulty it poses to long-term planning. **Challenge #3:** information technology — the challenge of implementing systems within budget and on schedule and, more important, getting those systems to produce the intended results.

The role of the CFO continues to evolve. Working together, CFOs can find what works more quickly and accelerate progress addressing their common challenges. More important, they won't waste precious resources on activities that don't add value or address the most pressing risks to their mission.

**Just half of
survey respondents
acknowledge the
existence of a
formalized risk
management
function.**

About the Survey

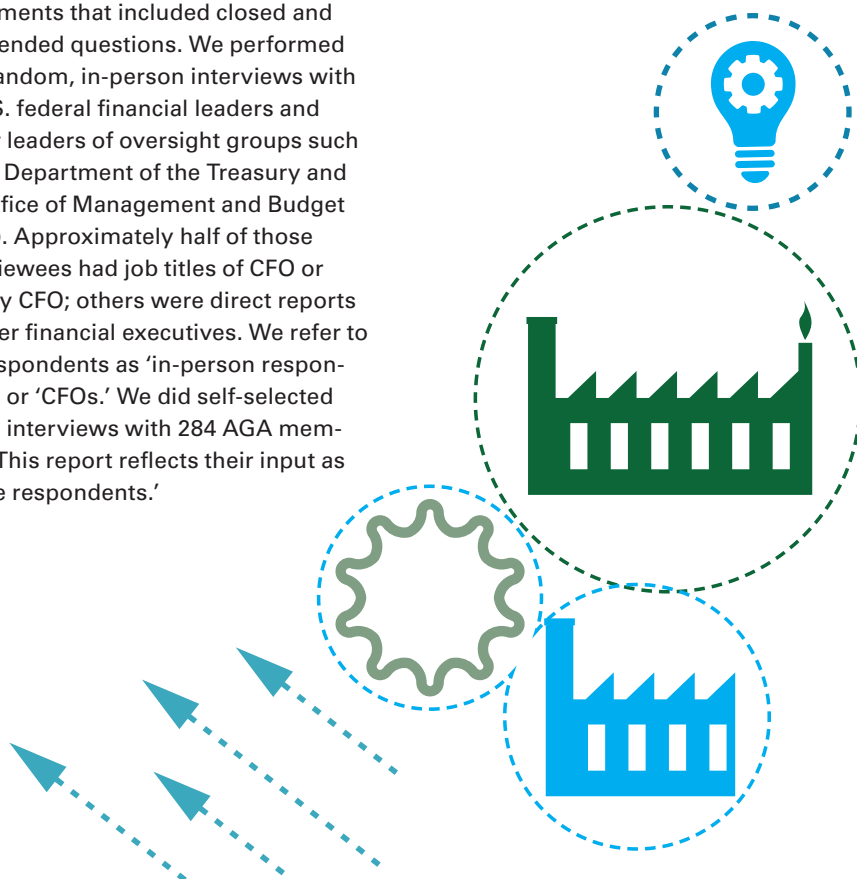
The Association of Government Accountants (AGA), in partnership with Grant Thornton LLP, has sponsored an annual government Chief Financial Officer (CFO) survey since 1996. We produce two reports for the survey. This report focuses on the federal government. The other report looks at state and local issues in more depth. Our goal for the survey is to identify emerging issues in financial management and to provide a vehicle that practitioners can use to share their views and experiences with colleagues and policy makers. This is one way that AGA demonstrates its leadership in governmental financial management issues. For this 2014 federal survey report, our focus is on the way in which CFOs are balancing their many challenges with a renewed emphasis on the President's Management Agenda.

Anonymity

To preserve anonymity and encourage respondents to speak freely, these annual surveys of the financial community neither attribute thoughts and quotations to individual interviewed financial executives nor do they identify online respondents.

Survey Methodology

With AGA guidance, Grant Thornton developed online and in-person survey instruments that included closed and open-ended questions. We performed non-random, in-person interviews with 65 U.S. federal financial leaders and senior leaders of oversight groups such as the Department of the Treasury and the Office of Management and Budget (OMB). Approximately half of those interviewees had job titles of CFO or Deputy CFO; others were direct reports or other financial executives. We refer to the respondents as 'in-person respondents' or 'CFOs.' We did self-selected online interviews with 284 AGA members. This report reflects their input as 'online respondents.'





Introduction

One of the questions we asked the financial management community: Do you consider budget uncertainty a major risk to your agency? With sequestration, shutdowns, and continuing resolutions, it might appear to have been a stupid question. Budget uncertainty does make planning and managing much more difficult.

But with all the other things on CFOs' plates, budget uncertainty may be a major concern, but it's by no means the only — or even the most pressing — one.

The challenges facing federal agency CFOs are substantial. When Congress and the President eventually reach another agreement on the budget, discretionary budgets will likely decline. The financial management workforce is shrinking and it's getting more and more difficult to recruit and retain needed talent. Crisis response consumes the attention of many agency leaders. All of these issues put agency missions at risk, but they don't stop the tide of new management improvement initiatives.

The Obama administration's new management agenda is seeing renewed vigor. The move to financial management shared services is just one example of an ambitious initiative to enhance government operations. New requirements to measure and reduce improper payments, manage risk, enhance grants oversight, benchmark common activities, and improve transparency are all fresh efforts to transform the government's financial

management. Such new requirements would present challenges at any time but, in light of other burdens placed on the financial management community, CFOs are facing tests as never before.

Five major themes emerge from this year's CFO Survey: risk management, analytics, transparency, shared services, and workforce. In all areas, the financial management community has strong opinions. And though managers embrace the intent of efforts to enhance financial management, they express concern that they may not have the resources needed to address all of the initiatives. Consequently, there is a risk that some of the efforts may not be successful.

The sections below represent the views of the federal financial management community. CFOs are doing all they can to meet the tests they face. Together, sharing what's working across government, they will once again rise to the challenge.





Risk Management

Given the continual budget uncertainty that agencies are facing and the risks those uncertainties bring, risk management is emerging as one of management's top priorities. Recurring crises simply enhance this focus and the federal government has seen some doozies over the past year or two. Healthcare.gov, veterans health care waiting lists, and alleged IRS non-profit targeting are all examples of unmitigated risks about which agencies should have been fully aware and prepared. If there is any good news about those events, it's that they've provided new focus on risk management. It's not that agencies weren't aware of the risks, but CFOs seem to agree there should be a more systematic way of managing them.

Enterprise risk managers, referred to as 'Chief Risk Officers (CROs)' in some agencies, champion agencywide efforts to manage and mitigate risk within the agency and advise senior leaders on the strategically aligned portfolio view of risks. However, throughout the agency, the highest levels of executive leadership down to the service delivery staff executing programs are all sharing the responsibilities of managing

risk. Although agencies aren't required to have a CRO or enterprise risk management function, they must identify, document, and manage risks to mission, goals, and objectives.¹

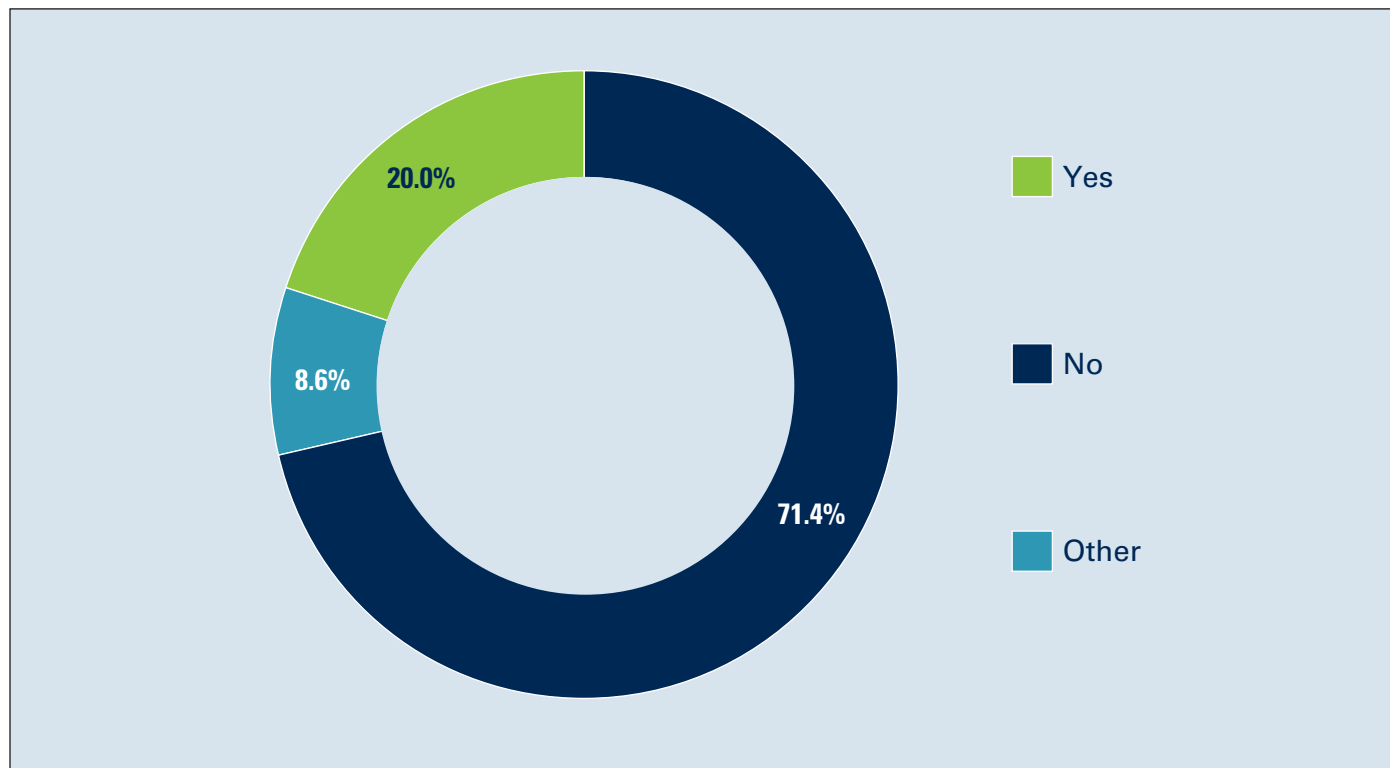
The examples cited may imply that government is risk-unaware, but there's also evidence that government and its employees are risk-averse. If that's the case, why haven't agencies adopted the CRO function more broadly? The answer may relate to the lack of a specific champion to guide this role and function. Acknowledging the diversified nature of government, is the CRO function appropriate for every agency? Should agencies manage risk in a centralized fashion or distribute risk management across the organization, embedded within the program and operational divisions themselves? If results of the annual CFO survey are any guide, financial managers divide over the role, structure and purpose of the risk management function.

"In our organization risk management is not just giving a paper exercise. It's not just checking boxes. It's something that we are very proud of."

Less than one quarter of survey respondents indicated the CRO title exists within their agency; however, just over half of respondents indicated a CRO-like function does exist. When asked to indicate where the risk function resides, if not with the CRO, responses spanned the government panoply: Internal Control Division Chief, Chief Operating Officer, Chief Financial Officer, Performance Improvement Officer, Chief Safety Officer, Senior Management Council, Risk Committee, and Associate Director were all mentioned, with no one



FIGURE 1: DOES YOUR ENTITY HAVE A CHIEF RISK OFFICER (CRO)?



position being overwhelmingly more common than any other. Respondents also split on whether the risk management function, in the situations where it does exist, is a centralized or decentralized one. One survey respondent captured the mixed organizational structure and lines of responsibility that appear to be reflective of this role, noting “Risk management is decentralized and absorbed by the operations lead and managed by the COO and each respective executive officer.” Another respondent from an organization with a CRO noted “The CRO has the credibility; but the issue is integrating the risk management function into an organization that has pieces of risk management already operating within the various departments and offices.”

Relating Risk and Performance

Recently issued guidance in OMB Circular A-11 indicates agencies should assess and manage risk as a part of strategic and data-driven reviews in support of the broader organizational risk management framework. In FY 2014, OMB began tracking the strategic objectives identified as required by the Government Performance and Results Act (GPRA) Modernization Act and will work closely with agencies to ensure that appropriate information is included in the FY 2016 President’s Budget, Performance.gov, Annual Performance Plans and Annual Performance Reports. These strategic reviews intend to facilitate identification and adoption of opportunities for improvement, including risk management. When reviewing progress on each strategic objective,

OMB instructs agencies to “consider identification, assessment and prioritization of probable risks that may impact program delivery or outcomes significantly in the coming year or two.”

Pending Guidance

Updates to the GAO Green Book and OMB Circular A-123 focus on the management of internal controls to support reasonable assurance that management has met three objectives of internal controls:

- Operations – effectiveness and efficiency of operations
- Reporting – reliability of reporting for internal and external use
- Compliance – compliance with applicable laws and regulations

These areas of focus align to the 2013 guidance from the Committee of Sponsoring Organizations of the Treadway Commission (COSO). What's most important about this guidance is what isn't stated, namely financial reporting, which has traditionally been the focus of most A-123 programs across government. The implied expectation is that the lens should be widened to encompass all management activities, not just financial reporting.

If OMB, GAO and COSO are all advocating a holistic approach, focused on applying risk management principles to program performance, reporting and compliance, why do just half of survey respondents acknowledge they even have a formalized risk management function? The answer may be one of ownership.

Risk Management in a Time of Transition

Experts contend that when done well, risk management produces better results more consistently. An enterprise view of risk intends to bring all aspects of an organization working in concert to meet the organization's strategic objectives and minimize strategic failures. If risk management is about using every component of the organization to produce better, more consistent results, doesn't responsibility for this function naturally sit with the head of the organization?

With the impending 2016 election, executive branch leadership is heading for the exits. OMB has faced significant turnover. What hope does meaningful, enterprise-wide adoption of risk management have in the shadow of a lame duck administration? The answer lies with the Deputy Secretaries. Charged with maintaining stewardship

over mission objectives in the midst of political transition, over the next two years the role of implementing risk and performance management objectives will fall to the Deputies. CFOs, with their existing financial risk management internal control structures, teamed with agency Performance Improvement Officers (PIOs), must take a leading role in supporting Deputy Secretaries as they steady the ship in the wake of significant leadership transition. If done well, the result will satisfy performance reporting standards from A-11, revisions to A-123, and more important, ensure a sustained focus on mission achievement. Because risk management is most important in a time of transition, Congress and OMB should clarify who has responsibility for risk management and ensure risk monitoring is the responsibility of the whole agency, not just the Chief Risk Officer.





Using Financial Data to Improve Decision-Making

In recent years, both the Obama administration and Congress have emphasized the value of data, agency performance, and results to achieve a smarter and more efficient government. Major new requirements from the Accountable Government Initiative, the GPRA Modernization Act, and the Digital Accountability and Transparency Act (DATA Act) show elected officials are serious about improving agency performance and using data to make funding decisions.

In the financial management community, cost information is critical because it informs many management decisions. Knowledge about costs is an essential ingredient in effective decision-making and contributes to improved planning, implementation, and analysis of programs. In an era when Moneyball-like principles, relying on data analytics to monitor and improve organization performance, are increasingly being applied to government, cost analysis provides a tool for understanding the services being provided, what they cost, why they cost what they do, and what can, and should, be changed. Unfortunately, the focus in the public sector on compliance accounting – assurance that agencies

have raised and disposed of funds in a legal manner – tends to obscure the fact that other information is essential to address government’s management needs.

Cost

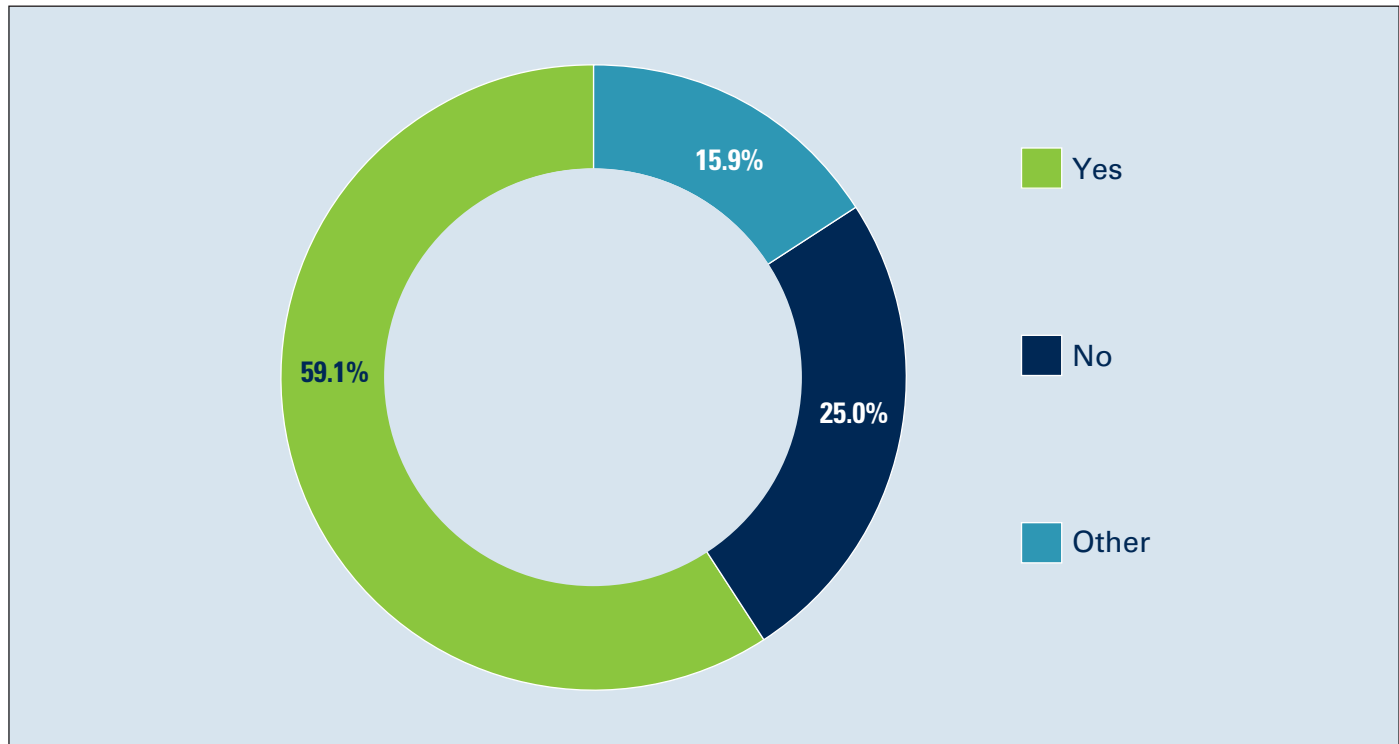
Accordingly, we probed senior government financial managers to gain a deeper understanding of their use of financial data and related analytics in supporting their agencies’ missions. Survey respondents indicate agencies have made slow but steady progress in using data to make better financial decisions. In particular, more than half of senior financial managers surveyed report an understanding of their agency’s cost of operations and corresponding costs for key financial management processes. We’re not where we want to be yet, but we’re making progress.

Although a number of respondents pointed out a range of accomplishments in financial reporting and budget execution, several others expressed concern over the lack of full cost accounting systems and processes. A clear consensus emerged that more needs to be done to enable long-range strategic planning that takes advantage of advances in budgeting planning/execution and program

“In the federal financial management community, cost information informs many management decisions.”

evaluation to provide information necessary to understand how programs have performed (and what they cost) in the past. Challenges remain to convince program officials of the value of cost data. One respondent noted that

FIGURE 2: DO YOU KNOW THE FULL COST OF OPERATIONS/CORRESPONDING COSTS FOR THE KEY FINANCIAL MANAGEMENT PROCESSES IN YOUR ORGANIZATION?



the prevailing view at the agency was “Costs seem like a constraint on creativity.” Respondents suggested there may be a reduction in the fidelity and usefulness of data as we move from financial reporting to budget execution and finally to budgetary and strategic planning.

Not surprisingly, agencies with statutory mandates to assess and collect fees for their services reported stronger cost accounting capabilities than at other organizations. As one official who works in an agency that does not charge for its services pointed out:

We have a good feeling for the cost of operations, but we don’t have a system we can rely on to calculate that number exactly. We wish our systems were on the same level as other agencies that can calculate cost of operations, credit reform, and mandatory budget. However we are just not on that level.

Performance Management

Some respondents pointed to GPRA and the more recent GPRA Modernization Act as key drivers in the move towards a fuller embrace of financial analytics. Initially viewed as compliance exercises, GPRA mandates to develop strategic and annual performance plans have been helpful. The downside has been that some agencies ended up with exhaustive lists of data and measures not particularly relevant to the program results they sought. One respondent noted that the use of data and computational power has advanced most facets of the present-day economy, so it’s not surprising that the federal government has also benefit.

At some agencies, they’ve begun to use stat-type processes to drive performance improvement on their priority goals. Periodic, all-senior-hands

meetings where they present and scrutinize close-to-real-time performance data aim at getting out in front of challenges before they become insurmountable. Stat meetings show how analysis of data, combined with focused attention on replicating successes and solving problems that analysis identifies, can improve performance across government. However, the use of budgetary information – and how various budgetary scenarios impact agencies – has not traditionally been part of such discussions.

Survey respondents also pointed out some of the challenges in using financial data to make better decisions.

- Technical impediments such as data availability, timeliness and accuracy
- Operational obstacles such as incentive structure (compliance rather than real understanding of cost drivers and performance linkage) and



FIGURE 3: DO YOU USE ANALYTICS TO ANTICIPATE TRENDS OR INCREASES IN THE COST OF YOUR ACTIVITIES?



value to program managers

A particularly astute observer of the financial management community once remarked that we know the budget of everything, but the cost of nothing. Hopefully, we're moving beyond such hyperbole with respondents reporting a growing use of analytics. Managerial and activity-based cost accounting have not progressed to the point where agencies have a comprehensive understanding of the full costs of meeting agency priorities but there have been significant advances. "We use analytics in some places, but we could do more," seemed to capture the view of many surveyed.

Although most typically attribute a more extensive use of analytics to the executive branch shortcomings, some respondents contended the legislative branch could do more to facilitate its efforts in this regard. Respondents

pointed out that agencies structure budget and appropriation accounts in such a way as to obfuscate what it costs to achieve public policy goals. Notwithstanding the GPRA-inspired notion of fully integrated performance budgets, appropriation accounts have not evolved to enable better understanding of costs to achieve stated objectives; instead they tend to be functional groupings of funds. Nevertheless, some respondents reported an increased willingness on the part of their appropriators to provide funding and high-level guidance in the use of predictive analytics.

Respondents did have some good advice to consider in how best to move in the direction of using financial data and analytics to make better decisions.

Get Everyone on the Same Page; Ensure Understanding Between Financials and Program Goals

Revisit basic activities that an agency performs and determine financial inputs; tie those activities directly to what they're intended to achieve; and then link those results to the intended public policy goals.

Communicate

Explain the importance of data and provide a vision for how you will use data in decision-making. Encourage collaborative partnerships across your agency and with key external partners and stakeholders, including OMB and the Hill:

- Involve, engage and listen.
- Value input.
- Share results openly and transparently.

Agree on Single Source of Authoritative Financial Data

Don't let the perfect be the enemy of the good.

Get to know your data and understand what it means. Then lead by example, using financial information to inform decisions:

- Ask questions about financial and other information used to inform decision-making.
- Challenge assumptions to encourage dialogue.
- Focus on the importance of learning from financial data and how it helps answer key questions.

Fight Complacency and Seek Opportunities for Changing Business as Usual

Take the initiative and show passion for working on problems that hinder organizational performance:

- Raise issues, demonstrate knowledge of those issues and suggest ways to do a job better or achieve better results.
- Question financial data and help identify ways to improve quality and usefulness.

Some respondents report real progress in using financial data to gain a deep understanding of their cost drivers. In fact, some fee-for-service government agencies probably do better work on that front than most private companies. But given that most public policy goals are non-financial in nature, respondents seemed to agree that cost management will likely never evolve to a point where financials are as important as in the private sector. However, given the new budget austerity experienced in recent years, government finances and financial data will play a larger role than in the past.

Respondents also pointed out the need for senior financial managers to develop strong relationships across their agencies so that program offices are in a position to better understand the types of financial info available. Financial managers said they can't drive financial analytics on their own, but they can enable it. Program managers are full partners on this front and need to integrate an analytical perspective into their culture and operations. We are clearly making steady progress in linking cost and performance data to improve decision-making. CFOs and other senior financial managers need to continue to break away from the back-office compliance mentality of the past to accelerate that evolution.





Transparency

The demand for government transparency is part of our history. Our second President, Thomas Jefferson, wrote to his Secretary of the Treasury, Albert Gallatin, asking for clearer financial reporting in which “we might hope to see the finances of the Union as clear and intelligible as a merchant’s books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them, to investigate abuses, and consequently to control them.”² The thirst for something so “clear and intelligible” seems unquenchable and CFOs are left to meet the demand.

Financial Statement Audit

We asked CFOs whether their “agency’s managers see benefit in performing the financial statement audit.” Almost 25 years after enactment of the Chief Financial Officers Act, CFOs tell us managers still don’t see the value in the financial statement audit. In fact, more than 60 percent say it is either unlikely or very unlikely that managers think performing the financial statement audit is a benefit to either them or the agency. “Outside of finance offices, the

rest of the world couldn’t care less,” one CFO remarked.

Some are champions of the financial statement audit: “The programs are very proud to have had a clean audit opinion the past two years.” Others think it has value, even if the final product is not completely valued. “Not for the result,” one said, “but for the controls that are in place and shown to be working.” One CFO said, “[Financial statements have] value even if no one reads them. It is similar to having a certificate on an elevator. They are certifying it is safe to ride. [With financial statements], we are certifying our stewardship.” Another warned, “If no one is checking up on your agency, who knows what could happen.” Most, however, don’t believe that managers see value in either the financial statement audit or the process it took to get there.

As to benefiting the public, few thought the statements provided the needed transparency. Those who thought the statements did offer adequate transparency qualified their endorsement by narrowly defining stakeholders or adding that stakeholders would understand them if “you explain

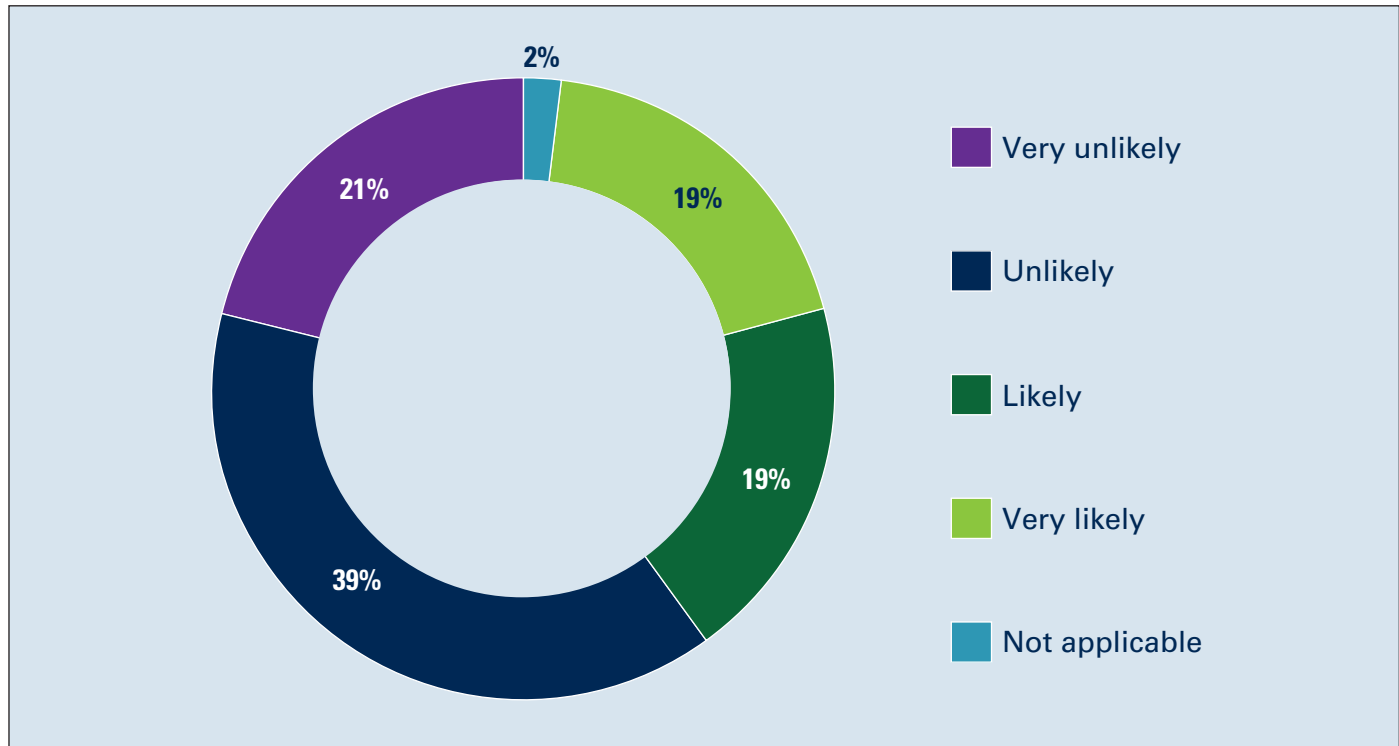
it.” And yet another said of stakeholders, “People like to see better data and that is what they are getting, even if they don’t realize it.” Only one respondent said the reports help “stakeholders understand how the funds are being spent.”

But the consensus appeared to suggest the public was not getting the intended benefit of the financial statements. “Many of the stakeholders don’t even know how to fully understand some of these complex financial reports.” “Does it help the public better understand the performance of the agency?” one CFO asked and then answered, “The DATA Act may be more helpful to the public.”

The DATA Act

The DATA Act, enacted earlier this year, follows a number of statutory requirements to report publicly and more frequently on agency spending. To date, however, agencies have fallen short of statutory reporting requirements. In a recent analysis of USASpending.gov, the website on which agencies are to report their financial transactions as required by

FIGURE 4: DO MANAGERS SEE BENEFIT IN PERFORMING THE FINANCIAL STATEMENT AUDIT?



the Federal Funding Accountability and Transparency Act, the Government Accountability Office reported that agencies “did not properly report information on assistance awards (e.g., grants or loans), totaling approximately \$619 billion in fiscal year 2012.”³ The DATA Act offers the government a new opportunity to enhance the rigor and usefulness of financial reporting. But CFOs say they will have big challenges meeting the new requirements.

Surprisingly, many respondents were not yet familiar with either the precise requirements of the DATA Act or the way OMB and Treasury would implement it. Agencies are waiting in anticipation of guidance from OMB and Treasury regarding the new requirements in the DATA Act. They are worried, too, that new requirements will further exacerbate an already severe human capital problem. Because the DATA ACT is another unfunded requirement, CFOs say, their already taxed workforce

will begin to retire or depart in even greater numbers, making compliance even harder.

Data Quality

Simply pulling data from existing systems and reporting it centrally is not the greatest challenge, of course. GAO highlighted the scale of the problem in its recent report: “Few awards on [USASpending.gov] contained information that was fully consistent with agency records.” In fact, GAO reported, “just between 2 percent and 7 percent of the awards contained information that was fully consistent with agencies’ records for all 21 data elements examined.” But agencies are not optimistic that this issue will be addressed soon. One CFO lamented, “Because the system from which data is pulled is unaudited, data quality will continue to be an issue.”

Like its predecessor Federal Funding and Accountability Transparency Act (FFATA) and a long list of financial and transparency reporting requirements, the DATA Act is the law of the land. Agencies will need to figure out a way to get the data required, ensure that it is clean and accurate, and report it timely. They won’t get many new resources to meet the challenge, so the more government agencies collaborate on ways to get and clean the data required by the new law, the more likely they are to accomplish the Act’s goals. It’s not clear we’ll ever achieve President Jefferson’s goals for sufficiently “clear and intelligible” books. But if agencies embrace the new requirements of the DATA Act, we may get close.

See Sampling of DATA Act Requirements on page 20.



The Move to Shared Services

Following passage of the CFO Act in 1990, federal agencies rushed to implement financial systems to meet the new requirements for financial reporting and achieve clean opinions on their newly mandated financial statements. Unfortunately, too many of those financial systems required greater costs and more time than anticipated. In spite of efforts to push standard approaches and ensure that systems were compliant with Federal Accounting Standards Advisory Board (FASAB) requirements through testing and Financial Management Lines of Business (FMLOBs), resistance was high. Agencies saw the same problems with FMLOBs as they experienced in house, with little perceived benefit.

A quick glance at the topics discussed at any gathering of CFOs will confirm that shared services is now at the top of the list of concerns. As a result of OMB memorandum M13-08,⁴ federal agencies are making the most serious effort yet to move financial data and processing to shared service providers (SSPs). This year's CFO Survey indicates acceptance of this mandate is gaining ground within the CFO community. There may be two reasons for this greater acceptance:

First, CFOs are no longer primarily concerned with basic financial activities

such as external reporting and getting clean audit opinions. For the most part, agencies have achieved their unqualified financial statement opinion goals. They are now focusing on value-added efforts such as providing better data to managers and reducing improper payments, and they are seeking proven solutions that SSPs can more easily provide.

Second, with the passage of time, the use of shared services has become the norm for functions such as payroll and travel, making the transition to SSPs for core financial activities more comfortable to CFOs. They have experienced the benefits and costs of moving business processes and systems support outside their agency.

Whatever the driver – the evolving role of the CFO from basic financial reporting to more data analytics, experience with shared services for other functions, or simply more definitive guidance from OMB – survey respondents were slightly more confident than not that the move to SSPs would make agency and governmentwide operations more efficient. This was reflected in both the in-person (49%–46%) and online (42%–41%) surveys. This, combined with the results discussed earlier, indicate that the focus is now shifting from whether to move to SSPs, to when and how best to do so.

Standardization. Those who have already made the transition to SSPs report that the most significant benefits realized by far were standardization and process efficiencies, while the key concern in using an SSP for this group is quality of service. Those who have not yet moved to an SSP echo this concern. Those who have already made the transition also reflect this concern in the lessons learned. "Capture all requirements up front before implementing the service," one said. Another recommended arriving at "strong quantifiable commitments surrounding expectations" and to "establish a framework from which you can monitor performance."

Now that the focus is on how to best implement shared services at the department level, the CFO community, OMB and Treasury face the challenge of working together to find the best approaches for the SSPs, departments, and the federal government. As these efforts continue to move forward, it will also require constant oversight, and sometimes difficult decisions. Transitioning to an SSP environment means change, which can be challenging. As one survey respondent stated, "You have to be willing to change how you do business."

FIGURE 5: WHERE ARE YOU DIRECTING MOST OF YOUR ATTENTION?

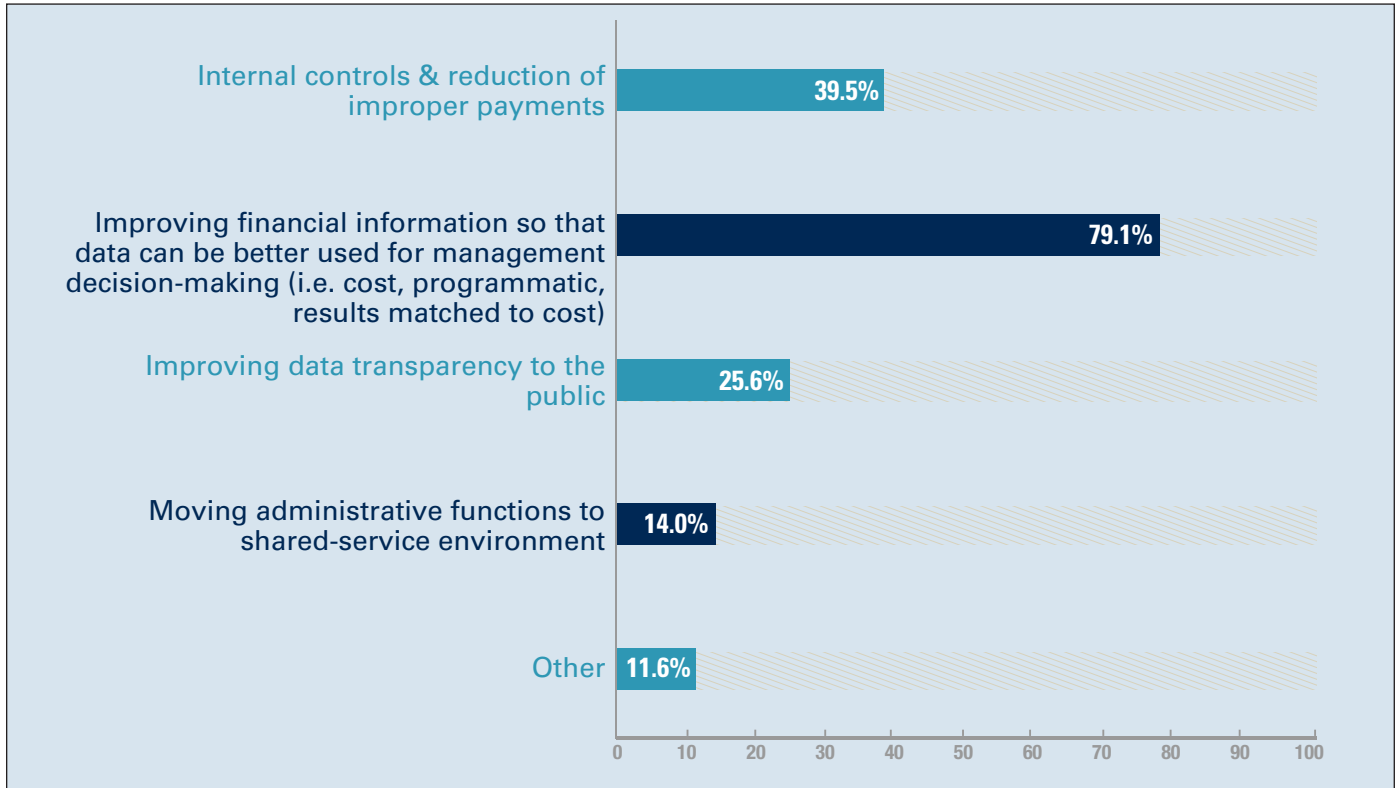


FIGURE 6: WHAT COMMON ADMINISTRATIVE OR OTHER BACK-OFFICE FUNCTIONS/SYSTEMS HAS YOUR AGENCY MOVED TO AN EXTERNAL PROVIDER?

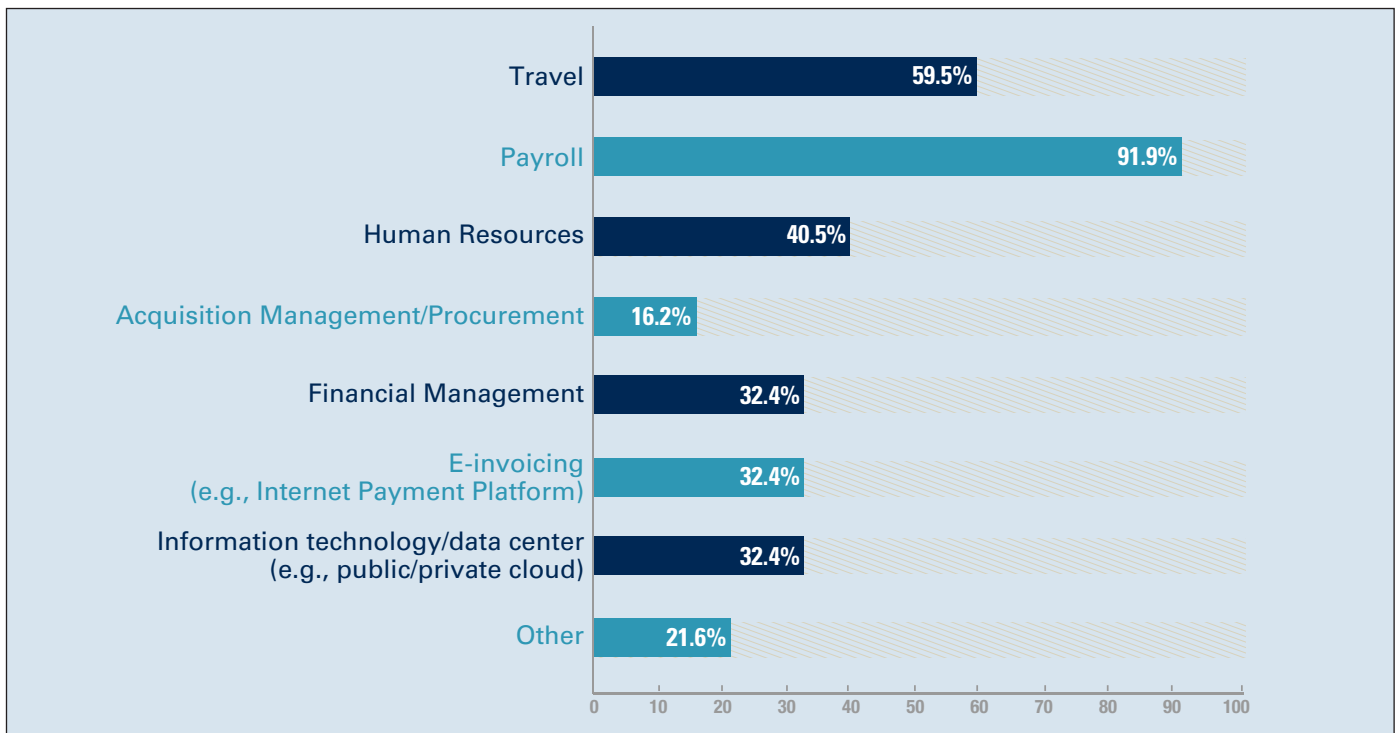
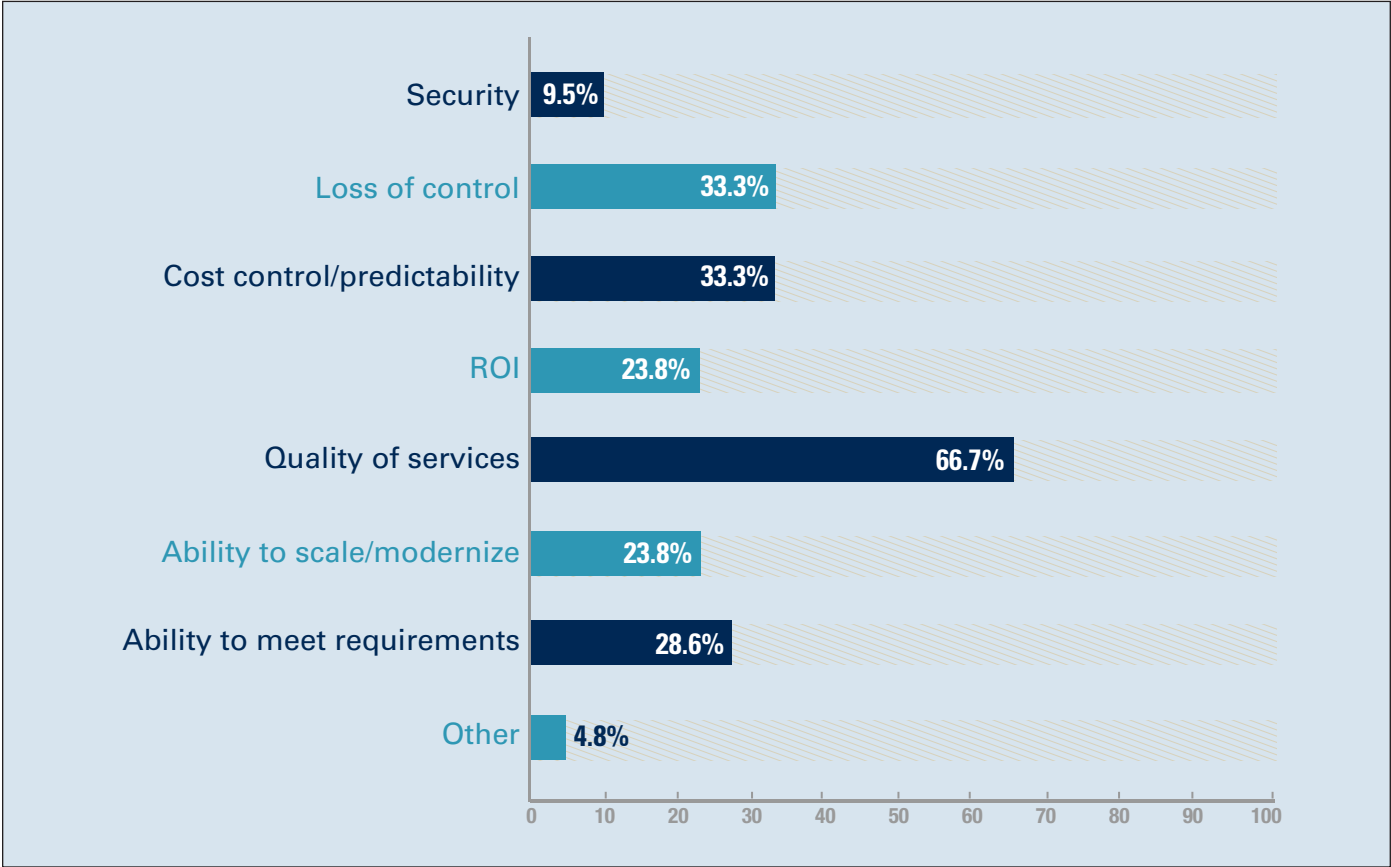




FIGURE 7: WHAT KEY CONCERNS DO YOU HAVE ABOUT USING YOUR SSP?





Recruiting and Retaining the Workforce of the Future

One of the greatest issues facing CFOs is the ability to successfully recruit and retain a workforce that can effectively address today’s challenges and help lead the organization toward a CFO organization that delivers insights and value. Last year, we asked respondents whether they were concerned that the ‘retirement wave’ poses a significant risk to their organization. We asked the same question this year, and little has

How concerned are you that the retirement wave is a significant risk to your organization?	
Not Concerned	17%
A Little Concerned	32%
Concerned	15%
Very Concerned	34%
Not Applicable	2%

changed. Respondents still evenly divide as to whether the retirement wave will adversely affect their organization.

Retirements

Some agency financial leaders told us that, because of their compelling missions, they are less concerned about the retirement wave. These agencies tend to attract qualified, skilled resources regardless of how the economy is doing. One respondent at such an agency noted they received more than 70 applications from qualified candidates for just one job opening. They also view the retirement wave as a positive phenomenon, allowing them to bring on fresh new talent better equipped to help transform the CFO organization from one that’s transaction oriented to one more information-oriented. New talent, they say, could help them better deliver insights to decision makers. Agencies that experience difficulty attracting skilled resources are more concerned about the retirement wave and have the added trepidation that their current workforce may not possess the right skills necessary to support the CFO’s office as it moves toward a more analytic environment.

Another explanation for evenly divided reactions to the retirement wave may be the unique circumstances of an agency. Some of the respondents viewed the retirement wave as a good way to reduce headcount in response to a limited budget. And still others saw this as an opportunity to shrink the financial management workforce to accommodate efficiencies gained through the use of shared services and/or the consolidation of financial management-related systems and functions. “As people leave the agency,” said one respondent, “we are intentionally increasing the vacancy rates in the financial management workforce to deal with the continual budget uncertainty and in anticipation of moving towards a shared services environment.” It is important to note that increased turnover, whether from retirements or other unanticipated departures, represent not only a decline in numbers but also a decline in sometimes critical skills.

Employee Engagement

We see a significant shift in respondents’ views regarding the adverse effect pressure on pay has on employee recruitment, retention, or engagement.

To what extent has pressure on pay inhibited employee engagement, retention, or recruitment?

	2014	2013
To a Very Small Extent	13%	46%
A Little	40%	23%
Noticeable Impact	28%	27%
To a Very Great Extent	20%	4%

Respondents are finding it more difficult to attract qualified applicants now that the economy is gaining momentum. In an attempt to combat higher salaries offered by the private sector, agencies emphasize developing and enhancing non-monetary incentives such as:

- Offering more flexible work arrangements
- Providing in-house training to help employees obtain certifications
- Creating an environment in which people can strive for advancement
- Providing additional professional opportunities, such as job rotation and enrichment programs.

For example, the Environmental Protection Agency (EPA) rolled out a new program called the 'Skills Marketplace.' An employee can spend 20 percent of his or her time (up to a year) on a project outside the employee's normal work. This gives the employee an opportunity to develop new skills and contribute to other areas of the agency. Agencies are also looking to streamline processes to make them more efficient and effective

as a way to improve employee morale. In addition to reducing costs, streamlined processes improve employee satisfaction by reducing frustration brought on by performing no-value or low-value tasks and eliminating unnecessary barriers.

Succession Planning

Respondents also voiced the need for better succession planning. A strong pipeline of leaders is essential to the continued success of the CFO function. Even with succession planning, however, it may be hard to retain the same expertise should key staff retire. Some solutions to this issue offered by our respondents include establishing a cross training or rotational program for staff, standardizing and documenting processes both within an agency and across the department, and including succession planning as an element within an individual's and agency's performance plan.

Declining resources and increasing requirements are dual pressures on the financial management workforce. Add to those lower morale across the federal government, increasing retirement eligibility, and a time consuming hiring process and you have a difficult mountain to climb just to keep up with turnover. Finding and keeping the right workforce is getting harder and harder.

From page 15

Sampling of DATA Act Requirements

- Secretary of the Treasury responsible for maintaining USASpending.gov
- Quarterly reporting requirements: (1) budget authority available, (2) amount obligated, (3) amount of outlays, (4) federal funds reprogrammed or transferred, and (5) amount of expired/unexpired unobligated balances
- Secretary of the Treasury to publish data standards for federal funds
- Inspectors General to review completeness, timeliness, quality and accuracy of sampled data
- Recovery Accountability and Transparency Board to test technology to identify waste, fraud and abuse



Major Challenges

Like we did last year, we asked respondents to rate their greatest challenges in the near term and over the longer term — a real time test of their attentiveness to risk. But there wasn't much difference in the responses. Topping the list of both long and short term challenges was **talent**. Financial executives are struggling to recruit and retain the talent they need to meet the demands of their offices. Hiring and keeping people has always been a struggle for federal agencies and those processes have not improved appreciably. But increased retirements among an aging workforce, budget uncertainty, and a climate that doesn't show respect for the role of federal employees make attainment of a world class financial management workforce almost impossible. Because of increasing unfunded requirements, CFOs say, they fear their already taxed workforce will begin to retire or depart in even greater numbers, making achievement of their mission even harder.

Some financial management executives employed strategic workforce planning to mitigate the impact of these forces; however, many said their ability to address the issues was limited. If you

can't give pay increases or bonuses to talented employees, they may go elsewhere. If federal employee bashing continues unabated, employee engagement will suffer. "With no bonuses and no within grade increases, there's no real way to reward employees any longer," said one respondent. "Non cash incentives don't work for everyone. Employees know the only way to get a significant raise is to move to another agency or job."

Incentive pay is not the only issue impacting employee engagement. The increasing workload is clearly a driver of a disaffected workforce. One CFO said, "Pay isn't the issue, lack of flexibility and heavy workload are the main issues. People would deal with the pay issue if the main issues were resolved." An already heavy set of requirements, combined with new financial management initiatives like shared services and benchmarking, are not a recipe for a motivated workforce. However, the importance of the mission, say many CFOs, is still a major driver of employee satisfaction. Most do not join the federal government because of the pay it offers. They join to serve the American people, and it is often what makes those that

CFOs agree workforce management is worsening; should be a focus of financial management enterprise.

stay able to tolerate some of the tough conditions they endure.

Whatever the specific complaint about their ability to recruit and retain talent, CFOs agree that workforce management is a worsening challenge. If they were to suggest a single focus on a particular element of the financial management enterprise, it may well be improving federal workforce management.



Challenges	Current	Future
Talent	40%	44%
Budget Uncertainty	30%	28%
IT	23%	21%
Other	8%	7%

As expected, **budget uncertainty**, although not the top challenge, came in second among the most-often-cited top challenges. It's been the rule over the

last several decades that the President and Congress have not been able to come to agreement on a budget before the end of the previous fiscal year. This inability to agree on agency funding until well into the year makes planning and execution of major programs haphazard, at best. Add sequestration and a government shutdown, and you find federal financial managers struggling to address these issues, much less do the kind of strategic analysis and management their missions require. Budget stability would go a long way toward giving CFOs the flexibility they need to focus on bigger issues.

One of the major investment areas in which CFOs are struggling to keep up is **information technology (IT)**. Without stable budgets, agencies are unable to make the investments they need to update their legacy systems or migrate to a shared service provider. This is number three on the list of greatest challenges, one which the move to shared services is designed to help address.

Endnotes

1. U.S. Office of Management and Budget. Circular A-11, *Preparation, Submission, and Execution of the Budget*. Executive Office of the President of the United States, U.S. Office of Management and Budget, July 2014. See Section 270 at www.whitehouse.gov/sites/default/files/omb/assets/a11_current_year/a11_2014.pdf for more details.
2. Randolph, Thomas Jefferson. *Memoirs, Private Correspondence and Private Papers of Thomas Jefferson, Late President of the United States*. Volume III. London: Henry Colburn and Richard Bentley, 1829.
3. Government Accountability Office: *Data Transparency: Oversight Needed to Address Underreporting and Inconsistencies on Federal Award Website*; Report Number GAO-14-476, June 30, 2014.
4. U.S. Office of Management and Budget. Memorandum M13-08, *Improving Systems through Shared Services*. Executive Office of the President of the United States, U.S. Office of Management and Budget, March 25, 2013. See www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-08.pdf for details.





Conclusions and Recommendations

Federal financial managers are grappling with new management improvement initiatives as they strive to meet existing requirements and address budget crises stemming from events like sequestration and shutdown. They lack some badly needed tools to recruit and retain the talent needed to keep up. Moreover, IT systems are not keeping pace with advances in technology.

Fortunately, CFOs are among the government's strongest leaders. They have deep experience in the federal environment and are highly skilled at managing their agencies' finances and reporting. But what are some things CFOs and others can do to improve the plight of the financial management community so it can provide the support and analysis necessary to improve the federal government's operations as a whole? Below are just a few recommendations:

1. Because they say it is the top challenge, OMB, OPM and CFOs should redouble efforts to **develop and execute a more effective strategy to ensure recruitment and retention of the workforce** needed to accomplish the federal financial management mission. Though

efforts to date are laudable, they do not appear to have mitigated the workforce challenges impacting CFOs. In fact, they appear to have worsened over the past year.

2. CFOs should **streamline and leverage management improvement requirements** like internal controls design and implementation, improper payment measurement and reporting, and risk monitoring and management so they narrowly focus on achievement of the agency's mission.
3. Because risk management is most important in a time of transition, Congress and OMB should **clarify who is accountable for risk management** and ensure risk monitoring is the responsibility of the whole agency, not just the Chief Risk Officer (for agencies with such a position).
4. Agencies should collaborate closely with both each other and external stakeholders to ensure they can **comply with new transparency requirements like the DATA Act in a way that minimizes burden and maximizes benefit**. Better publicly reported data can be a boon to an agency's performance improvement efforts.

5. **Embrace the move to shared services**, and use it as an opportunity to realize the process and practice improvements that have been needed for a long time.
6. Oversight bodies like the Congress and OMB should **take into consideration the increasing workload of agency CFOs, the very real workforce crisis they face, and budget uncertainty when they design and launch new management improvement initiatives**.

Those are just some of the recommendations that flow from the conversations we have had with the financial management community over the past year. Progress will occur as CFOs continue to show fierce resolve even in the face of crisis and challenge. We can do more, however, to lessen the load that CFOs carry. And it will take the whole of the government's financial management enterprise, including Congress, OMB, financial management staff and contractors, and the CFOs themselves, working together to find lasting solutions to these challenges.



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