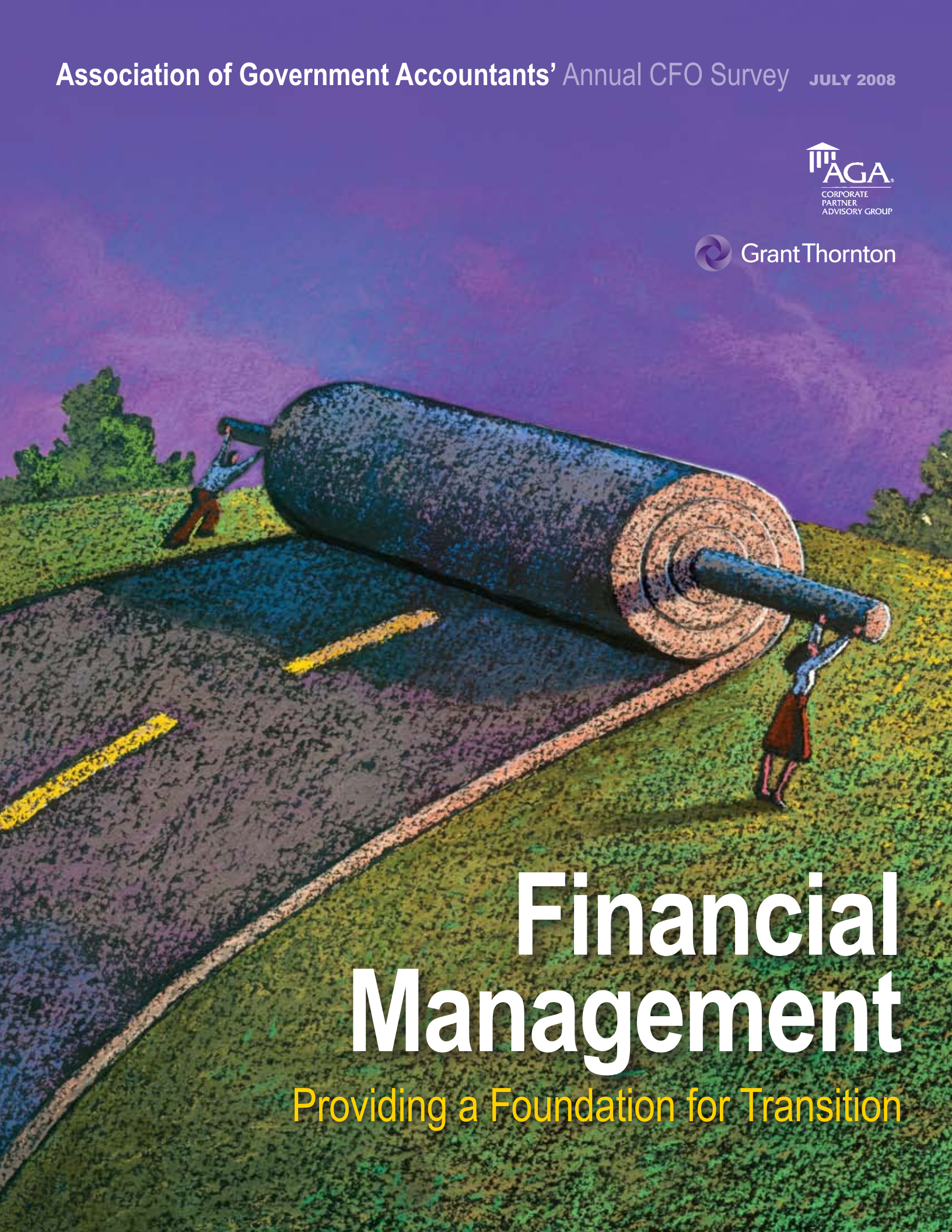
Association of Government Accountants' Annual CFO Survey JULY 2008

AGA CORPORATE PARTNER ADVISORY GROUP

Grant Thornton



Financial Management

Providing a Foundation for Transition

Executive summary

In 2008, 239 federal financial management executives and managers took part in the 12th annual chief financial officer (CFO) survey sponsored by the Association of Government Accountants (AGA) and conducted by Grant Thornton LLP. Survey respondents are proud of the financial management and internal control successes of the past 7 years. However, they say that the government must head in a new direction to achieve even greater gains. Future improvements need to focus on how the CFO can add value to missions and programs, not just comply with regulations.

Financial reporting

Most survey respondents agree that the way the Federal Government prepares, presents and audits annual financial statements is broken. Only 5 percent of citizens are satisfied with the federal financial information they receive, according to another 2008 AGA survey. Designed for industry, the current financial reporting model costs too much and delivers little useful information to government decision makers. Needed are new models that are more transparent to citizens, relevant to decision makers and appropriate for government. The Executive Branch can make some of the changes required for such models. Also, federal entities can reduce the cost and improve the quality of the current model or other models by using a risk management approach.

Accounting and auditing standards

Most executive respondents think the approach used by federal auditors for financial reports adds value to government management. Nonetheless, half called for changing federal accounting standards and 60 percent for new audit standards. They want the standards to be more relevant to the business, goals and purpose of government. In essence, the standards should guide reporting on performance in areas that matter to program managers and citizens, not just to auditors.

Internal control

Three out of four executives in the survey are positive about the White House Office of Management and Budget's (OMB) December 2004 revision of Circular A-123, *Management's Responsibility for Internal Control*. They think that the circular has helped improve controls over financial reporting. However, the respondents say that more must be done to improve and monitor controls on program efficiency and effectiveness—mission success is more important than getting the financial numbers right.

Consolidation and integration

Consolidating and integrating the many finance- and controls-related mandates placed on federal entities by Congress and OMB could reduce the work of complying with them. On their own, entities can combine compliance activities to save time and money. This will also help to integrate controls on processes that cut across organizational boundaries. One way to achieve such integration is for CFOs to become their entities' chief accountability officers, responsible for risk management, tracking return on investment and providing support to programs.

Future CFOs

In the future, the quintessential federal CFO will have a relationship of mutual trust with departmental and agency leaders and be skilled in developing and retaining an effective financial team. Such CFOs will understand the federal budget process, have accounting acumen, know the business information needs of program managers and be skilled in selling a budget to OMB and Congress, internal control to program managers and the benefits of integrated financial and performance information to everyone.

All signs point toward a bleak fiscal future for the Federal Government. Massive deficits and the costs of overseas conflicts mean fewer resources for programs and some tough budget decisions. If CFOs stay on the present path of financial management, they will be of little use in making those decisions. With the course corrections suggested by current CFOs in this report, future CFOs can provide the integrated financial and performance analysis decision makers need. They will also be better able to help program managers to develop more cost-effective operations. In short, future CFOs will add more value than ever before, if they follow the right path to success.

About the Association of Government Accountants

The Association of Government Accountants (AGA), founded in 1950, is the educational organization dedicated to the enhancement of public financial management. The AGA serves the professional interests of state, local and federal financial managers who are responsible for effectively using billions of dollars and other monetary resources every day. The association has more than 14,000 members, including professionals in accounting, administration, auditing, budgeting, consulting, grants, fraud investigation and information technology. The AGA has been instrumental in developing accounting and auditing standards and in generating new concepts for the effective organization and administration of financial management functions. The association conducts independent research and analysis of all aspects of government financial management. These studies, including the 2008 AGA CFO Survey, make AGA a leading advocate for improving the quality and effectiveness of government fiscal administration and program performance and accountability. For more information, please visit our Web site at *www.agacgfm.org*.

About Grant Thornton

Grant Thornton LLP, founded in Chicago in 1924, is the U.S. member firm of Grant Thornton International (http://www.gti.org), one of the six global accounting, tax and business advisory organizations. In over 500 offices in over 100 countries, including 50 offices in the United States, the partners of Grant Thornton member firms provide personalized attention and the highest-quality service to public and private clients around the globe. Grant Thornton's Global Public Sector, based in Alexandria, Va., is a global management consulting business with the mission of providing responsive and innovative financial, performance management and systems solutions to governments and international organizations. Visit Grant Thornton's Global Public Sector at *http://www.grantthornton.com/publicsector*.

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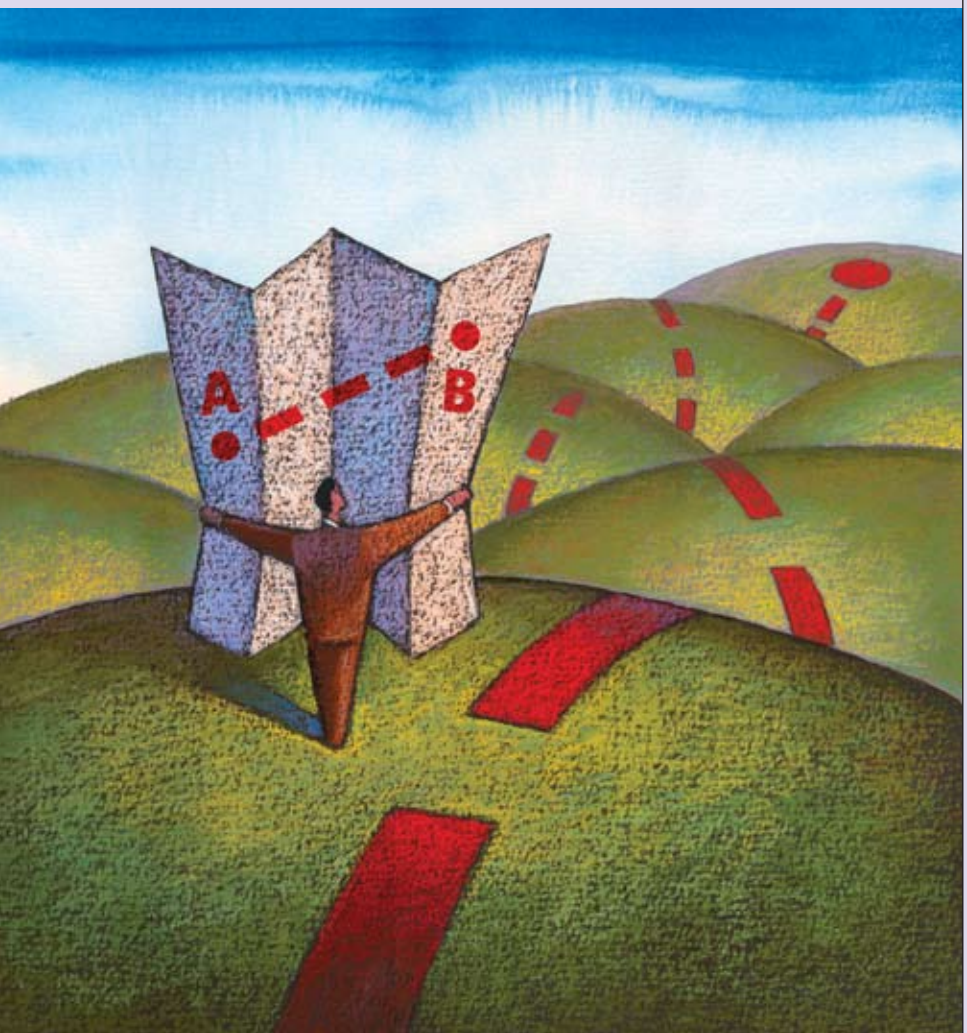
About the survey

The Association of Government Accountants (AGA), in partnership with Grant Thornton, has sponsored an annual federal chief financial officer (CFO) survey since 1996. Earlier AGA surveys focused on issues such as governance structure, human capital, financial systems, performance measurement, internal control and compliance. For the 2008 survey, we focus on policy issues important to the continued success of financial transformation in government. These issues include financial reporting, internal control, continuing resolutions, compliance requirements, human capital, systems, and accounting and audit standards.



Most survey respondents are from federal civilian agencies and departments. The purpose of the surveys is to identify emerging issues in financial management and provide a vehicle for practitioners to share their views and experiences with colleagues and policy makers. This is one of the ways in which AGA maintains its leadership in governmental financial management issues.

Anonymity

In order to preserve anonymity and encourage respondents to speak freely, AGA's annual surveys of the CFO community do not attribute thoughts and quotations to individual financial executives who were interviewed.

Survey methodology

With AGA guidance, Grant Thornton developed online and in-person interview survey instruments that included closed- and open-ended questions. Grant Thornton used these questionnaires to interview 239 federal executives and managers involved in federal financial management in 70 departments, departmental agencies and independent entities and commissions. There were 121 in-person interviewees and 118 online respondents.[1] They included CFOs, deputy CFOs and other entity financial executives, along with some senior managers. In addition, leaders from the U.S. Office of Management and Budget (OMB), the Government Accountability Office (GAO), congressional committees and the Inspectors General (IG) community participated in the survey.

[1] An additional 85 state and local government and 17 non-government professionals responded to the online survey, but were not included in this report.

Road to transformation

Reviewing the results of the 2008 CFO Survey, one senses a higher readiness for change than in previous years. On the positive side, the financial executives and managers in the 2008 survey feel they have accomplished much in the last 7 years. Certainly, the Federal Government keeps better books, and its financial information is more accurate than ever before. Now, the federal financial community is ready to go to the next level of accomplishment. CFOs and other executives in our survey want evolutionary rather than revolutionary change—but they want changes to start now.

On the negative side, many of our survey respondents question the value of much of the work that they must do, especially in meeting compliance mandates. This sentiment is particularly acute among those who believe that the government faces a bleak fiscal future because of its huge deficits. There are hard decisions about budgets ahead, say these respondents, and they want the financial community to help make the right choices about programs, defense and services to citizens.

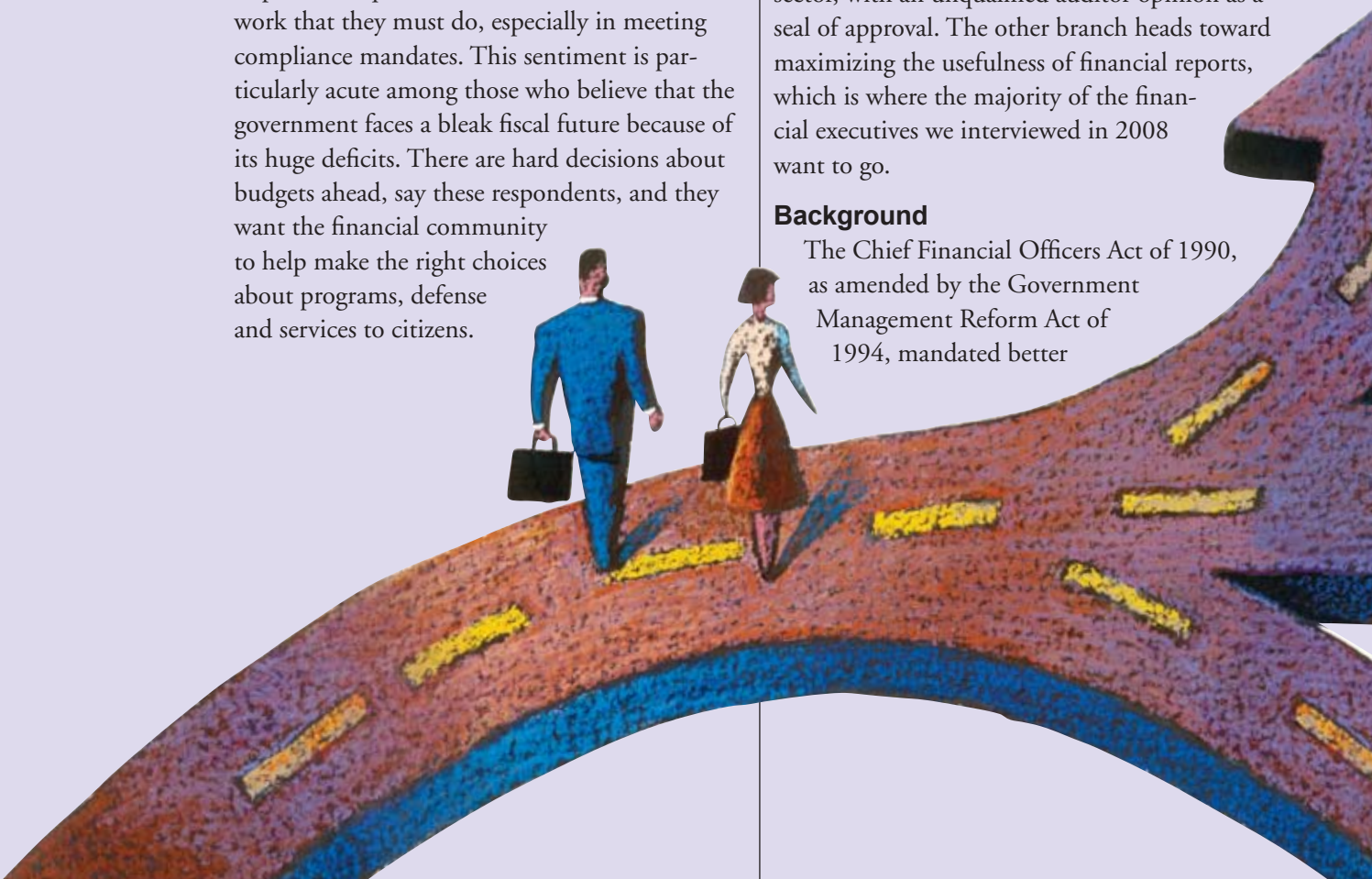
For this to happen, the Federal Government must choose the right route to transforming financial management into a valuable tool for decision making and program improvement. In this section, we use the metaphor of a fork in the road to financial management's future to discuss choices for financial reporting, internal control, continuing resolutions and compliance.

Financial reporting: more than a seal of approval

Financial reporting is the first fork in the road toward transformation, because many survey respondents think that it consumes time and resources disproportionate to its value for decision making. One branch of the road leads to more precise, accurate and timely financial statements modeled on those used by the private sector, with an unqualified auditor opinion as a seal of approval. The other branch heads toward maximizing the usefulness of financial reports, which is where the majority of the financial executives we interviewed in 2008 want to go.

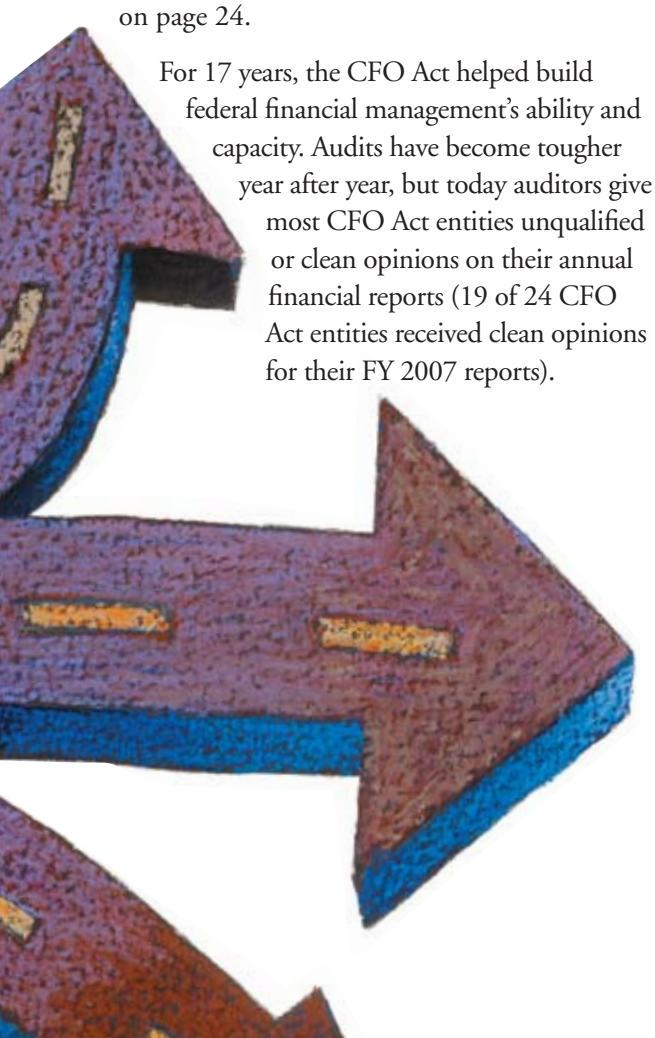
Background

The Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, mandated better



financial accounting and reporting for federal entities like departments, agencies and certain funds. OMB Circular No. A-136, *Financial Reporting Requirements*, sets forth the form and content of the financial statements in the reports. The annual report also includes an independent auditor's opinion of the reliability of the processes used to develop the information the statements present. Federal entities that are required by the CFO Act to have audited annual financial statements combine them with reports on program and mission performance; the combined report is called the Performance and Evaluation Report (PAR). For a more detailed discussion of technical issues on financial reports, see "Financial statements and audits: a closer look" on page 24.

For 17 years, the CFO Act helped build federal financial management's ability and capacity. Audits have become tougher year after year, but today auditors give most CFO Act entities unqualified or clean opinions on their annual financial reports (19 of 24 CFO Act entities received clean opinions for their FY 2007 reports).



Seventy-two percent of citizens say it is important to receive federal financial information, but only 5 percent are satisfied with what they get.
—Association of Government Accountants/ Harris Interactive® poll, January 2008.

Usefulness of financial statements

Unfortunately, few people actually read federal financial statements, much less use them for making decisions. Referring to the good record of clean audit opinions on these statements, an executive says, "We are getting A's on our tests but not learning anything." Most of the CFOs and financial executives in our survey agree. They think that the story of the CFO Act does not have to end with financial reporting. Instead, say many, it is time to evolve federal financial information into a form that will be more *transparent* to citizens, *relevant* to decision makers and *appropriate* for government.

Transparent means that information is clear and that it matters. Ninety percent of American adults say that, as taxpayers, they are entitled to transparent financial management information from all levels of government, according to a January 2008 Harris Interactive® poll commissioned by the Association of Government Accountants. Seventy-two percent of the citizen surveyed say that it is important to receive federal government financial information, but only 5 percent report satisfaction with what they receive.

Relevant means delivering information that is important to taxpayers, legislators, an administration's top leaders, policy makers, executives and managers. Almost all 120 executives in our survey say that very little of the information in federal financial reports is relevant to

government decision making. From their perspective, financial statements add little value to a government entity, yet preparing and auditing them take resources away from value-added work the office of the CFO (OCFO) could do to help achieve an entity's mission.

"We are getting A's on our tests but not learning anything."
—An executive

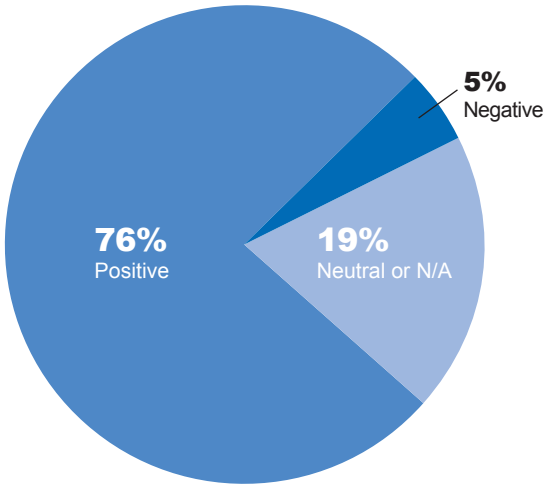
Appropriate means that the content and form of an organization's financial reports reflect its purpose, structure and operations. Governments have unique characteristics that are much different from those of private companies, say executives in our survey. Corporate financial statements show investors the value and viability of a company, and the purpose of a company is to make profits. The purpose of government is not to make profits, nor is the Federal Government going to be sold or go out of business. Instead of value, the information taxpayers, Congress and top leaders want is about government spending, cost-effectiveness and performance. Government financial statements do not provide this information in their current private sector-based form.

Referring to the past 17 years of the CFO Act, one executive says, "Declare victory for the first phase of the CFO Act and move on to the next phase." The next chapter of the CFO Act story will be built on that victory, yet should not be about marginal improvements in financial reporting. Instead, it must be about how CFOs identified the right audiences for financial reports and gave them relevant, useful and transparent information. In the face of mounting deficits, such information will be sorely needed.

Internal controls need broader focus and integration

In the wake of major private sector scandals, in 2002 the Sarbanes-Oxley Act (SOX) called for more stringent attention to controls over financial reporting by corporations. OMB Circular A-123, *Management's Responsibility for Internal Control*, revised December 2004 (A-123), is the Federal Government's version of SOX. Nearly four years after the revision of A-123, the government is at another fork in the road. As with financial reports, one branch leads to better control over financial reporting and reducing fraud, waste and abuse. Most of the activity involved in this option takes place within the OCFO and IG 's office. The other branch expands the scope of A-123 internal controls from a narrow focus on financial reporting to a broader application to programs and processes that produce the outputs needed to meet an entity's mission. Most of the expanded scope's work happens outside the OCFO and the IG's office and is done by program managers. This is where A-123 can deliver the most value for programs and operations.

Figure 1:
Executives' opinion of the effects of OMB Circular A-123



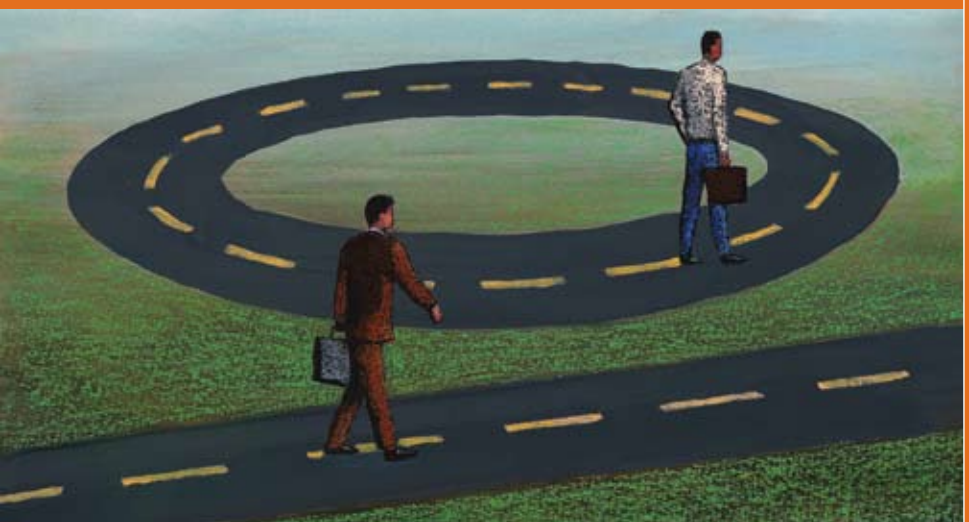
Financial reporting with a government-wide focus: the U.S. vs. the Canadian model

The Government of Canada's top-down approach to an annual government-wide financial report has features that could solve problems in the bottom-up approach used by the U.S. Federal Government.

The Federal Government's consolidated financial report follows a closing package process that starts with funds, agencies and departments (entities) preparing individual financial statements and having them audited. Entity reports fall due 45 days after fiscal year close. The Treasury Department's Financial Management Service rolls up the individual report results into the consolidated financial report, which is due 30 days later. GAO audits the consolidated financial reports and has given them disclaimer opinions for the past 11 years. Some months after delivering its opinion, GAO issues findings and recommendations about material weaknesses and other issues of the consolidated report. For FY 2007, this was about 8 months after close.

There are problems with this bottom-up process. First, materiality is determined on an entity basis versus on a government-wide basis. Second, repeated disclaimer opinions do not inspire trust in federal financial management. Third, there is a half-year or more lag in detailed reporting of government-wide material weaknesses, which delays addressing them. Fourth, the current process for preparing, correcting and auditing financial reports is expensive, costing the government hundreds of millions of dollars a year.

Canada's top-down approach gives the national annual financial report primacy over those of individual agencies and Crown Corporations. These entities submit trial balance data during and at the end of the fiscal year for the national financial statement process. The government's central auditor identifies and audits material components, taking the audit work to the entity that submitted the data. An independent public accounting firm audits the national report. After that, entities prepare their own financial statements. Audit materiality is determined on a government-wide basis, not by individual entities.



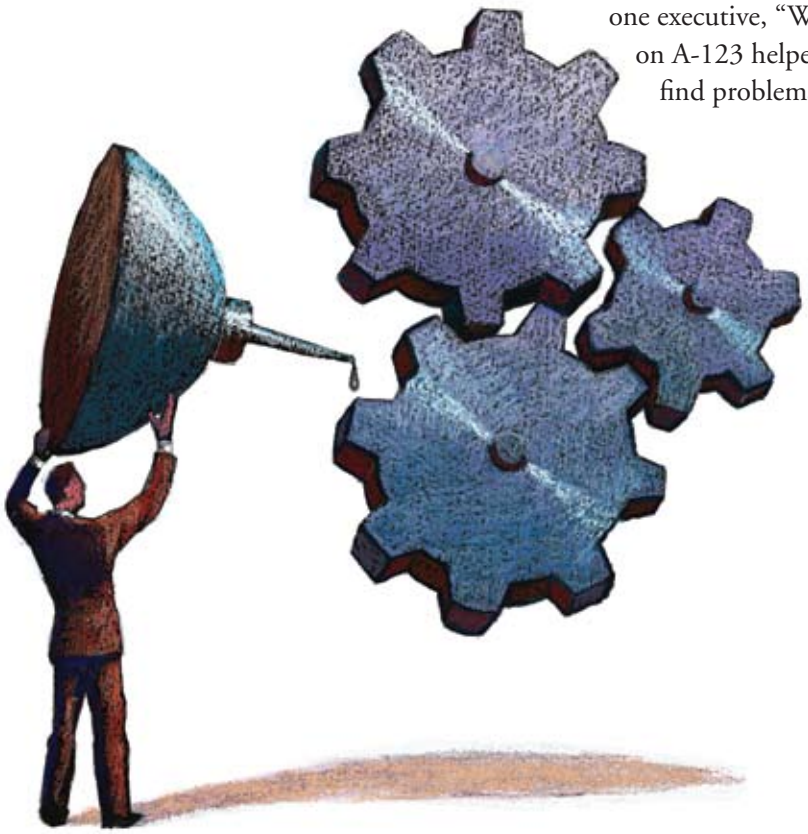
Canada regularly receives an unqualified audit opinion on their consolidated financial report. This increases trust in government figures. As important, Canada's top-down national report and audit enables a risk-based approach to subsequent financial audits and reviews of individual entities. Entity level auditors use materiality levels established on a government-wide basis.

Rather than force the Canadian model across the U.S. Government, an approach for 2009 could include some federal departments applying such a top-down approach on their own to help maintain or obtain an unqualified opinion. Departments can have their component entities submit trial balances, so that CFOs can see what is material to the whole department, not just to some of its parts. CFO Act components will still need to have their own audited financial reports. However, focusing component-level reporting and auditing on department-wide issues is a risk-based, cost effective way to obtain a clean opinion on the departmental financial report.

Positive opinions on A-123

When the December 2004 revision of A-123 first went into affect, some federal executives were doubtful of it, fearing another private sector solution that would not fit into government operations. As shown in Figure 1, today three out of four executives surveyed believe that their efforts to comply with A-123 have had a positive affect on their financial statement audit, financial operations, IT security or non-financial operations. They say that going through the circular's process has strengthened controls and made program managers more aware of their responsibilities in this area. Complying with the circular has provided many with the resources and top executive support to do better process documentation, to correct control weaknesses and to eliminate poor practices.

Ninety percent of executives who commented on A-123 said that their work on it has reduced the risk of financial waste, fraud and abuse. Reports one executive, "Working on A-123 helped us find problems with improper payments. As a result, we recouped hundreds of millions of dollars." Although they did not always have such big results, three out of four executives said that the resources they invested in complying with the internal control circular were worth the return. Some have reduced compliance costs by coordinating the assessments done for A-123's Appendix A (Internal Control Over Financial Reporting) and Appendix C (Requirements for Effective Measurement and Remediation of Improper Payments), such as taking one large sample of accounts payable for work on the requirements of both Appendix A and Appendix C, instead of doing this separately.



These are excellent results so it might seem logical to keep going down the current path of internal control. However, the results mask a serious concern. Unless the government broadens the scope and fosters integration of internal control activities, they may become a rote "check the box" compliance items. That is what happened to A-123 before its December 2004 revision and subsequent high profile. It could happen again.

Broader scope

Most CFOs focus on A-123's Appendix A. However, financial reporting is only one of three control objectives under Section 2 of the Federal Managers Financial Integrity Act of 1982 (FMFIA). The other two are effectiveness and efficiency of operations and compliance with applicable laws and regulations. Complying with FMFIA aside, sound controls on operations reduce the risk of poor performance of an entity's mission. That is more important than getting the financial numbers right, and should receive as much or more attention as controls over financial reporting. It is also where CFOs can broaden their roles and increase the value they add to an entity.

Table 1:
Executives' rating of internal control effort integration within their entities
(1 = strongly disagree, 4 = strongly agree)

Statement	Average agreement rating
1. Internal control efforts are well integrated across functions such as financial management, IT, security, human capital and operations.	1.9
2. The CFO and other CxOs (or their equivalent) work together to integrate their internal control efforts.	2.0
3. The entity supports the integration of internal controls with an entity-wide risk management approach.	2.4

This is why some of our executives want to see Appendix A requirements reduced or at least kept the same. They think that channeling resources to controls over program and entity performance and related reporting will deliver a better return on investment.

Integration needed

Ideally, an entity will integrate the work of managing and reporting on financial, operational and compliance controls. Unfortunately, survey responses to Statements 1 and 2 in Table 1 show that financial executives have lukewarm opinions about internal control integration in their entities. In the table, a score of 1 means strong disagreement and 4 means strong agreement. "CxOs" refers to chief information officers, chief human capital officers, chief acquisition officers and other chiefs of specific functions.

According to some executives, a barrier to improving the agreement scores in Table 1 is that CxOs in an entity say they "own" their part of the control structure. This stovepipe mentality gets in the way of controls for processes that cut across organizational boundaries. Everyone has a role in internal control, and all must work together on it.

"Don't stovepipe internal controls. Integrate across functions—A-123, FISMA, acquisition requirements, HR controls. Use A-123 as the framework and add other control review requirements into a single framework with one timeline, one milestone list and one plan."
—An executive

Risk management

Statement 3 in Table 1 is important to the future of controls, because an entity-wide risk management approach leads to setting cross-cutting priorities for risk mitigation. Many entities, and sometimes the whole national government, lack a sense of priority when it comes to controls. Better risk assessment and a focus on managing risk would make control activities less costly and

more likely to add value to operations. Says an executive, "Understand what risk is acceptable. Some risk needs to be accepted in order to get things done. Controls need to focus on management analysis and review that help understand where weaknesses lie and how they can be improved." Also, many say that auditing controls for the sake of a clean opinion is of little value.

Survey respondents would like A-123 and other internal control guidelines to be more clear and precise. However, one-size-fits-all compliance requirements ignore that entities need to tailor controls to their processes and missions. In addition, no new government-wide rules are needed for control compliance, but oversight entities should maintain the pressure to develop effective controls.

In summary, the future path of internal control leads to integrated controls of both financial and performance processes, particularly those that are central to an entity's mission. Controls focus on important risks to mission and are continually monitored for their effectiveness. Such controls tend not to become paper exercises, but instead are valued elements of sound operations.

Continuing resolutions: a challenge to CFOs

CFOs and their entities are hit frequently by continuing resolutions (CRs), which at best distract from government operations and at worst lower effectiveness. All public servants would consider it a joy not to have CRs, but these bumps in the road are a part of their lives: in the past 3 decades Congress and the Executive Branch have managed to pass all appropriations bills on time only in 4 years.

Our survey asked financial executives their opinions about the affects of CRs; Table 2 below shows the results. Almost all interviewees

Table 2:
Executives' opinions on continuing resolutions

In any of the past 3 fiscal years, has your entity had to operate under a continuing resolution?	
No	5%
Yes	95%
Problems caused by continuing resolutions	**% Yes**
Delay or cutbacks in CFO initiatives	66
Cutbacks in other significant entity programs	60
Delays or cutbacks in contracting/acquisition plans	79
Other problems	40

have worked under CRs in the past three years. About one in five has experienced CR-related problems that have affected some aspect of their entity's program and mission. The reported problems include issues of program integrity, poor resource management, inability to plan, distraction from the core business of financial management and wasteful incremental funding of projects and contracts.

Program integrity. Says an executive, "CRs hurt us the most in the area of program integrity, which is funded last in priority. Program integrity includes risk management, facility maintenance, etc. In CRs, people abandon looking at return on investment and do the immediate thing, rather than what will be important in the long term. If we are in the process of measuring something, we have to stop measuring for awhile and then return to it, with a lot of observations and data lost in between."

Planning. "CRs lead to poor management of resources, as managers are forced to be reactive, rather than proactive," says an executive. "They can't plan ahead and start new projects. When funding is received it is often too late in the year to fully execute."

Distraction. "The CFO gets distracted and loses 3 or more months in most CRs. This causes delays and cutbacks and hinders the ability of the organization to move forward," says an executive.

Waste of time. "The problem with CRs is that, after the process is started, you have to develop a spend plan that needs to be approved by the department, then by Congress, which can take up to 60 days," says an executive, "All this time delay for a CR that can be as short as 10 days. Better not to have CRs, but if we do, then have CRs for an extended period of 30 days or so." In addition, CRs can cause incremental funding of contracts, which means more work for entity staff.

Loss of quality. According to an executive, "Once a budget is approved, everything shifts to the hurry-up and obligate mode—we lose the window of opportunity to provide quality reviews of financial decisions because the rush to obligate doesn't always allow it."

Everyone agrees CRs are inevitable, so planning for and dealing with these bills is critical. Most executives want OMB, the White House and Congress to accept responsibility for their actions related to CRs and then agree to help improve the process of managing under a continuing resolution. Here are some of their strategic and tactical suggestions for dealing with continuing resolutions.

Strategic actions. At a macro level, strategic improvements all require coordination between the White House, OMB and Congress. These strategic improvements include:

- **Thirty-day (minimum) continuing resolutions.** There is a pretense that somehow a 2-day or 2-week CR will allow enough time to work out the details to resolve an approved budget. In fact, the shorter-term CRs cause too much anxiety on all fronts. A 30-day CR is a reasonable timeframe. Should a budget be approved before 30 days, the budget becomes immediately effective and supersedes the continuing resolution.
- **Biennial budget.** This means giving every federal entity a 2-year appropriation. The topic has been discussed at various levels for more than 20 years. This can be done in ways that ensure that legislators have a hand in shaping the federal budget.

- **Better guidance and clearer rules from OMB**, which should provide better definitions and information on such things as what constitutes a new start for a project, rate-setting formulas, flexibility, best practices and spend guidance.
- **Working capital funds/revolving funds** should be created for entities that do not receive significant amounts from appropriations.

Tactical actions. Here are ideas for managing CRs in an entity:

- **Planning.** CFOs need to anticipate and plan for CRs, make them part of the 12-month planning process, assume 9 months of authorized spending, set priorities for spending and manage employee expectations.
- **Curbing discretionary spending.** Defer purchases such as training, long-term contracts and long-term obligations until later in the fiscal year and scale back on CFO initiatives.
- **Adjusting contracts.** Change the length of contracts and restructure them so that they do not start during a continuing resolution.
- **Exceptions.** Carve out or set aside funds for large systems acquisitions.

Some survey respondents predict that FY 2009 CRs will run through May 2009—a full 8 months. Continuing resolutions may be a great tool for the the Executive and Legislative Branches, but are costly to taxpayers and harmful to government's missions. Finding a better way for the two branches to disagree would benefit everyone.

Compliance overload

An overload of compliance work saps CFO resources from value-added activities needed to enhance entity missions, say executives. This poses a risk both to entities and to the relevance of CFOs themselves. Here, government leaders face another fork in the road. The first branch is similar to the choice of direction for financial reporting: put entities under more and stricter compliance requirements, with the aim of getting rid of all risks. It is impossible to achieve zero risk and often costly to try, yet governments are prone to extreme risk aversion in matters both great and small.

Outside mandates for financial information

Some laws and regulations concerning financial management compliance activities:

Before 2000

- Chief Financial Officers Act (CFO Act)
- Government Performance and Results Act (GPRA)
- Federal Financial Management Improvement Act (FFMIA)
- Federal Managers Financial Integrity Act (FMFIA)
- Clinger-Cohen Act

After 2000

- Federal Information Security Management Act (FISMA)
- Improper Payments Information Act (IPIA)
- Accountability of Tax Dollars Act (ATDA)
- Recovery Auditing Act (RAA)
- DHS Financial Accountability Act (DHS FAA)
- Federal Funding Accountability and Transparency Act (FFATA)
- OMB Circular A-123, Management's Responsibility for Internal Control, December 2004 revision (A-123)

There are also Federal Accounting Standards Advisory Board (FASAB) and other OMB circular requirements.

The other branch is to reduce work by consolidating requirements and the activities they generate and by using a more focused approach to compliance reporting and auditing.

In the 2007 CFO Survey,[2] we called attention to the major drain on CFO resources caused by complying with requirements of oversight groups and Congress. These requirements spring from the laws and rules shown in the box "Outside mandates for financial information." Many mandates springing from those laws and rules are unfunded, so the cost of compliance falls on already strained accounting and finance budgets. In the 2007 CFO Survey, executives estimated that they spent one-fourth of their resources in compliance activities needed to meet outside mandates. About half their remaining resources went to stewardship and transaction processing. This left less than one-fourth of a CFO's time and resources for high-value activities like supporting strategic and program decision making.

In 2008, respondents gave us little reason to think that the situation had changed. Some reported becoming more proficient in writing the many reports needed to comply with outside requirements, ranging from the Performance and Accountability Report, which includes annual financial statements and performance measures, to improper payments reports required by Congress. This saved some resources, but the savings were consumed as oversight entities and auditors "raised the bar" on requirements.

Says an executive, "There is a sense in the federal community that CFOs are not relevant because they are consumed with issues that have nothing to do with managing the mission of an entity. If compliance requirements are about things that are not important to running an entity and they consume a lot of time, then the system is broken." Another reports the effect of too much compliance work on morale: "As the amount of compliance work increases, the government loses one of its most attractive benefits to talented professionals: knowing that you are helping the country survive and thrive. Many finance and accounting professionals think that working on compliance issues to satisfy outside regulators and oversight entities is not as meaningful as helping to achieve entity missions and the goals of government, so they leave their entity and sometimes the Federal Government."

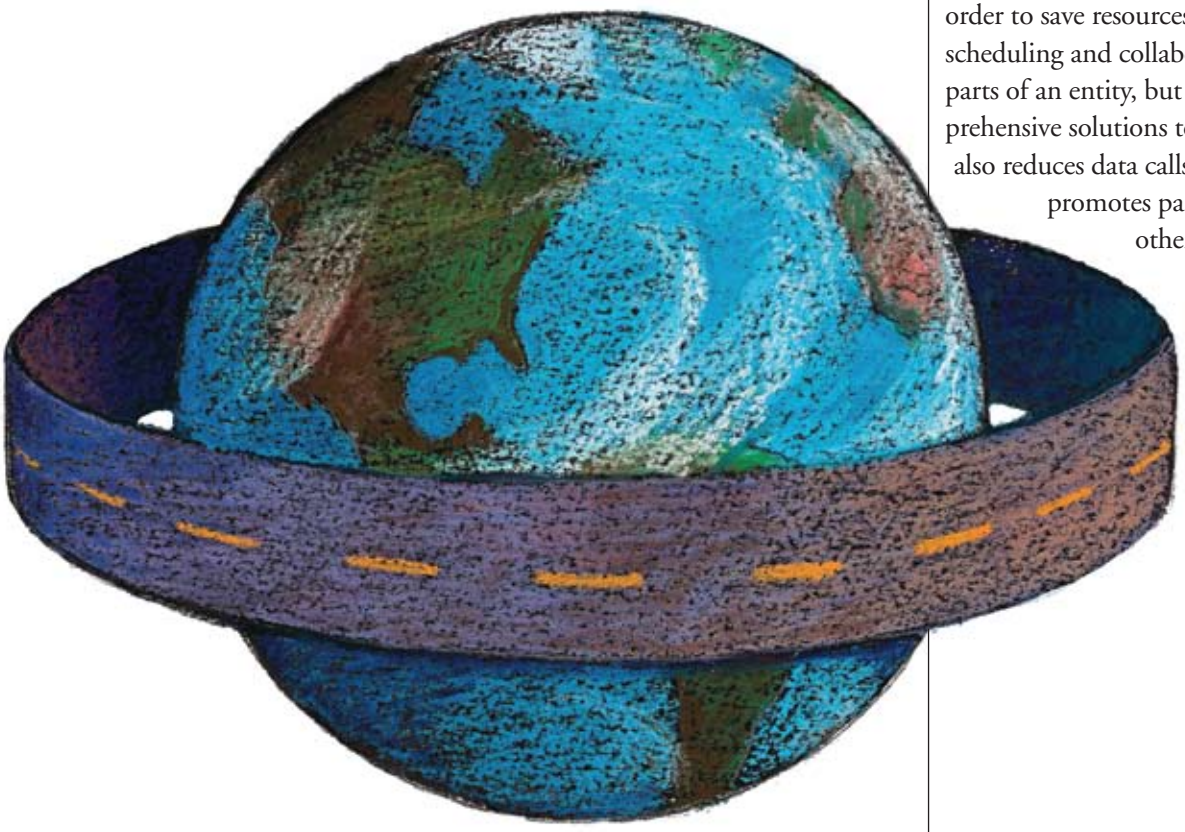
"If compliance requirements are about things that are not important to running an entity and they consume a lot of time, then the system is broken."
—An executive

Congress is rarely interested in the substantive issues of accounting or in financial reports, say several respondents, because those topics do not win many votes from constituents. On the other hand, according to one executive, government financial *management* is a handy political issue, and politics something is either good or bad, nothing in between. As a result, many federal financial management bills are not well thought out in terms of process, effect or cost/benefit.

Executives in our survey had three basic categories of suggestions for reducing the risk that overwhelming compliance activities pose to entities and their CFO components: cost/benefit analysis, consolidation and risk management.

[2] *Scoring Financial Management & Oversight Efforts: the 2007 Association of Government Accountants Annual CFO Survey*, June 2007.

Cost/benefit analysis and targeted compliance. Some executives say that Congress and OMB should do more cost/benefit analyses on the requirements they make of entities. As mentioned earlier under "Financial Report," not all entities have the problem that a government-wide compliance requirement seeks to solve. Executives frequently mentioned two examples of this: the Improper Payments Information Act (IPIA) and the Recovery Auditing Act (RAA). The Acts may be great ideas in cases where entities have significant real or potential problems with improper payments. Some do not, yet still have to squeeze out scarce resources to comply with IPIA and RAA mandates. For entities that historically have not had a material weakness in this area, some executives suggest biennial or triennial instead of annual audits.



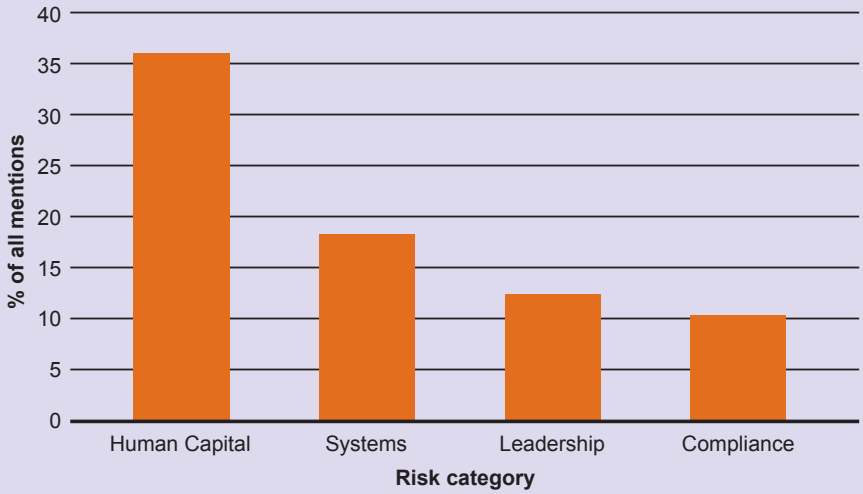
Consolidating compliance activities can happen outside and inside an entity, say executives. Outside, Congress and OMB can consolidate and rationalize all or most finance-related compliance requirements, including the content, format and due dates of their reports. This would reduce overlaps and redundancy and help leaders take a holistic view of finance, accounting and performance measurement. The consolidated result would be broad reform instead of piecemeal solutions.

Some of our respondents say they have reduced the resources needed for compliance by consolidating and coordinating the work of the various teams involved. For example, portions of the compliance or reporting work for FISMA, FFMIA, the President's Management Agenda, the CFO Act, A-123 and the PAR can be consolidated in order to save resources. This requires planning, scheduling and collaboration among different parts of an entity, but the result can be more comprehensive solutions to problems. Consolidation also reduces data calls to program managers and promotes partnership among CxOs and other executives.

Top risks

Respondents to the in-person interview of executives and the online survey of managers indicated that the top three risks to accomplishing their mission are problems with, in order, human capital, leadership and systems. Compliance is a strong fourth issue for the executives (see Figure 2). Other issues include Congressional and Executive Branch politics, the need for more accountability, lack of standard operating procedures and poor or unintegrated financial and performance measures.

Figure 2:
Relative importance of major risks categories by percentage of times mentioned in executive survey responses



Human capital

To government leaders, human capital means people with the right skills and experience. Our annual surveys indicate that, for the past several years, human capital has been the number one concern of CFOs and other financial executives in both defense and civilian entities, far more so than any other issue. For example, in the 2008 survey, more than twice as many executive respondents listed human capital as a risk than systems or leadership. This finding will not surprise anyone in a government support function such as financial management. For the past 10 years, the number of federal finance and accounting employees either has declined or held steady. At the same time, the amount of work required for many support functions has risen, in part because of increased mandates for compliance with outside rules (see box, Outside mandates for financial information, on page 12). As a result, say respondents, they face the human capital problems described below.

- Federal hiring procedures are complex and lengthy, say many respondents. People today are not willing to jump through as many hoops or wait as long as they once were.
- For several years now, top leaders have known that Babyboomer retirements are causing brain drains throughout the government. Says one financial executive, "I expect to lose 65 percent of the staff in my division in the next 5 years, which includes Acquisition Officers, Contracting Officers and Senior Accountants. A lot of institutional knowledge will be lost, especially in the areas of systems."
- A shortage of mid- and senior-level finance and accounting professionals in the government has caused some entities to lure them away from others with promises of promotions, training and meaningful work. "We don't have people in the pipeline who are capable of taking some of our middle- and upper-level management positions," says an executive, "So it is easier to hire people from other bureaus."
- Private companies and enforcement agencies offer higher salaries to talented financial professionals than can most governments.

- Many executives say their people are overworked and eventually burn out, moving to another entity or to the private sector. An executive says, "You can have a busy season when everyone works more than 50 hours a week, but it can't last all year."

Some of the suggestions our respondents offered for mitigating human capital risks come straight out of human resources and management textbooks. They are all sound practices for any organization, and include the following:

"The easiest way to get people to work for you is to show them that the work they do is relevant."
—An executive

Set up succession plans and invest in them. Succession planning is not just for executives and managers, though. One executive says his entity over hires for some positions where they know they will lose staff because of attrition, so they can train new people before incumbent employees leave.

Cross-train staff so that they can work in different areas during surges. One CFO has her accounting staff do contract closeouts when necessary. "This short-term task will be part of the staff's performance rating and will build their skill sets," she says, "The key is thinking outside of narrowly defined divisions of labor like: that's accounting, that's acquisition."

Use intern programs to attract younger employees. Offering to pay off college loans might attract more graduates.

Offer rotational assignments to new professional workers (the Defense Finance and Accounting Agency's Leaders in Motion program is an example).

Train employees in new skills. Respondents said the AGA's Certified Government Financial Manager (CGFM) program was a good investment.

The next set of suggestions for mitigating human capital risk is more particular to government.

Flexibility. One major category of ideas has to do with becoming more flexible. This includes to streamline government hiring processes, be more flexible about salaries and bonuses (including using pay banding) and make it easier to move people around into different positions. In addition, some executives would like more hiring and firing authority, as is the case with their private sector counterparts.

Retirement policies. A wave of Babyboomer retirements should make the government rethink its retirement policies for public servants, say several respondents. They think that the government can do a better job of retaining federal employees beyond their eligible retirement age (55 years with 30 years' federal service), such as through part-time, flexible and flexiplace work schedules. Another option is to re-hire federal retirees, but in most cases current law reduces their salaries by the amount of their pensions. This is no incentive for a talented retiree to return to an entity to work on temporary projects, fill critical skill gaps or train new employees. Some entities already have the flexibility to do this, and the Office of Personnel Management is working on ways to increase the practice.

Quality of worklife. Many executives encourage telecommuting, flextime and related programs to make it easier for employees to balance work and family life. Programs like telework require

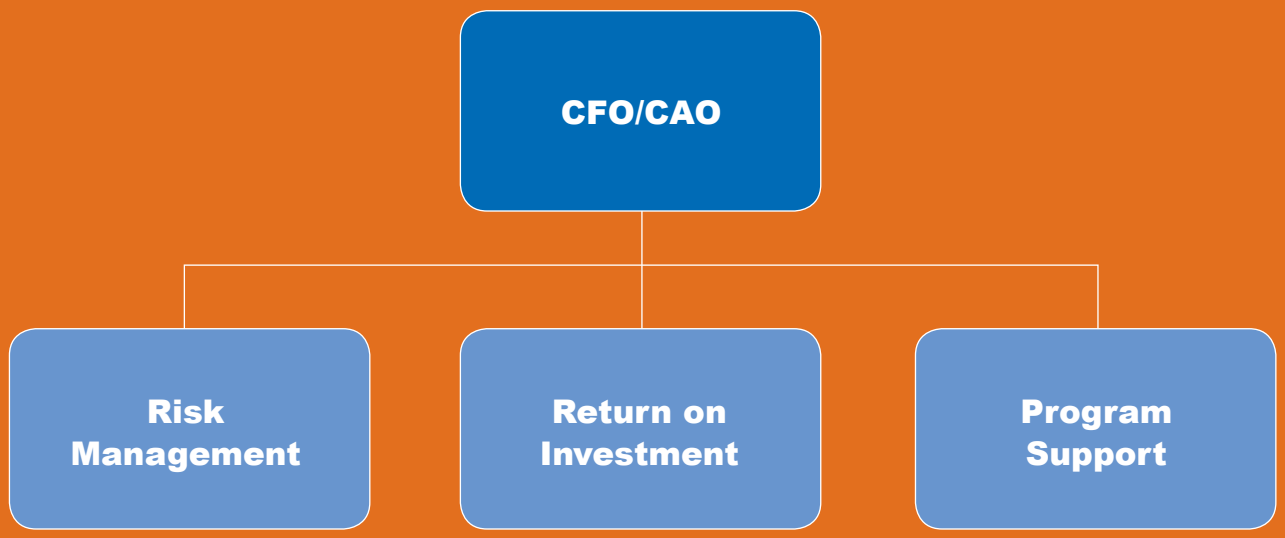
rethinking how people work and investing in new technology, but some executives say their entities are unwilling to do either. However, such programs are working in many entities, according to respondents.

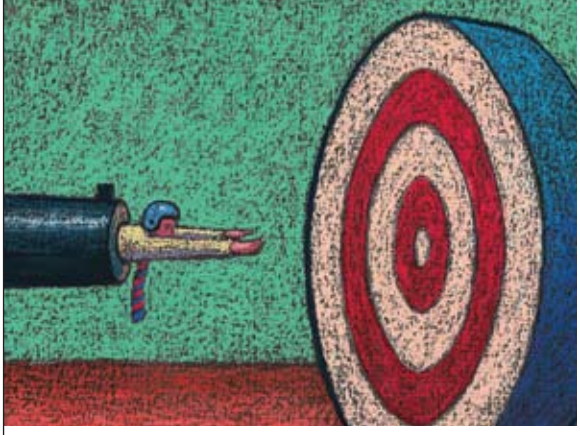
Says an oversight entity executive, "The easiest way to get people to work for you is to show them that the work they do is relevant." If people see that their work is important, they are willing to go that extra mile to ensure it is done right.

Reducing non-value-added work. Another executive says, "The quality of life in our workforce is a product of our old inefficiencies. We spend a lot of time doing manual processes that could be automated, and on compliance activities seemingly for the sake of compliance. Fixing these inefficiencies, better information technology and less non-value-added work would give us the opportunity to free up more staff time."

CFO → CAO

One of the titles given to the Comptroller General of the United States is "chief accountability officer," which befits the head of the Government Accountability Office. Within a department or agency, a CAO leads a disciplined, integrated, internally consistent and enterprise-wide approach to risk, return on investment and program support. In the private sector, this is the job of the CFO, but in most federal entities no single person is responsible for all 3 major tasks. Some executives in our survey say that a federal CFO is the ideal candidate for departmental or agency CAO. Financial management includes (or should include) risk management; financial professionals have the skills to calculate and track return on investment; and resources always translate into budgets and money, which are in the realm of the chief financial officer.





Some CFOs report success in reducing workload by changing the structure of support services. For example, centralizing accounting activities once done in field offices to a single site has reduced one entity's accounting workload by 10 percent, says its CFO.

Finally, CFOs do not have to go it alone. Says one executive, "I don't know how many times I've been approached by CFOs who say they have personnel problems, yet they haven't discussed it with their chief human capital officers!" Teamwork among all CxOs should be regular, not sporadic.

Lines of authority are less important than a relationship of trust between an organization's CFO and chief executive.

Leadership

A search for the word "leader" in the notes of our interviews with executives often finds it near terms like vision, strategy, planning, communicate, influence and change. When they commented on leadership, our executive respondents most often were looking upward toward agency chiefs and departmental secretaries. Some complain of lack of support from the very top, while others simply say "They just don't understand." Looking up to the executives in the in-person survey, non-executive respondents to our online survey cited these leaders for lack of direction and decision making, and for poor planning. Executives interviewed think that the tenure of some CFOs is too short for them to make much difference to their organizations. Others say that some new CFOs did not understand government accounting and financial management when they started, and a few CFOs even admitted to this.

Finally, many CFOs say that they do not yet have a seat at the table of top executive leaders. Because of this, they lack influence in creating and planning entity strategy and have less ability to persuade others to recognize the importance and utility of sound financial information.

CFO leadership attributes

Respondents said that attributes of a federal CFO depend on what the specific entity position requires and the environment. For example, if an entity wants to improve its accounting and financial systems, then a new CFO may need strong systems skills. If an entity is highly political or undergoing major change, then its CFO's relationship to Congress is also very important.

There is one exception: across the board, CFOs must have excellent relationships with their chief executives (e.g., agency chief, administrator or departmental secretary). By law, CFOs covered under the CFO Act report directly to their chief executives. However, such a line of authority is less important than a relationship of trust between an entity's CFO and chief executive. This relationship enables the CFO to influence decisions at the top regardless of legal reporting authority.

Executives in the survey say that other attributes a CFO should have include the following.

Mastery of human resources. Human capital problems in the financial management community are severe, so a CFO has to be a master at finding, retaining and training the right personnel. Most of all, the CFO must be a team builder.

Understanding and experience with the federal budget process. In government, budget is king, so it is important for new CFOs to understand the government's budget process, say respondents. Says

one, "CFOs entering from the private sector will be shocked at how many government resources are consumed fighting for basic funding, and that financial information plays such a limited role in decision making." Still, CFOs must understand the connection between budgeting and financial management and become skilled in selling the budget to Congress and other stakeholders. Fighting for their own CFO budget will be difficult, because Congress tends to appropriate funds for programs but not for overhead functions.

Accounting acumen. While government CFOs do not have to be certified public accountants, say several executives, they need to understand the importance and use of accounting skills and information. Some respondents say that CFOs who lack this understanding tend to neglect that side of their business, which suffers from their inattention.

Business intelligence. Program managers can use good financial and performance information, say survey participants. Therefore, a top priority for CFOs is the ability to understand the business information needs of program managers and the best way to provide this intelligence. In addition, CFOs should have an entity-wide perspective because they may be working in a world of stovepipes.

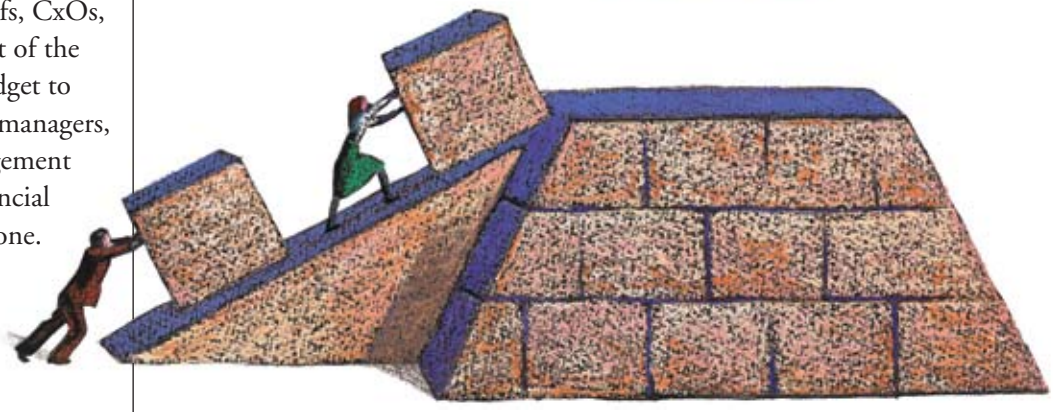
Skills in selling. Other CFO attributes that executives mentioned include being a good networker and communicator up, down and across the hierarchy, to peer entity chiefs, CxOs, Congress and stakeholders. A large part of the government CFO job is to sell: the budget to Congress, internal control to program managers, the need for change to financial management staff and the benefits of integrated financial and performance information to everyone. Being a communicator also means the CFO should be able to ". . . have difficult conversations, because the CFO brings both good and bad news," says an executive.

If CFOs make it a priority to add value to entities' main missions, then they are more likely to be heard by top leaders.

Other leaders

The deputy. We should not neglect the second most important position in the financial community: the deputy chief financial officer (DCFO). Says a longtime CFO with experience in defense and civilian entities, "The DCFO is the CFO's key player because she or he handles the operational issues. It is important to have a career deputy in this position, someone who thoroughly understands the organization and its issues."

Entity chiefs. If accounting, finance and metrics are irrelevant to Congress, then so is the CFO. This does not go unnoticed by the heads of agencies and departments, who may be equally guilty of inattention to important issues of financial management. The way to deal with the problem, according to executive respondents, is for CFOs to buy into and support the executive agenda and get along with the top leader. If CFOs make it a priority to add value to entities' main missions, then they are more likely to be heard by top leaders.



Systems

Survey respondents listed information technology (IT) and systems as the third greatest risk to accomplishing their mission. Important issues included integrating financial and performance information and standardizing data and systems, if not across the whole government, then at least in different categories of service or within a large department.

Several respondents pointed to the lack of integrated information for financial and program management as a major risk. This includes linking data for planning, programming, budgeting and execution. Without such linkage, government will continue to find it hard to show the relationship between dollars allocated and results achieved. In what some believe will be a near term period of belt tightening caused by huge deficits, this could be fatal to some programs.

Most financial systems depend on feeds from program systems that initially capture financial and performance information. When those systems do a poor job, it is reflected in financial and performance information and reporting. Many agencies and departments hope to solve this problem by implementing large enterprise resource planning (ERP) systems, but such projects appear to run into snags regularly, mostly in the area of program data integration.

Our executive respondents agree that there is no real government-wide strategy for business IT and systems, no priorities and no master plans. In the case of business and financial systems, such a strategy and its related plans should, they say, be based on the following principles:

- Link and integrate financial, budget, program performance, human resources and other related business information.
- Have fewer systems than there are now.
- Standardize information and data across government for most business activities.

More use of shared services providers (SSP) would help in reducing the number of systems and standardizing information. Several respondents applauded the concept of OMB's Financial Management Line of Business (FMLOB) initiative, which aims at consolidating financial management systems through shared service providers. They see SSPs as a good choice when deciding what to do about obsolete legacy systems. These respondents were less laudatory about how the FMLOB and other initiatives played out across the government. Some thought that OMB's separate Lines of Business initiatives had the side effect of further stovepiping information flow and processes in entities. As well, executives in entities that are implementing ERPs were not favorably disposed toward FMLOB and similar initiatives.

One of the least costly ways for CFOs to ensure the utility of entity business systems is to be part of the implementation team and participate in prototyping the systems. In this way, the needs of current and future financial systems will be considered entity-wide.

Looking forward

How can the government enhance financial management? Financial policy makers and executives in the survey listed the improvement initiatives they think Congress and Executive Branch leaders should continue or start—and also what not to do.

What to continue

Since 2000, legislators and administration policy makers introduced many initiatives aimed at improving how the government manages its finances and uses financial and performance information (see box, Outside mandates for financial information on page 12). Which are the most important to continue for the next 2 to 5 years? Table 3 shows what our executive respondents think, including financial, OMB and oversight leaders.

Table 3:
Survey executives' ranking of current financial management initiatives that should be emphasized over the next 2 to 5 years

Initiative
1. Cost, budget and performance reporting
2. Program efficiency and effectiveness (A-123, Section 2)
3. Financial management systems (A-123, Section 4)
4. Financial statement audits, continue current depth and scope
5. Financial reporting (A-123, Appendix A)
6. Performance and Accountability Report
7. Increasing the use of shared service providers (FMLOB)
8. Effective measurement and remediation of improper payments (A-123, Appendix C)

Cost, budget and performance; program efficiency and effectiveness

Providing actionable information on cost, budget and performance so that it can be used to improve program efficiency and effectiveness is the cornerstone of what the CFO organization is supposed to do, according to many survey respondents. Actionable information may be sorely needed in the near future, say several executives, because there may not be enough money to continue the status quo, much less expand programs. Says one, "We have huge deficits and they may continue, so there will be a contraction in defense spending once the wars in Iraq and Afghanistan are over. Economy and efficiency will be important. When it comes time to cut back, some people will want to simply cut out programs because that is the easiest thing to do. The reality is that we won't be able to or can't just cut all those programs. We have to look at everything and say, do we need this? What do we give up if we do this? Can we make this program better and more efficient? If the answer is no, then the program may need to be cut."

One of the constant themes throughout the 2008 survey is to eschew accounting for accounting's sake. Instead, say many respondents, CFOs should focus on adding value to entity programs and mission. Indeed, said one, "There should not be any effort expended to create financial information that is not of value to manage programs," says an executive. Making this a reality could result in a stronger role for CFOs in an integrated environment of accounting, budget and performance management.

Financial management systems

In the previous section on risks, executives and managers listed systems as the third greatest risk to accomplishing their entities' missions, so it is no surprise that systems initiatives are near

the top of those that they want continued over the next 2 to 5 years. Many want to see more standardization and centralization of systems, especially in business areas in which there is (or should be) a degree of commonality across government. Yet, many are not sure they want to use SSPs, one option for central, standard services. Those that favor IT outsourcing often say they want to see SSPs that specialize in categories of government processes, such as grants management.

New initiatives needed

Executives in the survey made many suggestions for additional or supplementary financial management initiatives. These included:

- **Simplifying financial reports and making them useful for decision making, including developing citizen centric reports.**
- **Shifting financial training from transactions and financial reporting to analytics and assessing costs and risks.**
- **Establishing a CFO Academy, with OMB or the National Defense University as potential sponsors.**
- **Integrating and standardizing reports of budget, program and financial information.**
- **Pressuring vendors to develop government-oriented commercial off-the-shelf ERP software that meets OMB's Financial Systems Integration Office requirements at a detailed transaction level (Some ERP vendors believe they already do this).**
- **Using more cost accounting, such as activity-based costing.**
- **Requiring more integration or linkage between financial and acquisition systems.**
- **Increasing the use of executive dashboards and executive scorecards with financial, performance and risk information. Also, reporting more productivity and utilization measures.**
- **Increasing the flexibility of the management of funds, to promote better response to changes and increase transparency (because otherwise such funding shifts are sometimes hidden).**
- **Extending financial management information and duties to non-financial managers and holding them accountable.**
- **Clarifying the role and responsibilities of CFOs, controllers and Inspectors General.**
- **Improving the Intra-Governmental Payment and Collection processes.**
- **Conducting fewer audits and instead doing reviews, which are less costly and may be more effective in identifying critical problems.**

What to avoid

"Enough already!" say several executives who think the government should avoid introducing any new finance and accounting initiatives until entities finish addressing the current ones. Other things to avoid include those listed below.

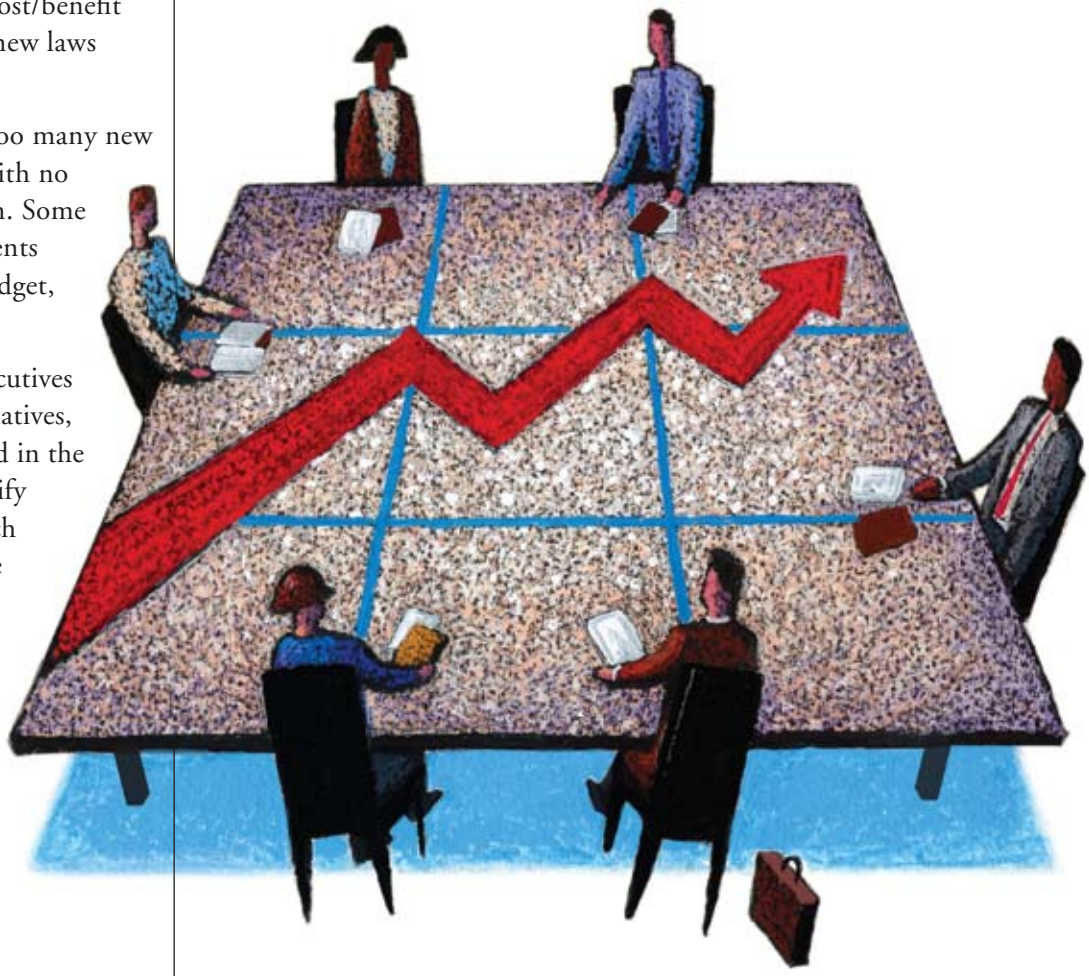
Stop raising the bar. Several CFOs want the GAO, OMB and IGs to stop raising the bar on requirements. Examples of this include accelerating the timing of financial reports and lowering materiality thresholds. They would like Congress and the Executive Branch to set clear priorities when promulgating rules for or overseeing entity financial management. As discussed in the earlier section on compliance, they would also like to see more cost/benefit analysis done before introducing new laws and rules.

No more unfunded mandates. Too many new compliance requirements arrive with no additional resources to fulfill them. Some executives say that such requirements should be funded in the entity budget, instead of taken out of its hide.

Avoiding overreaction. Some executives say that the government-wide initiatives, systems and regulations introduced in the past few years are starting to identify more fraud, waste and abuse, which is good. "However," says one, "We must target this misuse and hold people accountable for correcting it, instead of creating additional initiatives, systems and regulations." Another says, "Lawmakers and oversight groups should stay away from all niche issues like premium class travel. The entity that has a niche problem should deal with it; there don't have to be new rules or regulations for everyone else."

Requiring data no one uses. CFO Act annual financial statements are only one example of reports that few people read and use, according to respondents. There are many others.

Cannot go back to not caring. "We need to understand the importance of cost," says a CFO whose department accounts for a major slice of the federal budget. "We can't say a problem is too big to solve. If we strive to add value, we can do it. We cannot go back to not caring."



Financial statements and audits: a closer look

Executives in our survey stressed that unqualified or clean auditor opinions on financial statement should be a by-product of good accounting that supports program management. However, even after years of clean opinions, an entity can receive qualified or disclaimer opinions, which can be a career-ender for a CFO. One reason this may happen, say some executives, is because GAO and IGs keep changing the rules and auditors are inconsistent in applying them. We asked executives where they thought they should focus attention in order to gain clean audit opinions in FY 2009 through 2011. Their responses apply mainly to their own entities, but taken together the results shown in Table 4 offer some guidance to new CFOs and financial executives.

Table 4:
Executives' opinions on where a CFO should focus attention to obtain or sustain a clean opinion on annual financial reports, ranked in order of importance

Initiative
1. Financial statement audit readiness
2. Account reconciliations
3. Internal controls over financial reporting (Appendix A)
4. Internal controls over program efficiency and effectiveness (Section 2)
5. Property, Plant and Equipment
6. Internal controls over information technology (Section 4)
7. Compliance with government mandates
8. Intragovernmental transfers
9. Liabilities
10. Decision support information

Audit readiness refers to preparing an entity and its financial statements, systems and procedures for the annual audit of the CFO Act financial report. Executives report that their work on A-123 has improved their audit readiness, both for the annual financial report and other reports. Now, many are looking to combine the work of preparing their various finance and controls-related reports.

Account reconciliations include basic reconciliations to the fund balance with Treasury, insufficient set of tools to perform account reconciliation activities, lack of systems integration and lack of standard expenditure category definitions.

Internal control issues will continue to dominate the financial management and audit landscapes in the near future, says an executive. Others say that controls over systems have become much more important as they automate processes. In addition, considering the Babyboomer retirement wave, now is the right time to document processes and work on internal controls.

Property, Plant and Equipment (PP&E) remains problematic for some entities. PP&E generally includes buildings and structures, furniture and fixtures, equipment, vehicles and land. Valuing and accounting for what the government owns can be time consuming, and some question the value of doing so. Says an executive, "Is it any value to know the depreciation value versus the replacement value of a government-owned building? Depreciation is a tax benefit for for-profit concerns. The replacement value is important for government management purposes, so why not audit it? That would enhance the reliability of budget estimates." Other examples,

say executives, include trying to put a value on a historic monument that will never be sold or requiring periodic valuation of warships.

Reconciling **intragovernmental transfers** is made more difficult by a lack of clear guidelines from the Treasury, say some respondents. Together, PP&E and intragovernmental transfers may be the biggest current barriers to gaining a clean opinion for the U.S. consolidated financial report.

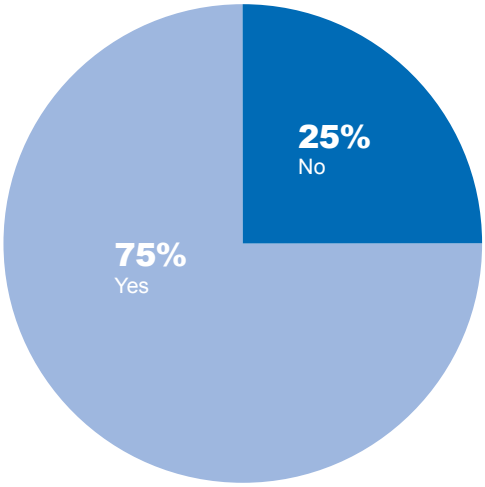
Liabilities are of major concern to the Federal Government, including environmental cleanup costs. Grant makers are concerned, because grant accrual methods can be opinion busters and typically involve a great deal of conversation with auditors and grantees, says an executive.

Decision support is not exactly at the bottom of the priority focus list (some items not listed ranked a bit lower), and the question posed in Table 4 is about annual financial reports, not management accounting. Still, it seems a pity that the current model for federal financial statements does not motivate CFOs to make the highest and best use of financial information a top concern. We will discuss this shortly.

Working with auditors

Three out of four executives think that the approach that financial auditors take today influences controls and accountability mechanisms in ways that add value to the management of government (see Figure 3). It is all about communication and transparency, say many executives. Their top suggestion for a successful audit is to have *early, frequent and focused meetings* with auditors and to *fully disclose* issues and potential risks with them. Early, because if auditors come at mid-year, as they often do, then issues they identify will be difficult to fix by the end of the year. Frequent, in order that all parties stay on track throughout the audit cycle. Focused, to prevent "fishing expeditions" should auditors go outside the scope of their charge. Full disclosure, to inspire trust and avoid surprises to either party.

Figure 3:
Opinions of executives on whether the approach used by federal auditors adds value to government management



Educate auditors about the mission and operations of an entity, say several executives, and make sure that they are on board with the organization's vision and goals. If auditors ask for something, give it to them (but talk to the audit manager if a request does not make sense). Always talk to the IG about risks (hopefully throughout the year) and get IG and auditor input on plans to mitigate risk and before making accounting changes.

Several respondents advised preparing a memorandum of understanding with an agreed-upon scope for the audit, then tracking the audit closely to keep it in scope. This is not as much a problem when the auditor is an independent public accounting (IPA) firm on contract to an

IG office, as it is when the audit team is made up of IG staff. Executives say do not be afraid to push back on some auditor views, especially if a CFO disagrees with an auditor's solution.

CFOs should recognize when auditors identify a real issue and not go into denial, says an executive. It is not such a bad thing for an auditor to discover a material weakness, because then the CFO can fix it. Indeed, says another, use auditors as a tool and a resource to provide independent interim reports and counseling throughout the year.

During the fixing, though, it is not enough simply to take care of problems auditors identify. "We need to find ways to show auditors and oversight groups we are fixing adverse audit findings they bring up," says an executive. To do that, and to get along, CFOs have to talk to auditors in their own language and understand their job, says another.

"We need to find ways to *show* auditors and oversight groups we are fixing adverse audit findings they bring up."
— An executive

No one says that there should be not auditors or auditing. Most would agree with an executive who is also an auditor who says, "Having an auditor look over their shoulder motivates program managers."

A message to auditors

Auditors need to consider the feedback this survey gives them from financial executives, such as the following.

- "Auditors have become so risk averse that they have abandoned their training and professional judgment and instead are always looking in the book for a solution.[3]"
- "They will second-guess you, but never offer any suggestions at the start of an audit, claiming that they can't jeopardize their independence."
- "Auditors often come in with a developed methodology of how to fix issues found during financial statement audits, but sometimes it neither fits the entity nor gets to root of the problems. 'One size fits all' may not work."
- "Why do auditors wait until near the end of the audit to convey good or bad news?"

In addition, executives question some auditor definitions of materiality. Even though some problems may be real, they may not affect the integrity of financial statements at a material level.

Clearly, both auditors and auditees can benefit from hearing and acting on each other's feedback. So will the American public.

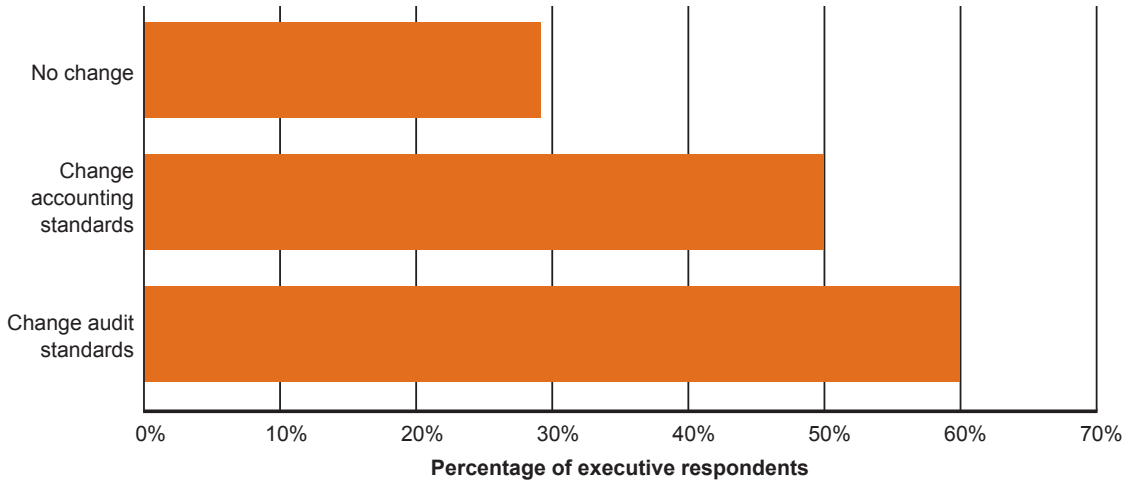
Changing accounting and auditing standards

We asked survey executives if the Federal Government needs to revisit the accounting and auditing standards for which it holds entities accountable. As shown in Figure 4, less than a third said no, keep the status quo. Half said to change accounting standards, and 60 percent wanted to see new audit standards.

Changing accounting and audit standards is a difficult thing to do: there are too many organizations involved and regulatory entities in particular tend to be jealous of their authority. However, the Executive Branch can change the financial statements without altering standards, which could improve how the government prepares and reports its finances.

[3] This criticism has more generally been leveled at current practices of accountants, contracting officers and other professionals, both in and out of government.

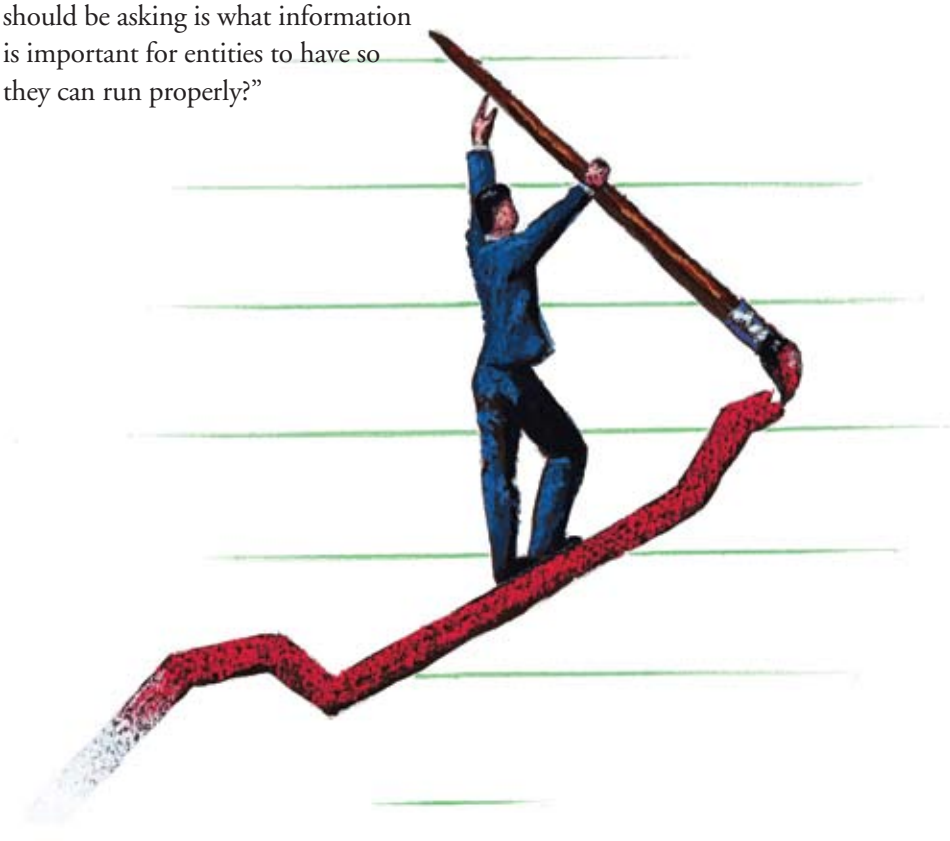
Figure 4:
Opinions of executives on changes needed for accounting and audit standards



In general, executives want standards to be relevant to the business, goals and purpose of government. Says a CFO, "Accounting standards need to focus more on program accounting to determine the performance of every dollar spent by the government. It is unclear that the five statements currently used give meaningful numbers, as they do for the private sector. Government financial reporting standards are needed to indicate performance levels that matter, and then we need to audit to these standards."

Another executive says, "Financial reports need to be headlights for managers, not tail lights. Our fixation with historical costs should go. We need to know, what is it, what does it cost, does it lead to the outcome I want. It is given that there will be a government, so focus standards on how you measure and report on it."

Standards should also contribute to management decision making. Many respondents say that the current federal approach to financial reporting does not produce any information useful for making management decisions. Congress does not consider the reports for budgeting, and few in government can use them for business decisions. Says an oversight executive, "The central thing we should be asking is what information is important for entities to have so they can run properly?"



Conclusion

It is time to declare victory and move on, says an executive in our survey. Victory includes 7 years of progress in improving the accounting, systems and financial reporting of the Federal Government. Today, most CFO Act entities get unqualified opinions on their annual financial statement audits. Financial and non-financial leaders alike are more conscious of internal controls over financial reporting (A-123, Appendix A). Overall, the government is a better steward of public funds than before. It has built a fine foundation for transition to new levels of financial management excellence.

Simply following the same path that brought success in the past could be a terrible mistake. What a hollow victory it would be if, in the future, more entities succeed in meeting more and tougher financial compliance requirements, yet added little value to government missions and operations. It is time to go in a new direction, one in which program offices and non-financial executives are the main customers for financial information, not just auditors. This is the path that a CFO must take to become a trusted advisor to departmental secretaries and agency chiefs.

For this to happen, CFOs need to have more time and resources. The best place to find these assets is to minimize unnecessary compliance activities. Congress, oversight entities and the Executive Branch must cast off "one-size-fits-all" compliance for the sake of compliance. Instead, they must work together to identify, agree on and address government-wide high-risk areas. This targeted focus will yield a higher return on investment and will likely identify major cost savings and program improvements. In addition, OMB and CFOs should work together to consolidate and coordinate schedules and work done for compliance reporting, which will reduce duplication of effort.

An ability to inspire trust with other top executives is a prerequisite for federal CFOs. Because human capital is such a critical problem in federal financial management, another critical attribute for CFOs is how well they can bring in and retain talent, train the workforce and build an effective team. In addition, CFOs should be capable of becoming their entities' chief accountability officers. This is because CFOs have access to the requisite financial and performance data and a leadership position in controls.

Finally, CFOs themselves have to become catalysts for change. In the future, the Executive Branch should challenge the federal CFO Council to develop solutions that will head financial management down to the right path to relevance and high value to the government. Declare victory, because much has been accomplished. Then strive for even greater success.

Additional Information

If you would like more copies of this survey or an opportunity to hear more about its content and the challenges facing the federal CFO community, please contact the Association of Government Accountants at the address below:

Association of Government Accountants
2208 Mount Vernon Avenue
Alexandria, VA 22301
Telephone: (703) 684-6931; (800) AGA-7211
Web Site: *www.agacgfm.org*
E-Mail: *agamembers@agacgfm.org*

Survey Contributors

Association of Government Accountants
Relmond Van Daniker, CPA,
Executive Director
Anna Miller, CPA, Director of Research

Grant Thornton LLP
Clifton A. Williams, CPA, CGFM
Charles Morgan Kinghorn Jr.
Larry J. Goode, CPA, CGFM, CCP, CITP
Kenneth Bresnahan
Wendy M. Morton, CGFM, PMP
Steven Clyburn

Association of Government Accountants
2208 Mount Vernon Avenue
Alexandria, VA 22301

Grant Thornton LLP
333 John Carlyle Street
Alexandria, VA 22314