Joint Financial Management Improvement Program

JFMIP NEWS

A Newsletter for Government Financial Managers

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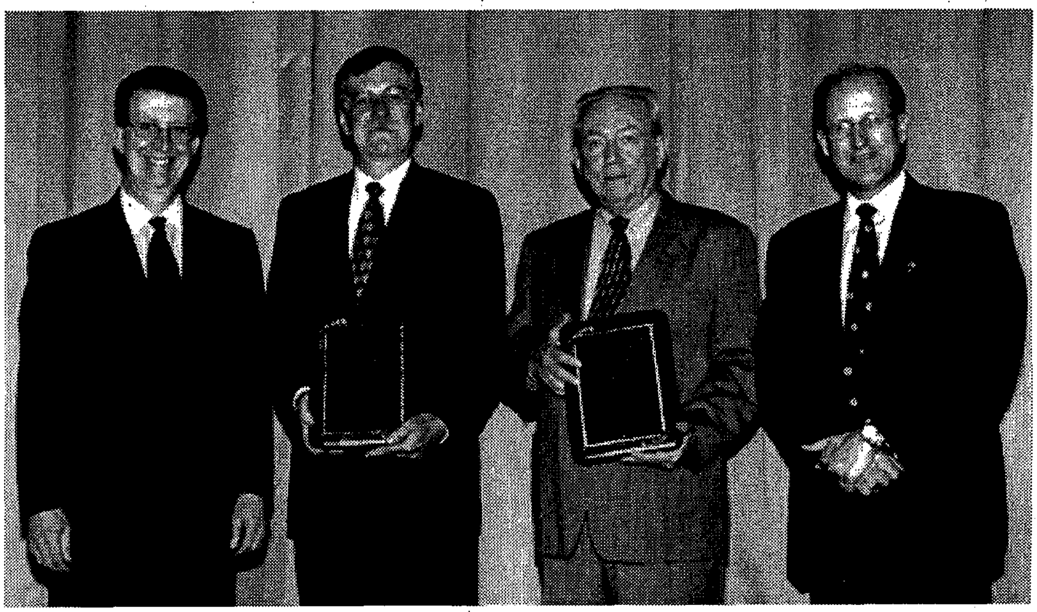
INSIDE

HONORS GO TO TOP FINANCIAL MANAGEMENT AND AUDIT OFFICIALS



At the Scantlebury Awards ceremony are: Jeffrey Steinhoff, Kenneth Bresnahan, Lawrence Alwin and David Walker.

Lawrence F. Alwin, State Auditor of Texas, and Kenneth M. Bresnahan, former Chief Financial Officer of the U.S. Department of Labor (DOL), are this year's recipients of the Donald L. Scantlebury Memorial Awards for distinguished leadership in financial management in the public sector. The awards were presented by David Walker, Comptroller General of the United States, U.S. General Accounting Office (GAO), and Jeffrey C. Steinhoff, Managing Director, GAO. The presentations were made during the luncheon session at the JFMIP 30th Annual Financial Management Conference on March 13, 2001, in Washington, DC.

Larry Alwin was appointed by the Texas State Legislature in 1985 to be an agent of change. During the last 15 years, he has used this mandate to help establish Texas' Strategic Planning and Performance Budgeting System; pioneered the auditing of performance measure accuracy; and changed the direction and work of the Texas State Auditor's Office (SAO). The Texas' Strategic Planning and Performance Budgeting System is a mission and goal-driven, results-oriented system that combines strategic planning and performance budgeting into Texas' appropriation process. The State Auditor's Office audits the accuracy of performance information that agencies report to the Legislature. Texas is only one of a few states that performs this type of audit. Under Larry's leadership, these types of audits have

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A Joint Perspective

First I would like to thank all of the speakers and the folks behind the scenes who made the 30th Annual JFMIP Conference, *New Horizons for Financial Management,* a great success. The messages of the speakers and panels were consistent. The key role of financial management is changing from transaction processing to producing consistent, reliable, timely, and complete financial information to support program management and accountability. The key enabler is effective use of modern information technology and tools. Human capital is the critical resource that will enable new tools to meet the new vision.

Karen Cleary Alderman
Executive Director,
JFMIP

Comptroller General David Walker identified strategic human capital management as a governmentwide high-risk issue and underscored the criticality of human capital as an asset (rather than a cost). Without revamping human capital strategies, the capacity of some agencies to perform their mission is threatened. The panel on building a quality workforce presented a star cast who underscored the importance of transforming the financial management workforce to meet new challenges and offered practical strategies to achieve that goal.

The panels addressing "Optimizing Financial Management in Government Operations" and "Information Integration Impact on Policy Process and Oversight" addressed the power of integrating financial information into mission, strategy, planning, policy, program management, and budgetary decision making. The future role of the CFO is financial information integration and decision support as opposed to merely a transaction processing function. In private sector companies, integrated analytics are a strategic imperative. There is comparable value in the public sector enterprises. The capability to exploit integrated information first requires that agency leadership and oversight demand information integration as a strategic enabler. This, in turn, fosters partnering across the stovepipes to achieve this goal.

The keynote speakers and panels addressing technology, financial systems, and auditing communicated the challenges of exploiting technology as an enabler. Federal agencies are upgrading financial system applications to support the contemporary business vision with modern tools. Exponential growth in microprocessing power and internet communications can be harnessed to serve federal management needs, provided that technology and management practices ensure that this new environment is secure and accessible only to appropriate users and uses. E-government initiatives are progressing from online information dissemination to online, end-to-end business transactions. Legal and regulatory requirements are in a race to catch up to technological options. Internal controls in a fully automated and integrated environment pose new challenges as does information security and individual authentication and non-repudiation. The organization and communication of Federal requirements is stimulating the availability of commercial off the shelf software to meet Federal needs with a minimum of customization. Implementation success requires top level support, sophisticated project management, user involvement, partnership with the vendor, and willingness to change business practices. Senior leadership needs to get religion to avoid undermining the potential of information technology solutions by committing one or more of "Management's Seven Deadly Sins." (see summary of Gopal Kapur's presentation)

The Administration's Financial Management Agenda—Better, Faster Financial Information

The messages of the JFMIP conference resonate with the emerging agenda of the new Administration. The opening week of spring 2001 marked the transmittal of the fourth Financial Report of the United States Government accompanied by strong, signals regarding the new Administration's financial management agenda. There is good news and bad news. On the plus side, financial reporting performance of agencies steadily improved in the last four years. All 24 CFO agencies reported on time and 18 of the 24 agencies received clean audit opinions for FY 2000. On the minus side, the FY 2000 governmentwide report received a disclaimer of opinion due to material weaknesses. The disclaimer of the governmentwide report reflects material weaknesses in two large agencies, Department of Defense (DoD) and United States Department of Agriculture (USDA), who also received disclaimers on their agency financial statements, and problems in the governmentwide consolidation process. Governmentwide material weaknesses that stem from individual agency issues included the perennial favorites:

- Inability to properly account for and report for equipment, inventories, materiel, and supplies, and certain stewardship assets, primarily at DoD;
- Inability to properly estimate the cost of certain major federal credit programs and the related loans receivable and loan guarantee liabilities, primarily at USDA;
- Inability to estimate and reliably report environmental and disposal liabilities and related costs at DoD and to determine and report other liabilities including post retirement health benefits for military personnel;
- Ineffective disbursement reconciliation in DoD and other agencies.

Deficiencies in the preparation of the governmentwide statement included:

- Inability to reconcile about $250 billion in transactions among agencies;
- Inability to fully reconcile operating results with budget results; and
- Inability to ensure that the information in the consolidated financial statements was consistent with underlying agency financial statements.

The results of the FY 2000 financial reports are consistent with past trends. Incremental progress continues. The JFMIP Principals suggest, however, that business will not be done as usual in this Administration. The Principals articulate a significant shift in financial management goals to demand more timely, useful, and efficiently produced financial information. Treasury Secretary O'Neill's March 30, 2001 statement to the House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations Hearing on "Are the Financial Records of the Federal Government Reliable?" declares that it is not good enough to produce a clean financial report six months after the close of the year. As a private sector CEO of Alcoa, the books were closed and an audit opinion available in 3 working days.

OMB Director Mitch Daniels declared that "clean opinions should not be equated with sound financial management. Audits are simply a means—a tool—not an end unto themselves. . . Heroic efforts where people work night and day to get a clean opinion as of a certain date are meaningless exercises unless they lead to the next step, generating of reliable financial information on a daily, weekly, monthly, and quarterly basis." Comptroller General David Walker's testimony underscored the ultimate goal of the CFO Act is the need for agencies to generate timely, accurate, and useful data throughout the year by overhauling financial and related management information systems. His challenge to the new Administration is

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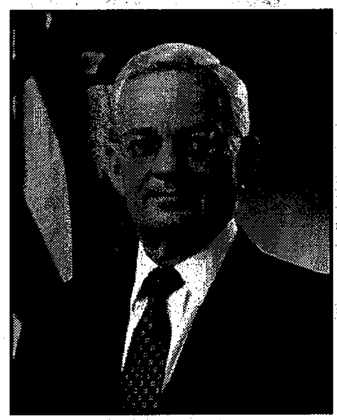
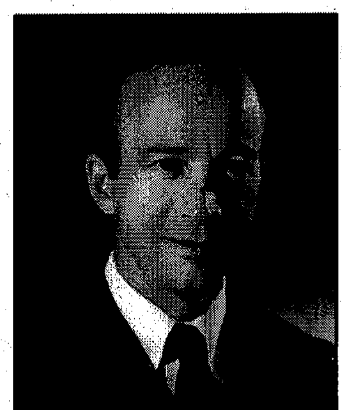
JFMIP Principals

New JFMIP Principals are Paul H. O'Neill, Secretary of the Treasury, and Mitchell E. Daniels, Jr., Director, Office of Management and Budget (OMB). Comptroller General David M. Walker is the current Chair of the JFMIP Principals.



Paul H. O'Neill was sworn in as the 72nd Secretary of the Treasury on January 20, 2001. Mr. O'Neill was chairman and Chief Executive Officer of Alcoa from 1987 to 1999 and he retired as chairman at the end of 2000. Prior to joining Alcoa, he was president of International Paper Company from 1985 to 1987 and vice president from 1977 to 1985. Mr. O'Neill has had previous public service. He joined OMB in 1967 and served as OMB Deputy Director from 1974 to 1977. He began his public service as a computer systems analyst with the U.S. Veterans Administration where he served from 1961 to 1966. He received a bachelor's degree in economics from Fresno State College in California and a master's degree in public administration from Indiana University.



Mitchell E. Daniels, Jr., was confirmed as the Office of Management and Budget Director by the U.S. Senate on January 23, 2001. As OMB Director, Mr. Daniels will help oversee the preparation of the Federal budget and supervise its administration in the Executive Branch agencies. Mr. Daniels served as the senior vice president of corporate strategy and policy for Eli Lilly and Company from 1997 until he joined OMB. During his tenure at Eli Lilly, he was responsible for overseeing corporate strategic decision making, merger and acquisition activities, and corporate affairs on a global basis. He also served as the company's president of North American pharmaceutical operations. From 1971 to 1982, Mr. Daniels served Richard Lugar, then Indianapolis Mayor and now U.S. Senator, in various capacities, including chief of staff. Prior to that he served as an assistant to the President and as the Administration's liaison to the Nation's state and local officials during the Reagan Administration. Mr. Daniels was president and chief executive officer of the Hudson Institute in 1987. He has a bachelor's degree from Princeton University and a law degee from Georgetown University. ■

Visit JFMIP website: www.jfmip.gov to download JFMIP Conference presentations.

FINANCIAL MANAGEMENT PROFILE

Kathleen M. McGettigan became the Chief Financial Officer for the U.S. Office of Personnel Management (OPM) in February 2000. Since entering Federal service in 1991, she has held several senior financial management positions at OPM. Prior to being named as the CFO, Ms. McGettigan was the Executive Officer in the CFO's office and Assistant Director for Financial Management, and also served as the Assistant Director of the Office of Systems, Finance and Administration in the Retirement and Insurance Service.

Ms. McGettigan earned a Bachelor of Science degree in accounting and a Masters of Business Administration degree in taxation from St. John's University in New York City. She is a Certified Public Accountant in New York. Prior to entering government service, Ms. McGettigan worked in both public accounting and investment banking. She was a Senior Accountant at Deloitte, Haskins & Sells (now Deloitte & Touche), a Senior Examiner at the American Stock Exchange, and Vice President and Division Controller at Morgan Stanley & Co Incorporated.

As CFO for OPM, Ms. McGettigan has a wide range of responsibilities that include the financial management of 5 administrative and trust funds that OPM oversees. These responsibilities entail budget formulation, accounting and overseeing the financial audits of these accounts. Ms. McGettigan views OPM's receipt of unqualified opinions for its Fiscal Year 1999 financial statement audits of the Trust Funds to be a major accomplishment.

Her diverse experiences have influenced both her management style and her opinions about professional development for financial managers. Ms. McGettigan defines her management style as a "hands off" approach. She "sets the table" by making sure each position is filled by the right person. She provides leadership and executive direction but allows people to do their jobs. She has an open door and makes herself accessible when her opinion and guidance are needed. She noted that best successes are achieved when the right people are allowed to do their best. Ms. McGettigan prefers decentralized management with the line of authority and responsibility pushed to the lowest possible level.

Kathleen M. McGettigan
Chief Financial Officer
Office of Personnel Management

She believes that financial managers in the public sector need to have a broad view of all aspects of financial management. To achieve this broad perspective, she believes in cross training between the 'disciplines' of financial management. She also feels that financial managers should have strong communication skills.

Ms. McGettigan has been a strong advocate of managerial cost accounting throughout her career and would like to see Federal Accounting Standard No. 4 implemented with good systems. She pointed out that the public sector is becoming more like the private sector with regard to financial reporting and financial auditing. However, you need quality financial systems to produce good reports. She also noted that a culture change is needed in organizations to successfully use cost accounting in the public sector.

Reflecting on the past and present of government financial management, this CFO has many views and insights regarding the future of the Federal work force. She believes we must recognize the pending mass exodus of Federal employees in the next 5 to 10 years. To attract and retain the best and the brightest, Ms. McGettigan stated that the Federal government should be competitive and use succession planning. All Federal agencies need to invest in their human capital now. Technology must be used to help us in accomplishing our mission with less people, dollars and time.

Other suggestions for improving financial management are to develop and share "best practices," to use commercial off-the-shelf (COTS) software packages to implement good financial systems that can track and report financial events. This modernization could eliminate many incompatible systems and facilitate the move toward standardization of the financial system requirements. She pointed out that OPM implemented a new financial system for the Retirement and Insurance Service, and is implementing one for the administrative funds. OPM will be cross serviced by the General Services Administration for payroll and travel financial services. In the area of budgeting, Ms. McGettigan believes that the formulation of a biennial budget would be innovative. This process would be more efficient since it would save time and money.

With OPM as a sponsoring agency of the Joint Financial Management Improvement Program since 1966, Ms. McGettigan, as the CFO, is a member of the JFMIP Steering Committee. She believes it is a perfect fit for her since her financial management views are in accord with the goals of the JFMIP. By participating on the JFMIP Steering Committee, her personal perspective on financial management has been improved. ■

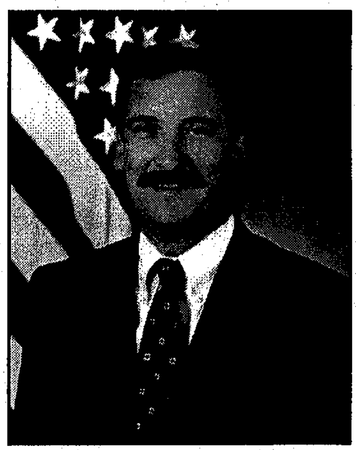
FINANCIAL MANAGEMENT PROFILE

Thomas R. Bloom, Director of the Defense Finance and Accounting Service (DFAS) since May 1999, is transforming Department of Defense (DoD) financial management. The scope of that transformation is huge considering DFAS is the world's largest finance and accounting organization, disbursing over $1 billion dollars each business day. Each month, DFAS pays 5.4 million military and civilian personnel, retirees, and annuitants. Each year, DFAS pays 14 million commercial invoices and processes 100 million accounting transactions involving accounts with financial resources in excess of $1 trillion. Mr. Bloom takes special pride in his agency's dedication to providing world-class service and trusted financial advice to support our nation's soldiers, sailors, airmen, and Marines. Customer and stakeholder needs and desires are paramount in the development of DFAS business systems, processes, and operations.

The agency's role is an important one—to deliver best-value products and services to support the finance and accounting needs of our nation's fighting forces. Under Mr. Bloom's stewardship, DFAS refined its strategic vision, goals, and core values to better support the national defense mission and goals.

Mr. Bloom believes a critical part of his job is to set the agency's vision, then to make sure people know what the vision is, what the bottom line is, and where the finish line is. "If I can eliminate the obstacles so that my folks can get their job done, it will make it a lot easier for them to do it. I look at my job really as Chief Obstacle Eliminator."

The new DFAS corporate strategic plan ensures that the agency will become a strategy-focused organization. The framework chosen is grounded in the "Balanced Scorecard" concepts. These can be summarized as follows: change is mobilized through executive leadership; strategy is translated to operational terms, is a continual process, and is everyone's job; and the organization is aligned to achieve the strategy. The outcome will be an organization that has reduced its costs, created value through better information, reshaped its workforce, and used competitive sourcing wisely. This will be good for the Department of Defense and good for the American taxpayers.



Tom Bloom
Chief Obstacle Eliminator

He works to eliminate obstacles hindering DFAS' 18,500 employees and encourages them to think corporately and put the customer first.

Mr. Bloom believes that a key component of leadership is "valuing your organization's most important asset, its employees." He has invigorated DFAS's 18,500 employees, located around the world. DFAS employees are encouraged to think corporately and put the customer first as they tackle day-to-day challenges. "You have to empower your people. There's more knowledge down in the trenches where the work gets done than I could ever know. You have to empower folks, and you have to let them know they are making valuable contributions," according to Mr. Bloom. Demonstrating his commitment to obstacle elimination, he is encouraging employee contributions, improving communication, emphasizing workforce education and training, and championing the use of new technology.

DFAS employees now have a higher level of trust and less "speculation tension." Mr. Bloom has used innovative ways to bring employees "into the loop," opened an opportunity for two-way communication of opinions and concerns, and decreased "information hoarding."

Bright Ideas, the new DFAS employee suggestion program, which rewards employees with up to $25,000 for ideas to save money for the agency, makes it easier than ever for employees to propose their ideas and for them to see the benefits of those ideas. Under the old beneficial suggestion program, approval or rejection time averaged more than 10 months. In some cases, employees had retired before their ideas were put to use. With Bright Ideas, both suggestions and approvals are processed with web-based forms, cutting turnaround time to one month. And, it is easily accessed electronically from any employee desktop through Infoweb, the DFAS intranet.

Internal communication at DFAS has improved dramatically in the past year. Director's Update is an informal email message prepared by Mr. Bloom detailing his recent activities and explaining their significance to the agency's mission and his vision. Each employee receives a personal copy in his or her DFAS email box. Straight Talk takes the personal email communication concept to a new level. To introduce significant information, a pithy, 2- to 3-minute video is produced featuring Mr. Bloom talking candidly about organizational issues and future changes on the horizon. The videos are then sent to all employees by email, so they can view them at their convenience.

Infoweb has also been put to use to improve internal channels of communication both up the chain of command and laterally. Employees have the option to identify themselves or remain anonymous. One intranet tool is a business topic grapevine called Rumor Has It where employees pose questions of interest directly to Mr. Bloom. His posted replies cut to the chase, eliminating hearsay and ensuring that people get honest, uniform answers across locations. A second tool, My Two Cents, is a weekly forum designed to be an avenue for unfettered employee discussion—regardless of rank or location—on selected mission-related topics.

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Mr. Bloom demands the highest level of professional excellence from the DFAS workforce. To help employees meet professional demands, he has earmarked 5 percent of payroll budget for DFAS employees to upgrade their skills. State-of-the-art learning centers have been established at 19 DFAS locations.

"We want our folks to work with and understand the latest technology and to learn the latest management techniques. One of the things I tell our folks is that I cannot always promise them employment, but we will work hard at making them employable. Being current helps them do a better job at DFAS, and it will certainly make them marketable," Mr. Bloom explains.

When drawdowns are necessary, the DFAS Responsible Employer Program (REP) provides a lifeline for employees facing personnel reductions. Since DFAS was created to become more cost-efficient, the REP has helped downsize the organization by 39 percent. Through assignment to other DFAS positions and a vigorous out-placement program, only 4 percent of the thousands of employees whose jobs were abolished were adversely affected.

Another key management belief of Mr. Bloom's is employee empowerment. He believes that the biggest difference between private- and public-sector employment, other than salary, is risk. "In the private sector you have to take risk to survive. You have to take risks to stay relevant. In the public sector, people are often afraid to take risks, but to a certain extent, this is changing dramatically. As Director, I have to encourage some risk taking. This is the public sector so you have to be careful that you are controlling your assets, but to move ahead you have to take a certain amount of risk," he explained.

What's in the future for DFAS? The DFAS vision includes four tenets. The first tenet is DFAS will be a world-class provider of financial and accounting services, with a strong corporate identity. The goal is to be among the top 10 percent of competitors. To be competitive, DFAS must be the best value to customers, recognizing that the best value is not always the cheapest.

DFAS is building its new corporate identity with a focus on customer service. DFAS started with four corporate identities when it was formed from the finance and accounting offices of the Army, Navy, Air Force, and Marine Corps. The new focus replaces the rigidly aligned, inward focus of the four Services. DFAS has picked up the best practices of each Service and is looking to the private sector to round out its new identity and incorporate the best practices of private industry.

DFAS business line executives continually benchmark with world-class private industry firms and government agencies recognized as leaders in e-commerce, finance and accounting operations, strategic planning, information infrastructure, and systems portfolio management. DFAS efforts to benchmark and improve performance have been nationally recognized with the award of the prestigious GartnerGroup "Measurement Innovations Award" for the effective application of performance measurement principles and the efficient use of information technology to enable enterprise business strategy.

Additionally, Mr. Bloom initiated the creation of an external DFAS Board of Advisors. Board members include the Under Secretaries of the Army, Navy, and Air Force, the Vice Chairman of the Joint Chiefs of Staff, the Vice Chief of Staff for each Military Service, and senior corporate executives from the private sector. The goal is to provide military service leaders with greater insight into DFAS programs, sharpen the Agency's customer focus, and gain continual business expertise from private sector leaders. This innovative technique is new in Federal financial management.

The second tenet is to be a trusted, innovative financial advisor. Mr. Bloom says a commander once told him that DFAS was "drowning them with data when they were thirsting for information." World-class service requires that DFAS provide more than financial data. "We must provide sound financial information as well as advice," said Mr. Bloom.

The third tenet is to become an employer of choice. "We want the best and the brightest to work at DFAS. We want other Federal agencies and employers to acknowledge DFAS experience on an employee's resume to be as prestigious as employment at General Electric or Arthur Andersen," Mr. Bloom said. Mr. Bloom wants DFAS employees to have the experience and reputation that will have other employers trying to hire them away, but for the DFAS environment to be so good that employees will choose to stay.

The fourth tenet is for DFAS to be competitive and the best value for customers. Competitive outsourcing is a Federal mandate. Over the next five to seven years, DFAS employees will have to compete with the private sector for a significant percentage of Agency work. Mr. Bloom explains, "In our core mission areas, we believe we will stack up well against the private sector." Keeping employees motivated when they know they may lose to the competition is tough. However, Mr. Bloom says "Watching the guy over your shoulder sometimes makes you run faster. Sometimes that can be a positive thing."

Under Mr. Bloom's leadership, DFAS has provided exemplary stewardship of tax dollars. American taxpayers realized savings from DFAS costs reductions of 5 percent in fiscal year (FY) 2000, Mr. Bloom's first full year at DFAS. Costs for FY 2001 will be reduced by another 5 percent. In February 2001 the Agency received an unqualified opinion on their FY2000 financial statements. DFAS was the first Agency in DoD to have earned this distinction.

Mr. Bloom has guided the far-reaching changes in financial management systems architectural and information technology. In FY 2000, DFAS eliminated 8 more legacy accounting systems than originally planned, and 38 additional ones will be eliminated in FY 2001. DFAS is in the process of installing 32 new systems that are standard and in compliance with the Federal Financial Management Improvement Act. By FY 2003, DFAS will achieve a 90 percent reduction in the number of finance and accounting systems used within DoD.

Mr. Bloom, a third generation public servant, with extensive experience in finance and accounting, was well prepared to assume responsibilities as the Director of DFAS. He has served as the Chief Financial Officer (CFO) at both the U.S. Department of Commerce and the General Services Administration. He also served as the Inspector General at the U.S. Department of Education. In private industry, Mr. Bloom held a variety of positions in public accounting, rising from a junior staff accountant to senior partner with large CPA firms. Mr. Bloom earned a bachelor's degree in Business Administration and Accounting from the University of Michigan. He is a certified public accountant. ■

FASAB UPDATE

Board Addresses Changes to SFFAS 7

At its February 2001 meeting, the Federal Accounting Standards Advisory Board (FASAB) agreed to several actions on Statement of Federal Financial Accounting Standards 7 (SFFAS 7), Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting. They are:

1) Proposed Technical Amendment. The FASAB will be proposing a technical amendment to SFFAS 7. The standard requires reconciling obligations with the net cost of operations through the Statement of Financing. On February 21, the Board agreed to propose removing from paragraph 80 the requirement that changes in accounts receivable due from the public as exchange revenue be reported in a specific location; the proposal will provide for flexibility in reporting that element. This change will foster aligning SFFAS 7 with the latest guidance on the Statement of Financing and the forthcoming guidance from the Office of Management and Budget on "Form and Content of Agency Financial Statements." Contact: Richard Fontenrose, 202-512-7358, fontenroser@gao.gov

2) Eliminating Paragraph 65.2. On February 22, the Board approved eliminating paragraph 65.2 of SFFAS 7. Paragraph 65.2 requires the disclosure of material revenue-related transactions affecting the beginning and end-of-period balances of accounts receivables, accounts payable for refunds, and the allowance for uncollectible amounts. The Board will vote on the actual SFFAS during late April. Contact: Richard Fontenrose, 202-512-7358, fontenroser@gao.gov

3) Restating Prior Year Financial Statements. The Board reviewed a draft exposure draft to amend SFFAS 7 to require restating prior year financial statements for material errors discovered in the current year. During discussion, several members suggested that the Board also should allow restatement of prior year financial statements for changes in accounting principle. The majority of the Board agreed that the proposed exposure draft should provide management with the option of restating prior year financial statements for changes in accounting principles, including adoption of new Federal accounting standards. However, two Board members believed that more discussion was needed on the possible consequences of this action. The chairman, therefore, recommended that the provision be accompanied by a strong caveat soliciting additional input from respondents to the exposure draft on possible consequences of the proposed action. Contact: Andrea Palmer, 202-512-7360, palmera@gao.gov

National Defense PP&E Study

At the December Board meeting, KPMG briefed the Board on the results of its study under contract with the Department of Defense, "Report on the Evaluation of National Defense PP&E Reporting Approaches." In the report, KPMG recommends:

- reporting the units and condition of major end items in FY 2002 (Phase 1);
- capitalizing major end items (e.g., aircraft, ships, and combat vehicles) without depreciating them and capitalizing and depreciating other national defense property, plant, & equipment (e.g., intelligence and communication systems, and specific support equipment) beginning in FY 2006 (Phase 2).

At its February meeting, the Board discussed the above proposals and associated issues in two separate sessions. The first session was designed to assist Board members in understanding the proposals. Exhibits were provided on: 1) a high level summary of the proposals; 2) descriptive and expanded illustrations of Major End Items and Other National Defense PP&E; and 3) illustrative financial statements showing stages of information. In the second session, the objective was to resolve the Board's issues and concerns prior to proposing a standard for national defense PP&E. A major concern was the inability to attribute a consumption value for Major End Items to periods of use. Other issues included 1) how to account for clean-up cost, 2) how to define, describe and use composite depreciation, and 3) how to pro rate the acquisition cost for items destroyed before a program is closed out.

The Board voiced broad support for the complete package of proposals, substantially as written, except for the clean-up cost issue. The FASAB staff will develop options for accounting for clean-up costs and include them in a draft Exposure Draft (ED) for national defense PP&E to be discussed at the Board's April meeting. Contact: Rick Wascak, 202-512-7363, wascakr@gao.gov

SFFAS 19 Issued

FASAB has issued Statement of Federal Financial Accounting Standards (SFFAS) 19, Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees in SFFAS 2. In SFFAS 19, the Board adopted a number of technical amendments to SFFAS 2, Accounting for Direct Loans and Loan Guarantees, to clarify that:

- the cash flow discount method used in the accounting standards prescribed in SFFAS 2 is consistent with the method required in the Federal Credit Reform Act of 1990, as amended in July 1997,
- the effective interest rate of a cohort of direct loans or loan guarantees is the interest rate adjusted for the interest rate re-estimate, as defined in paragraph 9(A), SFFAS 18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees in SFFAS 2, and
- the measurement principle for the default costs of direct loans and loan guarantees specifies certain cash flow elements that should be included or excluded in measuring default costs.

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The standards prescribed in SFFAS 19 are effective for periods beginning September 30, 2002. The standards can be found on FASAB web site at www.financenet.gov/fasab.htm or by calling 202-512-7350. Contact: Richard Mayo, 202-512-7356, mayor@gao.gov.

FASAB Email Addresses Temporarily Changed

There has been a temporary change in FASAB staff email addresses.The General Accounting Office recently upgraded some of its network capabilities, including its email system. As a result, the "FASAB" portion of its email address has been temporarily lost. The new email addresses follow the format of <last name plus first initial @gao.gov> Contact: Charles W. Jackson, 202-512-7352, jacksoncwl@gao.gov.

Accounting and Auditing Policy Committee Update

At its March 8, 2001 meeting, the Accounting and Auditing Policy Committee AAPC discussed the following:

Proposed Technical Release 5, Implementation Guidance on Statement of Federal Financial Accounting Standard 10 Accounting for Internal Use Software

Responding to a request from the Chief Financial Officers Council, the AAPC addressed issuing implementation guidance on Statement of Federal Financial Accounting Standard 10, (SFFAS *10), Accounting for Internal Use Software.* After considering the results of task force meetings, AAPC discussions, and comments received through the AAPC web site, the Committee approved sending the proposed Technical Release (TR), *SFFAS 10 Implementation Topics issues,* to the FASAB for review. If the FASAB does not object to the TR during a 45day review period (which will end in late May), the TR will be released as final.

Stewardship Guidance Work Group

In 1998, the AAPC commissioned a multi-agency work group to draft guidance to help Federal entities implement the stewardship land and heritage assets standards. Two members of the group briefed the Committee on the group's draft guide.The guide addresses 1) identification, categorization, and physical units; 2) determining materiality; 3) measuring and reporting condition, and 4) the auditor's assurance. The draft is expected to be available for comment on the AAPC web site by summer 2001. Contact: Monica R. Valentine, 202-512-7362, valentinem@gao.gov

New Course on Federal Accounting and Auditing Update

A new course on Federal Accounting and Auditing Update has been developed.The objectives of the course are to:

- Understand recent final and proposed pronouncements issued by the FASAB, the General Accounting Office, and other standards-setting bodies
- Apply the new requirements efficiently and effectively

The only prerequisite for the course is knowledge of Federal Government accounting and auditing. The course, developed by W.A. Broadus, Jr., CPA, CGFM, is available from the AICPA, 1-888-777-7077. It is in video format and features FASAB Chair David Mosso, FASAB members Robert Reid and Joseph Kull, and FASAB Executive Director, Wendy Comes. It is product number 181008. ■

JFMIP Annual Financial Management Conference

JFMIP New Horizons for Financial Management

The 30th Annual Financial Management Conference sponsored by the Joint Financial Management Improvement Program was held on March 13, 2001, with 856 senior financial management officials in attendance.This year's keynote speakers featured David M. Walker, Comptroller General of the United States, and top executives from the private sector—Whitfield Diffie, Distinguished Engineer, Sun Microsystems, Inc., and Gopal Kapur, President, Center for Project Management. There were 6 panel sessions on the latest issues in financial management, information technology and human resource issues. Summaries of these presentations can be found in this issue of the *JFMIP News*. Speakers' presentations are posted on the JFMIP website, www.jfmip.gov.

The JFMIP would like to thank the speakers, Graduate School, USDA staff and the many agency volunteers who worked on the planning and conduct of this year's Conference. They are: Graduate School, USDA - Isabelle Howes, Sharon Barcellos, Crystal Penn, Peter Aliferis, Ronell Raaum; USDA - Pat Wensel; Army - Dot Sugiyama; DFAS - Carla Kohler; HHS - Shirl Taylor-Wilson; Interior, National Park Service - Kookie Mitchell; Justice - Marilyn Kessinger, Jermaine Lassiter, Susan Mata, Christine Nguyen, Kelly Stefanko; Labor - Pat Clark-Duncan, Janet Laytham; Treasury - Rita McPheeters; VA - Pamela Dix; EPA - LaShan Haynes; FASAB - Lucy Lomax; GAO - Linda Kemp, Beth Miller, Rocky Rockburn, Lisa Shames, James Perez; GSA - Deborah Jackson; FDIC - Dottie Willey; OMB - Jean Holcombe, Sandy Swab; and OPM - Mary Hartman. ■

Developmental Assignments at JFMIP

The JFMIP continues to support the Executive Leadership Program (ELP) for Mid-Level Employees (formerly the Women's Executive Leadership Program) by sponsoring participants with developmental assignments. The Executive Leadership Program (ELP) is an intensive 12-month program that is open to GS 11-13 level employees (both men and women) to develop professional, supervisory and managerial leadership abilities. It is part of the USDA Graduate School Leadership Development Academy.

Over the past few months, JFMIP has had several ELP participants. Ethel "Kookie" Mitchell is a Computer Specialist for the Department of the Interior, National Park Service's Contracting and Procurement Office. Kookie came to JFMIP on January 22, 2001 for a 60-day developmental assignment. During the 60-day developmental assignment with JFMIP, she learned how JFMIP works with Federal agencies and private entities for interagency projects that will develop financial systems framework and acquisition systems requirements. She gained valuable insights and experiences working on JFMIP projects and attending financial and acquisition meetings with the Chief Financial Officers (CFO) Council; Chief Information Officers (CIO) Council, and Electronic Commerce Committee. Kookie stated that she gained a wealth of information, and she plans to share it with other communities, emphasizing how important it is to have effective financial management and acquisition systems that work well together. She was instrumental in the technical support of the JFMIP Annual Financial Management Conference.

LaShan L. Haynes, an Information Management Specialist from the Environmental Protection Agency, came to JFMIP as an ELP participant on March 12, 2001. During her 30-day assignment, she had a variety of assignments. She assisted in the JFMIP 30th Annual Financial Management Conference. She worked on developing documentation of cost estimates for agencies who are planning to implement new financial management systems, which will be posted on the Roadmap website as a reference tool. She also has learned about the Core Financial System Requirements by participating in meetings with agency Chief Financial Officers and system personnel, and by reviewing core financial system requirements for updating.

Charlenea Ellis began a 30-day developmental detail assignment at JFMIP as an ELP participant on April 2, 2001. She will be primarily working on the Roadmap project for JFMIP. She is a Budget Analyst at the Defense Threat Reduction Agency on Kirtland Air Force Base, Albuquerque, New Mexico. Charlenea has been with this agency over the past 14 years, and has observed the agency changing its name three times over the past four years, as well as turnover in management. She stated that the governmentwide leadership developmental programs foster self-knowledge and how different personality types work together and enhance each other. She welcomes the challenge of working in a new environment on these developmental assignments.

FDIC Developmental Assignment

Dottie Willey is a computer specialist with the Federal Deposit Insurance Corporation (FDIC), Division of Information Resources. She is on a 120-day detail that began February 5, 2001. She is working on revision of the JFMIP Core Financial System Requirements and participating in interviews with agencies and vendors. She has also attended meetings of the CFO Council Financial Systems Committee and JFMIP Steering Committee. She provided technical assistance at the annual JFMIP Conference.

"My career has been rather a study in contrasts. After college, wanting to see the world, I was a flight attendant with American Airlines for 8 years. Retiring to raise my daughter, I picked up another degree in Information Systems and began consulting. I joined the government as the Resolution Trust Corporation was forming during the savings and loan crisis. With only eleven information technology employees at Headquarters initially, it was an interesting time to be working for the Federal government."

At FDIC, she chairs an Information Technology (IT) user group, provides support software for users with disabilities, researches and tests corporate-wide software for standardization and configuration. After working at JFMIP for the past two months on Federal financial functional testing and participating in financial IT meetings, she believes that enormous amounts of capital and stress on personnel and citizens could be saved by standardizing most requirements for financial systems throughout the government. Such a move would increase cooperation between federal agencies and promote a more efficient government accounting system. ■

CFO Council Committee Impact Awards

The Chief Financial Officers (CFO) Council is supported by a committee structure that conducts most of the significant developmental and analytical work that enables the Council to achieve its goals. This is the second year that the CFO Council is formally recognizing committee members who have made substantial contributions in meeting the objectives and priorities of the CFO Council. The CFO Council Committee Impact Awards were presented by Steven App, Acting CFO, Department of the Treasury, and Acting Executive Vice Chair, CFO Council; and Joseph Kull, Deputy Controller, Office of Management and Budget. This year's award recipients and their contributions are summarized below.

Human Resources Committee - Willa Green, Department of Labor, for developing *An Executive Toolkit-Building a Financial Management Development Plan*. Mark Holdrege, Department of Commerce, for developing the Council's *Statement of Principles for Federal Financial Education and Training* and his work on developing core competency documents for financial management occupations. Deborah Staton-Wright, Department of Labor, for establishing a CFO Council Recruitment Consortium; and Sallie Wiley, Office of Personnel Management, for developing the framework for the CFO Council Intern Program

Joe Kull, Sallie Wiley, Mark Holdrege, Willa Green and Steve App

Electronic Commerce Committee - Dan McGrath, Department of the Treasury, for his work in promoting the use of purchase card program, expansion of payments by electronic funds transfer, and other EC initiatives.

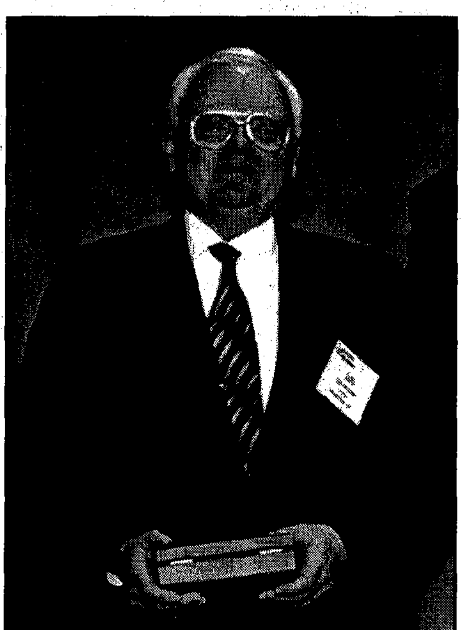
Joe Kull, Bruce Turner, Lee Jones and Steve App

Financial Systems Committee - Lee Jones, Department of Labor, and Bruce Turner, JFMIP, for the development of the Financial Systems Road Map, which provides a web-enabled resource to access comprehensive financial references, tools and information needed by financial system project managers.

Intra-governmental Transactions Committee - Paul Weinberger, Department of Health and Human Services, for his leadership role in developing a position paper on addressing a long-term solution to the problems associated with the elimination of intra-governmental transactions. ■

Joe Kull, Paul Weinberger and Steve App

Deborah Staton-Wright



Dan McGrath

Annual Financial Reports Improving But Far From Acceptable

All 24 agencies covered by the Chief Financial Officers Act of 1990 submitted audited financial statements to Congress for fiscal year 2000 by the deadline of March 1st. Of these 24 agencies, 18 received unqualified or clean audit opinions from their auditors. Even though this is an increase from only 6 agencies 4 years ago, it may be an empty victory. This is the fourth consecutive year which the Comptroller General of the United States has been unable to express an opinion on the U. S. Government's consolidated financial statements.The main obstacles to achieving an unqualified opinion on the Federal government's financial statements are financial management problems at specific agencies, reconciling intragovernmental transactions, information systems security weaknesses, and the need to modernize financial management systems.

Many agencies expend tremendous effort to produce their annual financial statements. A number of the clean opinions were obtained by expending significant resources to use extensive ad hoc procedures and making billions of dollars in adjustments to produce financial statements months after the end of a fiscal year. This approach must be combined with sustained efforts to improve agencies' underlying financial management systems and controls. "If agencies continue to rely on significant costly and time-intensive manual efforts to achieve or maintain unqualified opinions without such improvements, it can serve to mislead the public as to the true status of agencies' financial management capabilities. In such a case, an unqualified opinion would become an accomplishment without much substance." testified Comptroller General David Walker before the House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations on March 30, 2001. Testimonies from OMB Director Mitchell Daniels and Secretary of the Treasury Paul O'Neill reiterated these concerns.

The FY 2000 financial statements audits showed improvement over the previous three years. However the resources expenditure necessary to generate these financial statements and the length of time between the close out and the generation of the financial statements is an ongoing weakness. Currently most agencies take on a heavy burden to prepare financial statements at the end of a fiscal year, including those that received unqualified opinions on their audited statements. This would not be a burden if agencies had the basic financial systems in place to routinely provide the data for the financial statements.

Instead of using March 1 as a deadline for acceptable timeliness, agencies should work toward the ability to have their financial statements prepared and audited much closer to the end of a fiscal year. The generation of useful financial information and sound internal controls will allow for informed decision making and ensure accountability on an ongoing basis. ■

Agencies with Unqualified Opinions for FY 2000

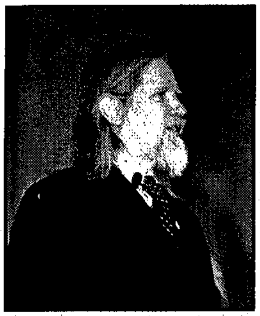
Department of Commerce
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Labor
Department of State
Department of the Treasury
Department of Veterans Affairs
Environmental Protection Agency
Federal Emergency Management Agency
General Services Administration
National Aeronautics and Space Administration
Nuclear Regulatory Commission
Office of Personnel Management
Small Business Administration
Social Security Administration

JFMIP 30th Annual Conference

Keynote Address

by Dr. Whitfield Diffie

Distinguished Engineer Sun Microsystems



Dr. Whitfield Diffie, Distinguished Engineer, Sun Microsystems, Inc., is known as the father of public key cryptography, which he discovered in 1975. Public key cryptography is the foundation of today's Public Key Infrastructure (PKI) technology. PKI technology is relevant to the Federal financial community for several reasons. For example, PKI enables business to be conducted electronically with the confidence that:

1. The person sending the transaction is actually the originator.
2. The person receiving the transaction is the intended recipient.
3. Data integrity has not been compromised.

Dr. Diffie noted that the public has increased expectations from the Government in terms of convenience and readily accessible information, resulting from advances in technology. People expect to be able to do more things via the Internet, such as to obtain account information, make changes to their accounts and submit documentation. Additionally, the Government Paperwork Elimination Act of 1998 requires agencies to use "electronic signatures" whenever possible.

The theme of this session centered on Dr. Diffie's belief that the key challenge facing both Government and private industry is providing a secure electronic environment for data sharing without decreasing user flexibility. The major points of the keynote address are summarized below.

Brief history of cryptography and its uses

Prior to World War I (WWI), paper codes and protocol (e.g. attaché case) were primary methods for encrypting confidential information. Around the time of WWI, radio was the key method for communication. Radio communications provided a big advantage strategically and time wise, but it also had risks—the enemy could intercept communications. This risk drove cryptography to the forefront of military technology efforts. Machines, such as the German Enigma Machine, were built that could decode messages. However, it took days for these machines to decode messages that contained much simpler cryptography techniques compared to today's standards.

From the 1930's to the 1960's, very little work was published in the area of cryptography. In the 1970's, a commercial need drove work and research in this area. It is noteworthy that even until the 1990s, encryption technology was viewed as a potential military risk and even the transfer of encryption technology used in commercial products to foreign countries was extremely limited.

The efforts in the 1970s led to the development of a national data encryption standard called Data Encryption Standard (DES) developed by the Federal Government. This standard was based on a 56-bit key. However, in the late 1990s, specialized "DES Cracker" machines were built that could recover a DES key after a few hours. Recently, a new FIPS standard has been proposed by the National Institutes on Standards and Technology called the Advanced Encryption System (AES) which uses a 128-bit algorithm and up to a 256-bit key.

According to a NIST Fact Sheet, the chance that someone could use the "DES Cracker" like hardware to crack an AES key is as follows:Assuming that one could build a machine that could recover a DES key in a second (i.e., try 255 keys per second), then it would take that machine approximately 149 thousand-billion (149 trillion) years to crack a 128-bit AES key. To put that into perspective, the universe is believed to be less than 20 billion years old.

Security versus Flexibility

Technology outpaces advances in security techniques development. This fact underscores how security and flexibility can be on the opposite ends of the spectrum. One recent example is cellular phones. Fixed position cellular systems are cheaper to install than are wire based systems and provide added convenience. However, along with this convenience comes susceptibility. Anonymous parties can more easily intercept wireless phone transmissions.

A primary concern in the financial arena is authenticating the parties to a transaction or transmitters of financial information. Public key cryptography can provide assurances that the originator and receiver are authentic and the data is therefore reliable. Although there may be skeptics who argue that even the AES key can someday be "cracked", Dr. Diffie believes cryptography will not be the "sticking point" in protecting data communications. Rather, the limitations will occur in protecting data once it has been securely transmitted and received.

Government's role in Surveillance

There are two opposing views on the Government's role in surveillance: more surveillance versus less is better, and vise versa. Years ago, monarchies had a "divine right" to govern, but their capability to monitor was limited by their location and the absence of communication technology. If the king was out of the country, he relied on subjects, which were limited in number. Today, Government is not limited by such factors.

The Freedom of Information Act is one method for monitoring the Government's use of its powers to help ensure that the privacy of our citizens is maintained.

Anonymity

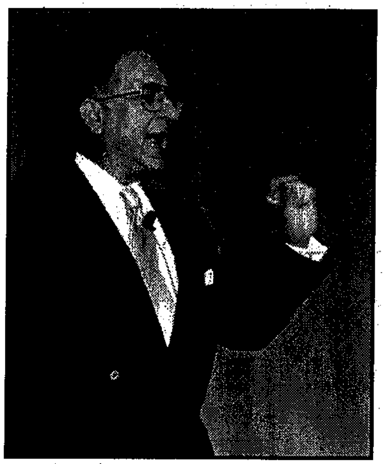
System users like anonymity because it serves as a barrier; the less information known about them, the less risk there is that such information can be compromised or misused. However, regulators dislike anonymity, since it makes tracking fraud more difficult.

In summary, public key cryptography is a mechanism that can be used to secure data transmissions. However, the demand for convenience and flexibility will likely create new technological vulnerabilities that will continually need to be addressed. ■

JFMIP 30th Annual Conference

Management's Seven Deadly Sins

Gopal Kapur, President Center for Project Management



Gopal Kapur's enlightening and entertaining presentation shed light on some of the reasons why many information technology projects fail. The talk opened with startling statistics:

- $250 billion is invested in IT projects annually by the private sector.
- 42%, or $105 billion, of this investment is for projects that are abandoned.
- 50% of the $105 billion investment, or $52 billion, is a lost investment in Human Resources.

Seven Deadly Sins

1. Mistaking half-baked ideas as projects.
2. Poor sponsorship
3. Dictating unrealistic deadlines
4. Assigning under-skilled project managers to complex projects
5. Not monitoring the project's vital signs
6. Failing to deploy a robust Project Process Architecture
7. Not formulating a comprehensive Project Portfolio.

Project management, or mismanagement, was presented as the underlying cause for many of the project failures in both the private and public sectors. He also noted that the Federal managers have an especially difficult journey in moving from existing mainframe/Cobol systems to something that is untested, while continuing to manage the governments finances.

The "Seven Deadly Sins" that can be committed when managing projects are listed in the box. Mr. Kapur further described four of the most serious offenses.

Sin #1: Mistaking half-baked ideas as projects.

Roughly 14% of an executive's communication with their staff can best be described as "babble." Since executives are supposed to be visionaries, some of this babble ends up as deadlines for project managers. Unfortunately, these bad projects will replace other good projects and lead to wasted resources, poor returns on investments, and redundant efforts. It is important to learn to filter out these half-baked ideas and prevent them from becoming projects. Before embarking on a project you should ask:

- What are the reasons for the project?
- What strategy of the organization is the project linked to?
- What are the specific objectives and benefits?
- What are the implications of doing nothing?
- What are the measures of success?
- How realistic is the deadline?
- What are the runaway project triggers?
- What conditions should exist before this project is shut down?

Mr. Kapur stated that 50% of the current projects don't support a business strategy, and therefore can be designated as "make work" projects. Once a project gets underway, you must be able to measure its performance. Success should be measured against 1) key business drivers, i.e., vital signs that help to ensure all is well, and 2) identified critical success factors. This should be done by someone who can and will declare success. You also must know what conditions indicate that a project is not going well and should be shut down. Shutdown conditions are seldom discussed, let alone defined, at the start of a project, since discussing failure is taboo. Some well-known companies have fallen victims to pouring resources into bad systems only to have to shut them down after implementation when they don't perform.

Sponsors must be educated to recognize when a half-baked idea is evolving into a project. Project managers also must be empowered to practice "intelligent disobedience" so that they can ask the sponsors for the information they need to answer questions and catch half-baked ideas.

Sin #2: Poor sponsorship

A sponsor must be committed to the success of a project through commitments of "political capital," personal time, and resources. Sponsors must be active participants by devoting an adequate amount of time to the project and providing the right level of guidance. Some sponsors of failed projects lose the opportunity to influence the project's outcome during the time when it can make a difference. Later, they show up just in time to blame problems on the project manager. Project sponsors must recognize that they also have a role to play in the success of the project.

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JFMIP 30th Annual Conference

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Sin #4: Assigning under-skilled project managers to complex projects

Projects can vary widely in their complexity for either business environment reasons or for technical environment reasons. Forty percent of project sponsors do not have an understanding of the complexity of their projects. When both the sponsors and project managers do not clearly understand the complexities of their projects, the team members are left to react to complexities as they are encountered. Soon the project becomes a runaway system. Providing a license to a project management tool won't overcome the inability to deal with the project complexities. Powerful tools won't help an uneducated project manager.

Sponsors need to be aware of the skill levels of their project managers and be sure their skill levels match those needed for the project. Project managers need programs that develop their skills where they fall short. These programs should provide a combination of education, practical experience, and mentoring.

Sin #5: Not monitoring the project's vital signs

The project sponsor and manager should jointly decide on vital signs to be monitored, their thresholds, and how the status will be reported. Some suggested vital signs include: status of critical path, milestones and deliverable hit rates; actual vs. estimated costs; actual results vs. planned results; risk probability; sponsor commitment, and project team disposition. If the assessment shows the project to be 30% off the norm, it is in a runaway condition and should trigger attention. Generally when a project is 50% off, it should be considered for shut down.

Reporting on vital signs should be brief and to the point. Begin with the punch line—don't save the results for the end. Then fill in the details with the current status and the next step or steps. Provide additional information or explanation as needed. Mr. Kapur summed this up as "Maximum Signal, Minimum Noise."

Projects should be assessed overall against the seven deadly sins. Mr. Kapur referred to this as determining the "sin index" for the project. Each sin should be rated on a 5-point scale to determine an average for the project. Higher ratings are in "project nirvana," middle range ratings indicate a project that can be saved if action is taken, and low ratings point to "project hell." Most importantly, when you recognize that management has sinned; things must be changed so that the project doesn't continue to wallow in the deadly sins. Most of the project tasks will continue to get done, but they won't necessarily be done in the right way. Mr. Kapur described these projects as "people running a race but all going in different directions." He concluded by stating, "If you don't know where you are headed, speeding up is not the next best move."

In the brief question and answer period , the following are some of the questions asked by the audience.

Q: Should an organization's information technology group drive the system projects?

A: Never ask a barber if you need a haircut." The IT group may push projects mainly for new technology. Projects should be driven by managers through an investment portfolio.

Q: What can be done about the project management brain drain?

A: Establish an aggressive program for mentoring new project managers. Allow them to make mistakes in a controlled environment. Also, keep your departed program managers on call if possible. Keep in mind that program managers require different type of skills that don't necessarily apply to other areas.

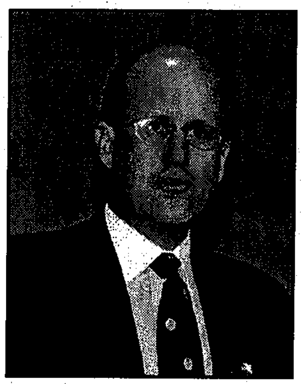
Q: Will project manager certification help mitigate problems?

A: Yes, provided that the certification is based on the area of the project. The project manager must have minimal knowledge of the project area. ■

JFMIP 30th Annual Conference

Keynote Address on High Risks and Major Challenges

David M. Walker,
Comptroller General of the United States



Human capital—people—is critical for the federal government to establish and maintain a competitive advantage in an economy that is increasingly knowledge-based, according to David M. Walker, Comptroller General of the United States. Further, agencies' need to broaden their financial management and accountability strategies to "audit for outcomes" as they undertake the necessary cultural transformation to become results-oriented enterprises and to maximize the performance and ensure the accountability of the federal government for the benefit of the American people.

The Comptroller General asserted that GAO must "lead by example" in the accountability community and is voluntarily complying with the statutory framework for results-oriented government, including the Chief Financial Officers Act, the Government Performance and Results Act, and the Clinger-Cohen information technology laws. For example, as appropriate for any results-oriented enterprise, GAO instituted a strategic plan framework consisting of a mission, strategic goals, key themes, and strategic objectives. GAO's core values—Accountability, Integrity, and Reliability—are the foundation of this framework. GAO's primary client is the Congress and its beneficial client is the American people.

To highlight the need for improved program integrity, GAO initiated its High-Risk Program in 1990. In its biennial updates, GAO designates federal programs that are vulnerable to fraud, waste, abuse, and mismanagement. Recently, the High-Risk program expanded its focus to encompass those programs that need urgent attention in order to ensure that the government functions in the most efficient, effective, and economical manner possible. To accompany the *High-Risk Series*, GAO now addresses selected major management challenges in its *Performance and Accountability Series*. In November 2000, GAO issued formal criteria for determining and assessing performance and accountability challenges and high-risk areas as well as criteria for removing these designations.

Providing basic financial accountability is a critical function under GAO's High-Risk List. In 2001, the financial management functions of four agencies are still on the high-risk list: the Department of Defense, Forest Service, Federal Aviation Administration, and Internal Revenue Service. Comptroller General Walker observed that agencies continue to make progress in implementing financial reform legislation, but cautioned that these efforts will have to be sustained to attain the "end game" of having timely, accurate, and useful financial information on a routine basis.

GAO's High-Risk program is having an impact, as evidenced by the 11 high-risk designations that GAO has removed since 1990. Five designations were removed in 2001. Comptroller General Walker noted that these programs should receive credit for their achievements. For example, the Year 2000 Computing Challenge—which GAO designated as a governmentwide high risk issue in 1997—serves as a success model of partnering and collaboration that others should replicate in meeting an urgent, time-sensitive challenges.

Most recently in 2001, GAO identified strategic human capital management as a governmentwide high-risk issue. Without revamping their human capital strategies, the capacity of some agencies to perform their missions both now and in the future is threatened. The Comptroller General stressed that government employees are not the problem, but a lack of human capital strategic planning, along with outdated policies and practices. While OMB, OPM, and Congress have recently acknowledged the importance of human capital and are starting to make progress in addressing this challenge, much more needs to be done. For example, policies and practices should be reviewed in light of the changing dynamics and needs of the emerging knowledge-based economy.

To prepare for the future, the Comptroller General observed that we must pursue a sustainable long-term budget and economic outlook and undertake a fundamental review of what government does and how government does business in the 21st century. A variety of key factors, particularly the shifting demographics of an aging population and rising health care costs, have serious long-term implications on the economy and the government's fiscal position. In particular, absent needed reform, the projected growth in the Social Security, Medicare, and Medicaid programs will dominate the budget outlook. To move into the future without making changes to these retirement and health programs is to envision a very different role for the federal government in the decades ahead.

Financial managers have the credentials to make a substantive contribution in helping the federal government make the transition to the new Congress, the new Administration, and the new Millennium. They should leverage their skills, knowledge, and talents to make a difference in helping to maximize the performance and assure the accountability of their agencies for the benefit of the American people. Finally, Comptroller General Walker said that by working together, we can make a positive and lasting difference for our country. ■

Panel Session:

New Horizons for Government Auditing

The panel speakers were: Patricia Dalton, Acting Inspector General, Department of Labor; John Hummel, Director, National Industry for Federal Practice, KPMG; and Jeffrey C. Steinhoff, Managing Director, Financial Management and Assurance, General Accounting Office (GAO).

Jeff Steinhoff highlighted past achievements in government auditing before discussing what to expect in government auditing for the future. Since 1968, there was a dramatic growth in auditing expertise and professionalism; the Inspector General concept was created; a strong network of state and local auditors was established; and there was a need to move from financial audits to performance audits with the evolution of the single audit concept. Partnerships between government auditors and the private sector have also grown.

Government auditors have just begun to focus on the challenges that face them today. They have to become more analytical because the long-term implications of today's decisions affect the changing demographics and reliance upon technology. Because our aged population is expected to almost double in size, Social Security and Medicare hospital insurance trust funds face cash deficits. The composition of federal spending will continue to change and the budget flexibility will continue to decline.

One of the most dramatic changes Mr. Steinhoff has witnessed is our reliance upon technology. Technology is the key to re-inventing the Federal government. The Government faces challenges associated with the age of technology and challenges associated with information technology (IT) projects. Billions of dollars are being spent on IT projects; many of the projects are doomed before they begin. Government auditors should take an active role in analyzing the management of these projects.

Our reliance upon technology has added dimension to the concept of internal controls. Government auditors are challenged with redefining internal controls and auditing in a paperless environment. As we rapidly move to a global society, computer security has been referred to as a new frontier in fraud. With the rapid changes in electronic commerce, people now have access to money 24 hours, 7 days a week. Computer viruses now can invade systems worldwide. Managers do not understand the full range of risks they face in this environment. Government auditors must be ready to audit in this rapidly changing environment, and will have to view computer security as synonymous with internal controls.

John Hummel, Jeff Steinhoff, and Pat Dalton

Another challenge is government auditors' intergovernmental relationship at the state and local levels. Today, state and local governments and private companies manage more federally funded programs, creating a great need for increasing partnerships among auditors at all levels. Government forums will help to increase intergovernmental relations. In the future, we will see auditors sharing information and working together on joint assignments both nationally and internationally.

Government auditors will have to change to remain relevant. An auditor's primary function is to provide information and analysis. Technological advances have increased competition to provide the same services. Government auditors will have to demonstrate the value of their work or they will quickly find themselves obsolete.

John Hummel stated that Government agencies should not believe that obtaining a clean opinion on their financial statements is the end of the problem. The trend is to speed up financial reporting. Mr. Hummel predicts that agencies will receive their clean opinions by January 1, complete other reports by January 20 and produce the accountability report by February 15. The question he raised is "Why do we need to produce financial statements earlier since they are not needed for the budgetary process?" One factor is how quickly financial reporting is done in the private sector. Most companies can produce their financial statements 25 days after the end of the period, and others complete reports 35 days after the end of the period. The pressure is high in the commercial world to meet the demands of an information hungry market. This, in turn, brings pressure to the Federal sector, to produce the financial reports faster.

In the private sector, the ability to produce earlier financial statements can favorably impress analysts and investors. A recent Securities and Exchange Commission ruling prohibits companies from sharing information with analysts that is not simultaneously shared with the public, so financial statements must be done in a more timely manner.

Government financial information is used for trend analysis and broad financial management measures. The financial information in the reports can be useful to those who have to produce agency budgets. If accountability reports are prepared sooner, then cost-based performance information may be available to help determine the future of government programs. The public knows that the Government spends money, but the public wants accountability of these funds and an explanation of how the money was spent.

Mr. Hummel provided the following solutions to speed up the production of Government financial statements:

- Estimate payables based on analyses by program managers
- Estimate other accounts based on trends

- Clear all suspense/clearing accounts
- Reduce number of internal control findings
- Hire contractors
- Reconsider full-scope bureau audits.

Patricia Dalton stated that the top management issues identified by the IG community are: financial management, information technology, security, Government Performance Results Act, grant management, and improper staffing. It is currently acceptable if 75% of the Chief Financial Officers' (CFO) Act agencies received clean opinions. However, Ms. Dalton pointed out that the Government should determine how the information in the financial statements should be used to manage the agencies. Financial statements present the financial standing of an organization at a point in time. Program and financial managers need access to more timely information to effectively manage their financial resources.

The IG community should share best practices for financial auditing and will have to continuously make adjustments to meet the current needs of the agency. Interagency coordination will be critical.

At the Department of Labor (DOL), the 2001 audit work has begun with the CFO Office. The IG is restructuring financial audits to look at performance issues.

The IG community faces a shortage of qualified auditors and they are competing with the private sector to obtain qualified personnel. Future auditors must be able to analyze financial statements, and they also must be qualified in other areas, such as the evaluation of information technology resources usage. ■

Panel Session:

The Challenges of E-Government

Marty Wagner, Associate Administrator, Office of Government-wide Policy, General Services Administration (GSA) led the panel discussion on *The Challenges of E-Government* and introduced the panel. The speakers were:

R. Schuyler (Sky) Lesher, Deputy Chief Financial Officer, Department of the Interior

Elliott C. McEntee, President and Chief Executive Officer, NACHA —The Electronic Payments Association

Mary J. Mitchell, Program Executive for Electronic Government Policy, GSA.

Ms. Mitchell set the tone of this panel discussion by identifying the trends driving "E-Government". In addition to the obvious, such as the move to ubiquity of the Internet and increased public expectations, these trends are the Information Technology skill shortage and aging of the workforce; performance measurement and accountability; globalization; and, increased outsourcing and privatization.

The Government is doing an excellent job of disseminating information. The challenge is to move toward an environment that provides citizens opportunities to transact business on-line with consistent business rules, conventions, and total security. E-commerce reduces the burden of doing business with the Government and it mitigates the cost and time delays of paper transactions.

While the old ways of doing business won't go away anytime soon, we will see steady progress toward E-Government. One government function ripe for this migration is Federal grants. "Federal Commons" is a multi-agency effort to automate and streamline grants management. It provides a common face and Federal hub to recipients. More efforts that provide the public a "common portal" are underway, such as FirstGov and AccessAmerica, which are organized around user communities rather than government agencies. This approach reduces the burden of doing business with the government and substantially improves customer service.

Sky Lesher described the challenges presented by E-Government. The first recognizes that E-Government means exchanging vital and often sensitive information. Millions of dollars, as well as public confidence, are at stake. While Internet users are willing to accept some degree of risk in the private sector, they believe the Government should be absolutely secure. Providing easy access to information, while maintaining confidentiality and integrity of data, is a difficult balancing act. The second challenge of E-Government is to reexamine legal/regulatory requirements, which may not have caught up to the changes brought on by the e-commerce environment. Standards for authentication and non-repudiation may be higher in the digital environment.

Another challenge is the internal resistance at departments and agencies when implementing e-government services. Some employees view the evolution of E-Government as a threat to their jobs. Senior managers may not recognize the security challenges, and those who do are often hard pressed to commit sufficient resources.

But the Government is making substantial progress, particularly at the agency level, and Mr. Lesher illustrated some of the e-commerce solutions implemented at the Department of Interior. The "One Card Program" integrates small purchases, travel and fleet functions all on one card. This improves accountability, manages risk, streamlines the administrative processes, leverages buying power, and maximizes tax exemptions. This investment in re-engineering former processes has paid off handsomely.

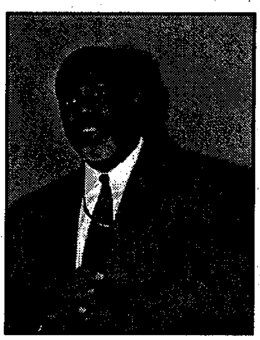
Elliott McEntee stated that the challenges to e-commerce include costs, return on investment, security, privacy, authentication and payment options. High on the list are privacy and authentication issues. Protecting account numbers, keeping the purpose of the transaction confidential, and keeping the name of trading partner confidential are privacy challenges. In the e-commerce world, authentication tools are expensive, difficult to use, and not universal. He described three payment options: credit card, purchase card and ACH debit (electronic check).

NACHA is developing a product called "DirectPay" to resolve these challenges. The process is involved, but the benefits will accrue to the buyer, the seller, and their respective financial institutions. It will provide the buyer both privacy and security of financial information; as well as reduce the seller's risk of return and fraud. This product will benefit the buyer's financial institution by promoting privacy in payments and presenting cross selling opportunities. Consumers are likely to use this concept for spontaneous and one-time purchases, and consumer bill payments. ■

Panel Session:

A New Age for Financial Systems

Karen Alderman, JFMIP Executive Director, moderated the panel and noted the significant challenges facing federal managers trying to integrate financial management systems in today's environment. Panel members were: Jerry Williams, Chief, Financial Systems Branch, Office of Federal Financial Management, Office of Management and Budget (OMB); David Kleinberg, Deputy CFO, Department of Transportation, and Alain Simard, Vice President, Finance and Information Technology, Royal Bank, Quebec, Canada. Ms. Alderman set the stage for the panel by presenting the Financial Systems Framework Architecture, which illustrates the relationship of core financial system and other systems.



Jerry Williams described the responsibilities of the OMB's Financial Systems Branch, including OMB Circular A-127 on financial systems, electronic commerce, and measuring agencies' performance with regard to financial systems implementation. His office works within the federal policy as promulgated by OMB Circular, A-130, the JFMIP Framework document, and the Clinger-Cohen Act.

Mr. Williams presented daunting statistics about the size and complexity of the federal financial systems environment. There are 640 systems, with approximately 62% at the end of their life cycles and only 2.4 of the 39.5 billion federal dollars is spent annually on new financial systems. New systems are needed to provide useful, automated, accurate, complete and consistent information. He described OMB's role in the implementation process; the Federal commercial off-the-shelf (COTS) policy; and how the integrated framework fits together for agency project teams. Agencies must comply with the Clinger-Cohen Act, Federal Financial Management Improvement Act (FFMIA), the Capital Planning and Investment Control (CPIC) process, and OMB Circular A-11.

Mr. Williams described the evolution of the COTS policy from a Government off-the-shelf model with extensive customizing, to a COTS with a degree of customizing, and then to the current COTS implementation which has a layer of customizing. He then presented an emerging paradigm showing Federal agencies moving toward the implementation of integrated systems based on best fit with minimal customization. These systems may use shared services to support reengineered business functions. He also described OMB's 3 pronged approach, which is:

1. Improving agency implementation of the Clinger-Cohen Act
2. Monitoring systems through a diversified portfolio of IT investments
3. Partnering with agencies to improve capital planning with the next budget cycle

OMB's next steps are to formalize the CPIC process, update Circular A-11 to reflect the updated FFMIA guidance and IT planning requirements, and to improve collaboration between OMB and agencies.

David Kleinberg described the experience and lessons learned implementing Oracle Federal Financials at the Department of Transportation (DOT). The framework of DOT is similar to a large holding company with many disparate systems. He emphasized that there are many deficiencies and challenges before them, including a recent qualified audit opinion. DOT's goal is to merge many legacy systems into a new integrated department-wide system, known as the Departmental Accounting and Financial Information System (DAFIS). The Department selected Oracle software and the project is successful. Lessons learned are summarized below:

- JFMIP qualified core system packages meet minimum requirements for the test, but these COTS packages may not meet agency requirements, especially when testing for scalability to agency volumes. Agencies need to learn to deal with the scalability issues.
- The Oracle software was of a commercial design and needed to be stretched to accommodate Federal legal mandates and the appropriation process.
- Agencies don't know how to implement financial systems. DOT relied heavily on Independent Verification & Validation; this process has greatly attributed to DOT's success. Little mistakes can have a large impact on budget and on the schedule.
- Web-based hosting is recommended as the way to go. The minimizing of LAN administration has gained huge efficiencies for the Department. The agency will also consider an Application Service Provider.
- Don't customize and don't rebuild the old system. Change business practices. Use outside contractors to help draw you toward a "plain vanilla" implementation (avoid customizing). Use the philosophy and approach of the company installing the software.
- Phased implementation strategy by organization was successful for DOT. Have top level management buy-in and incorporate customers into the process.
- For integration, make sure you know how all of the pieces will fit together FIRST! Connecting the pieces of the JFMIP framework is important.
- The most critical success factor was luck in having a top-notch work force at a specific DOT location that had high morale and competence for the job.

Alain Simard presented the perspective of a private sector financial institution with an International flavor. He described the background leading to decisions to replace the Bank's financial management system. The objectives were: to replace outmoded technology; improve the information flow; reduce cost; reduce the need to consolidate data; shift work from number crunching to the availability of better information; and, provide for more analysis to make smart business decisions.

A build versus buy analysis resulted in a decision to buy a product from a commercial vendor; however, a level of customizing was required to fully meet the bank's requirements. Informative successes and lessons learned are summarized below:

- A top down decision regarding the financial system replacement is a critical success factor to accepting the change. The implementation strategy focused much on attaining and keeping the commitment.
- The relationship with the vendor was described as a marriage. Much care and effort went into matching requirements with the capabilities of the vendor before selection. Once on board, they have to work together.
- A contractual incentive agreement was reached that prohibited the vendor reselling the product until successfully implemented in the bank. This provided incentive for the vendor to focus on a better result for the bank.
- Support from the "business" was critical. Strategy focused on customer involvement.
- The implementation strategy was based on an "incremental" approach that allowed for step-by-step implementation success.
- A sustainable process should be implemented with common rules, common infrastructure and flexibility. ■

Panel Session:

Information Integration Impact on Policy, Process and Oversight

C. Morgan Kinghorn, Partner, PricewaterhouseCoopers, moderated this informative session on the impact of information integration. He initiated the session with a brief discussion about various types of information and introduced the panel members: Russ Cherry, Associate Director, Federal Deposit Insurance Corporation (FDIC); William B. Early, Jr., Chief Financial Officer (CFO), General Services Administration (GSA); and Debra Sonderman, Director, Office of Acquisition and Property Management, Department of the Interior (DOI).

Mr. Kinghorn stressed that global companies in the private sector are currently adopting very different business models to succeed in the "new" economy. Development of these business models is requiring a re-examination of the use of structured and unstructured information. He defined the term "iAnalytics, as integrated analytics which is becoming a strategic business imperative, necessary to enable essential decision-making to maximize shareholder value." Mr. Kinghorn explained the value of iAnalytics in both the private and public sectors as shown below:

He stressed that iAnalytics is the next wave of significant investment for firms. This investment will be needed to realize the value of past investments, including the Enterprise Resource Program/back-office transactions systems, data warehousing, and Customer Relationship Management/front-office applications.

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Private	Public
Increase revenue	Better resource allocation decision-making
Reduce cost	More transparency within organizations as to the why of decision-making
Make better capital investment decisions	Increased credibility with stakeholders
Enable increased agility in the marketplace	More intelligent opportunities to invest/reinvest Reduce costs Agility with stakeholders including citizenry

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Along with this analysis and integration of information, the role of finance is changing from scorekeeper to business partner. Financial personnel are taking a much more robust role in driving value creation in their organizations. Mr. Kinghorn said, "Finance is no longer a function but a discipline and public sector CFOs must be ready for the challenge."

In closing, he asked the audience to consider the following questions while the panel members continued their presentations:

- Are we really getting better information?
- What success stories do we have?
- Are the stakeholders ready for better information?
- What kinds of things are we doing now that we weren't doing five years ago?

Bill Early described the history and motivation for the development of GSA's Infowizard. He explained that four years ago, GSA had rent forecast challenges. At that time, printed reports were the only instrument available for analysis.The analysts recognized the need for tools, not just more reports. They had massive amounts of information available to them, but no way to effectively analyze it or utilize it as knowledge. When this rent forecast challenge arose, a data warehouse was in the conception stage at GSA. However a quicker, more robust solution was needed.

A new vision was proposed that utilized raw data and added an analysis to arrive at the information needed. This new vision has two parts—the Chief Information Officer (CIO) would steward a GSA Data Warehouse, and the CFO would steward a rapid prototype of an analysis engine. This prototype was named "Infowizard" and was deployed in four months. The rapid deployment of this new tool was initially met with suspicion. However, once the benefits and the knowledge were made available to the stakeholders, it was successful.

Mr. Early further explained that Infowizard is NOT a query/reporting tool. It is independent of data store and is therefore, much faster than a query/reporting tool. Many success stories have been reported within GSA using Infowizard to integrate data and perform analysis. In one Region alone, over $100 million in revenue was recovered. A dramatic improvement in data quality has been identified as well as performance measures being supported in Infowizard. The most relevant concern currently is that the more Infowizard is used, the more knowledge stakeholders are requesting. Mr. Early suggested that the success of GSA's Infowizard is due to the fact that they kept it simple, learned how to do one thing very well, and made the analysis and integration of information very fast.

Debra Sonderman gave an update on the status and scope of the Financial Management System (FMS) Migration project at DOI. This project will establish and maintain an integrated financial system for use by all bureaus. It will assist in creating a paperless environment, improved management controls and compliance with new laws and regulations. The FMS Migration project will also support one-time data entry, which will increase the professionalism of the staff. Rather than repetitive transaction processing, the staff will perform much more cerebral work. The key objectives are to develop a strategy for replacing and integrating financial management systems and to improve financial management business processes throughout the Department. Even though DOI received an unqualified audit opinion on their financial statements, there was a tremendous amount of manual reconciliation and "heroic" effort expended to attain the accomplishment.

The following reasons affected DOI's decision to integrate information:

- Information is gathered and recorded in stovepipe systems, causing the need for re-keying of data if it is used across functions.
- The actual process of the financial statement audits requires much manpower to gather data and provide information from the many different systems.
- The utilization of the many separate, stovepipe systems is a very inefficient use of manpower.
- The loss of staff to perform all of the data retrieval, re-keying, and analysis functions has been significant. To use limited resources effectively, the integration of information is required.

Ms. Sonderman discussed Enterprise Knowledge Management (EKM) as the full integration of financial systems that will promote efficiency in reports generation and dissemination of information due to the full integration of financial systems. The minimum savings include an estimate of two hours per month for each of 14,000 users. The EKM will allow managers to make better and faster decisions based on more accurate and more timely information.

She shared the following lessons learned:

- Top management support is critical from the inception of a project when it crosses functions.
- A strong business plan detailing the strategic design is needed so the "big picture" is apparent.
- Adequate lead-time to accomplish objectives is required.
- Change Management is very important to ensure success of the project. Many individuals are threatened by change and create road blocks to successful completion of the project.
- A realistic budget is critical to ensure that resources are available when they are needed.
- If not now, when? This is the question to ask those critics who do not feel that now is the right time to integrate information.

Russ Cherry discussed information integration at the FDIC. Their approach to information integration is to get the stakeholders involved immediately and throughout the process. Giving the users better information than they currently have translates into success stories that can be shared to build confidence and momentum. Getting the end users involved and solving their problems creates an atmosphere of teamwork and creates positive reactions to the new methods of receiving information.

The FDIC has three major initiatives:

- Financial Data Warehouse (FDW)
- Service Costing (SC)
- New Financial Environment (NFE)

The FDW is accessible FDIC-wide by all functions; has been operational for three years; contains 1986-2001 data, is refreshed daily; and, is the largest/most used FDIC database. Users operate the FDW with structured point and click query tools that have drill down functionality for: (1) Receivership Reporting; (2) General Ledger Accounting Data; and (3) Planning and Budgeting Data. The design of the FDW also promotes consistency because information applications containing standard business rules, standard logic and structured reports are incorporated.

Service Costing focuses FDIC receivership work/expense into defined service lines. The units of service are then priced and used in budgets. This allows managers to plan for levels of service at given prices each period, promoting better "make or buy" decision making. Service Costing is being piloted this year with full operation planned in 2002. Since it is in the pilot phase, change management is a major effort at the present time.

The NFE sees the financial management process as continuous from the business event through reporting, feedback and decision making. Resources will be redirected from transaction processing to analysis, risk management and decision support. The business case is due in mid 2001 with Board of Directors' approval expected during the summer of 2001. The implementation is projected to occur in phases throughout 2002 and 2003. This effort will position the FDIC for future operation demands, better decision making and staff development.

In closing, Mr. Cherry mentioned a few of the hurdles which FDIC has faced in the process of information integration:
1) Change management is a major issue and should not be taken lightly.
2) There must be consensus on the timing for requirement definition—before and/or during the project.
3) You must nurture your project supporters daily.

Overall there were many interesting comments made regarding information integration. However, there were three common threads throughout the entire session:
1) Change management is a major issue that must be planned for and expected. It must be communicated to users that the past is the past and tools weren't necessarily available to make the best possible decisions.

2) Human resources must be used more effectively. Employees should be taken out of the repetitive, re-keying data entry and transaction tasks and utilized in a more cerebral environment assisting with analysis, decision support and risk management functions.

3) You must know the expectations of all stakeholders so the expectations can be managed. If you are aware of the expectations up front, there will be fewer surprises and hopefully no major surprises that will effect the project negatively. ■

Panel Session:

Optimizing Financial Management in Government Programs

The panel session on "Optimizing Financial Management in Government Programs" was led by Sallyanne Harper, Chief Mission Support Officer, General Accounting Office. Panel members were: Toni Hustead, Chief, Veterans Affairs Branch, Office of Management and Budget; David Ziegele, Director, Office of Planning and Analysis, Environmental Protection Agency; and Deidre Lee, Director, Defense Procurement, Department of Defense.

Toni Hustead, Sallyanne Harper, and David Ziegele

Ms. Harper discussed how each of the speakers would illustrate the importance of integrating financial management functions throughout many facets of Federal operations. These perspectives included Toni Hustead addressing a central agency's insights on the importance of the chief financial management function; David Ziegele discussing how an agency integrates planning, budgeting, and accountability; and Dee Lee giving the contracting officer's impact in and on the financial management structure.

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Toni Hustead began her presentation by emphasizing that the Chief Financial Officer (CFO) should be a member of the top management team. As a team member, the CFO should continually be integrated into mission, strategy, planning, policy, program management, performance, budget formulation, and finance. In the private sector, the CFO function is such a critical part of top management that the CFO and the Chief Executive Officer often occupy the same position. Moreover, in the private sector the organization understands that its continued existence depends on its financial status now and in the future. Therefore, managers at all levels simultaneously monitor financial information and strategy.

By contrast, in the Federal sector, the CFO may be considered a member of the top management team, but not always. Policy, planning, and strategic decisions are not always made with CFO involvement, even if the CFO is on the "team." Moreover, the organization often may not perceive that its existence depends on its financial status today and tomorrow, so there may be no urgency to use information to manage the organization on a constant and consistent basis. Further, financial and performance management may be regarded as solitary functions, making it harder to assess the organization's overall effectiveness. Ms. Hustead suggested that the era of "Big Government" is over and that it is critical that the Federal sector moves to the private sector's integrated, optimal financial management model to provide better accountability to taxpayers and support tighter budgets as the "baby boomers" retire. She stressed that in the era of tighter budgets, a Federal organization may find that its continued existence, as in the private sector, depends on its financial status now and in the future.

David Ziegele focused on addressing performance and the importance of linking strategic planning with performance and budgeting. In the late 1990's, the Environmental Protection Agency (EPA) realized that to make this link, it would have to better align its planning, budgeting, and accountability. In 1997, the EPA defined the strategic goals for its environmental programs to be more measurable from both a financial and a performance perspective. It defined long-term goals in terms of goals, objectives, and sub-objectives. It also developed annual performance goals and measures that would directly link to each other and to the strategic goals. In some cases, the EPA found that it was easier to make the link than others; for some parts of the program architecture, the goals were worthy but either incremental objectives were not clearly identified or outcomes and links were beyond the control of the EPA. The lesson was to better align these goals and objectives with interim measures or measures that realized that performance was dependent on other than the agency itself. For example, in measuring results related to the Clean Air Act, an interim sub-objective might be to measure the degree with which States are implementing the law rather than trying to immediately measure a national air quality cleanup figure.

As a result, the EPA can now directly link program spending with performance. In fiscal year 1999, the EPA took the first step toward creating a new budget structure that aligned with strategic objectives, making major investments to change financial management systems to reflect the new budget structure. In fiscal year 2000, the EPA combined financial and performance reporting in one comprehensive annual report. Then, in developing its fiscal year 2001 operating plan, senior managers were able to look at two years of performance results for future planning and budgeting. These major changes represent steps toward government-wide streamlining of management reporting.

Mr. Ziegele concluded by mentioning some key upcoming issues for the EPA. One issue would be to decide how to reconcile the "top-down" accountability structure required by current Federal laws and regulations with the need to provide flexibility for regional, state, and local governments. Another issue would be to decide whether to continue to reflect all EPA work in strategic goals or only in a sub-set of the environmental goals — to encompass the larger aspect would require that the budget structure and the financial management systems would have to further change to align themselves to the linking structure.

Deidre Lee discussed how the Department of Defense procurement community is working cross-functionally to improve financial management of contracts. There was tremendous pressure on the contracting community to make these improvements because of the emphasis on audited financial statements, performance measures, and a balanced budget. She pointed out that the Department of Defense was particularly working to respond to the need for better contract financial management since it was one of the Federal Government's primary contractors. Of the $200 billion that the Federal Government spends annually on contracting, the Department of Defense spends approximately $130 billion.

The Department of Defense is working to 1) improve the planning and execution of capital asset acquisition, 2) tie payment to contractor performance, and 3) seek opportunities for using electronic commerce to simplify processes, increase efficiency, and provide more effective buying strategies. Ms. Lee then focused on the human capital aspect of financial management of Federal contracts. Defense is developing a workforce to add value to the cross-functionality of finance and contract management. This workforce has the capability and knowledge to provide sound business advice to business managers who provide links among other functional areas, manage and leverage the strengths of the organization's supply chain, and manage risk rather than trying to avoid it.

She emphasized that the issue is how to support the mission of the agency while still answering the accountability question, and not about financing or contracting. As an example, she stated that the Defense Logistics Agency (DLA) has restructured its contracting process to support both the mission and the financial accountability requirements — in the past they bought products; now they buy services. In the future, they probably will be buying solutions—stating the agency needs and letting the contractor supply the solutions. Such innovative approaches will help keep the focus on the mission while providing the most effective and efficient processes to support that mission. ■

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to address the impediments to achieving a clean opinion on the consolidated statement, ensure effective internal controls, and modernize financial management systems.

What is on the immediate horizon? In the short term, look for process improvement reviews to reduce the time required to "close the books." In the longer term, Federal agencies will individually and collectively reexamine overall financial management processes to improve systems. Treasury, in conjunction with OMB and GAO will conduct a comprehensive review of the financial statement production processes and establish specific goals to reduce the production cycle for future financial reporting and adopt content goals to enhance the value of financial reports. The CFO Council—incoming political appointees and permanent CFOs and Deputy CFOs—will engage the debate on how to accomplish these goals for timely, meaningful financial information given the current state of the installed base of systems and the constraints on resources needed to implement modern systems. Collaboration among the Councils—CFO, Procurement Executive, and Chief Information Officer— will foster action to abandon stovepipe systems in favor of integration. Borrowing from the NASA mantra, the demand is for better, faster, cheaper financial and management information. The question is how can it also be better, faster, cheaper unless there is the necessary investment in standardizing, simplifying, and automating the underlying processes.

The JFMIP Role—Federal Strategic Partner

JFMIP continues to serve as a catalyst and strategic partner in fostering financial management improvement. Our near term activities include updating in the core financial system requirements and test and qualification process. Action is moving on issuing documents defining benefits system and acquisition financial management system requirements and building out the financial system "road map" information. The core competency document for project managers of financial systems is finalized and strategic plans to develop project management capacity in agencies to manage system replacement efforts are under review. While we continue to work all these areas, I would like to highlight major impact areas as follows:

Update of the Core Financial System Testing and Qualification Process. The initial JFMIP certificates of compliance issued in 1999 will expire in 2002. On February 8, 2001, JFMIP kicked off the core financial system update process that will be the basis for the next round of testing. This process has engaged all agencies, particularly those that are currently implementing certified systems, to ensure that the JFMIP quality assurance process is meeting the mark. The "first cut" of core system requirements updates is circulating with the goal of issuing a formal exposure draft by June. Requirements need to be updated to remove ambiguity, add mandatory requirements from recent legislation, delete outdated requirements, and to mandate software capability that is determined to be universally required. In addition, major changes in "value added" features are being identified. In the four years since value added features were last identified, agency requests for proposals reflect more modern technology and functionality.

JFMIP will update the certification test based on finalized requirements. The goal is to enhance the test to cover more requirements more thoroughly. Areas of focus include prior year recoveries; adjustments resulting from interface transactions; Treasury processing of test payment files; cost accounting; the expired account requirement; folding in the current incremental test which is currently separate from the baseline test; modification for new/changed FACTS II requirements; among others.

JFMIP is also analyzing the possibility of testing system performance. All options that we are exploring require the automation of the current test to process requirements in more detail and to test a larger volume of transactions. As information on the scalability issue is developed, JFMIP will provide it to the Steering Committee for discussion and decision. Our time lines for completing this work are aggressive. We have until May 2002 to finalize requirements, redevelop the test, quality assure the test, and finalize. Most vendors currently holding certificates will need to be recertified by September 30, 2002.

Continue Progress on Systems Requirements. Most financial data originates in mixed systems that support business or program functions. JFMIP is continuing to partner with key interest groups to develop and issue governmentwide functional requirements that will communicate the common mandatory financial and information requirements for these functions. This spring, you will see the release of the Benefits System Requirements exposure draft. This release represents over a year's effort by a team led by Dennis Kordyak of the Department of Veterans Affairs. This is a first time effort. Russ Ashworth, the Procurement Executive for the U. S. Department of Agriculture (USDA), has agreed to lead the effort to develop a Federal financial management requirements document that addresses interfaces between the Federal financial and acquisition systems. This is another "first time ever" JFMIP effort. The Vice Chair of the Procurement Executive Council (PEC) and the Executive Director, JFMIP signed a memorandum dated, January 16, 2001, asking the CFO Council and PEC for representatives to participate in the project. The kick-off occurred on March 22, 2001 with a goal of developing an exposure draft by late summer.

Identify Solutions to Intergovernmental Eliminations. The just released FY 2000 *Financial Report of the United States Government* identified the inability of Federal agencies to identify and properly account for transactions with

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each other as a major barrier to achieving a clean audit opinion on the govermentwide statement.As a result of the new policies and procedures that were implemented in FY 2000, intragovernmental fiduciary transactions are no longer a part of the government's material deficiencies. However, buying and selling activity among agencies continues to be irreconcilable. If these transactions are not properly eliminated during the consolidation process, total U.S. Government assets, liabilities, revenues,and expenses will be misstated by the amount of these transactions.

Many obstacles are associated with the elimination problem. Notably, agencies use disparate business practices and data structures that result in significant transaction differences. Most of the current solutions to these challenges focus on manual reconciliations that consume significant agency resources.

JFMIP has been chartered to use its central position to address this issue.The goals of the project are to recommend actions to reduce the scope of differences.The anticipated outcome of this project is recommendations that, if implemented,will promote greater standardization and simplicity in intragovernmental transactions. With standardization and simplicity, automated tools can be developed. If these outcomes are attained, then agency costs associated with current manual reconciliation processes will be significantly reduced, and the prospects for an unqualified audit opinion on the U.S. Financial Statements will be significantly enhanced.

Summary

It is clear that the demand for better financial management in Federal government is ample and the resources are constrained. The goal of JFMIP is to leverage resources to reduce the burden on individual agencies in meeting this goal. Our plate is full. ■

Panel Session:

Building a Quality Workforce

Panel members for this session included Kenneth Bresnahan, moderator and formerly the Chief Financial Officer (CFO) at the Department of Labor and Chair of the CFO Council's Human Resources Committee; A.W. (Pete) Smith, Jr., President and Chief Executive Officer, Private Sector Council; Dr. Phillip Irish, III, Professor, Defense Business University; Medy DeAusen, Project Manager, Freddie Mac; and Kathleen McGettigan, CFO, Office of Personnel Management.

Building Quality Now

Pete Smith discussed the importance of concentrating on the human component of organizations, particularly in government entities. He highlighted steps managers, team leaders and supervisors can do now and that within the bounds of current personnel rules and regulations. Mr. Smith referenced several authoritative sources to emphasize the importance of human capital, within industry and the government. People, not strategies are what get the job done. Quoting Senator George Voinovich, "The years of neglecting human capital management now pose a significant threat to the government's ability to serve the American people," Mr. Smith emphasized that the Federal government needs to move from rules to tools, emphasize performance management, develop an atmosphere of teamwork and trust, bring pay to competitive levels, strengthen the human resources function, and make working for the government special again.

Recruiting and retaining the right people is essential, and Mr. Smith outlined five basic characteristics: 1) New hires are highly qualified; 2) Recruitment efforts specifically support the business plan; 3) The company is known as a great place to work; 4) Employees have input to hiring decisions; and 5) There is a formal recruiting strategy for critical hires. In addition, rewards and accountability must be linked to performance. A company must manage performance by helping poor performers improve, terminating unacceptable performers, and paying top performers more. Performance appraisals need to be linked to pay, and pay should be linked to a business strategy. Other desirable characteristics include a flexible workplace, employee access to communication technology, opportunities to provide input on work processes, and access by all to the organization's financial information and business plans.

Using Certification Programs to Enhance Workforce and Performance

Dr. Phillip Irish, III, discussed the link between a certification program and improving, retaining, and training the current workforce. A certification process provides an independent assessment of whether an employee's skills and abilities conform to an established standard. Dr. Irish proceeded by pointing out organizational benefits derived from a certification program. At the personal level, an individual can achieve or obtain a third party's objective "stamp of approval," which documents that an individual has met a particular level of core competencies. From an organizational or collective level, the program aids coalescence of a multi-faceted discipline into a formal body of knowledge. Through its specifications, standardization, and management of core competencies, a certification program can define career progression from apprentice to master. A certification program can also influence hiring decisions, salaries, and employee retention as well as influence and shape marketplace dynamics.

There are many different types of certifications, and many have been around for years, especially in the professional arena. Today certification programs are moving into technology fields as well as into areas of business practices. After defining and reviewing the body of knowledge content, a certification program helps identify needed technical and leadership skills, provides specific and general competencies, and establishes methodologies and agents to assess competence. In addition, a program needs a management component to expand and promote the value of its certification and to ensure that key administrative functions are fulfilled.

Professional and technical certifications can provide a yardstick to help organizations and individuals stay current in the workforce. A certification program can help maintain a quality workforce and make individuals a viable force in the marketplace. A pitfall that must be considered prior to establishing a certification program is that there may already be an abundance of relevant, existing programs. If so, this overload will reduce the impact of the certification, and market dynamics as well as personal and organizational costs and benefits will determine the vitality of the effort. Certification attainment is something individuals and organizations should consider as long as the benefits outweigh the costs.

Retraining to Meet the Demand–An Organization Example

Medy DeAusen presented examples from her organization that demonstrate how to maintain a quality workforce. In light of the current shortage of information technology (IT) professionals, Freddie Mac established a career transition program for its employees. Freddie Mac began with an assessment of individuals that included a determination of motivation levels and the ability to work in teams. A structured 10-week program was established with a cohort of 16 people and was based on the premise of growing and retraining Freddie Mac talent. The drivers and forces behind the program were to find a solution to the constraints of the IT market, to let employees know that they were valued and that the organization was committed to them, and to demonstrate that the organization was innovative and looked for innovative solutions.

A very important aspect of the program was its focus on team and collaboration skills.

The creed became "if one fails then all fail." The trainees were measured by passing written assessments and successfully completing a practicum, which was a series of presentations. The final stage of the training program was geared towards assimilation. At graduation, the cohort members received assignments and then began work as part of project teams. Each person had a mentor, a buddy, and a manager. Everyone was teamed with a technical mentor to help ease the transition.

This program produced several benefits for the employees, who reported greater personal satisfaction because they did not have to change organizations. New skills, could lead to advancement, were learned. The organization demonstrated its commitment to its employees and its willingness to help them grow and develop. The organization benefited because it learned how to grow and retain talent within Freddie Mac. The lesson that was learned is that organizations need to focus on its people and tap its own resources in order to maintain stability.

CFO Council's Commitment to a Quality Workforce

Ms. Kathleen M. McGettigan presented a brief overview of the activities the CFO Council efforts, through its Human Resources (HR) Committee, to help the government's financial community maintain a quality workforce. The charter of the HR Committee is to "develop and maintain a quality Federal financial management workforce to support the successful implementation of agency missions by promoting effective financial management education and training within the Federal Government and assisting agencies in recruiting and retraining highly qualified financial management personnel."

Several activities have already been completed. In cooperation with the Joint Financial Management Improvement Program, core competencies have been established for Federal financial occupations, including accountants, budget analysts, and system specialists. These core competencies describe essential attributes for success, such as analytical skills, interpersonal skills, and multi-disciplinary skills. Other areas where the Council has been active are the identification of strategies to develop and retain financial management personnel and the revision of the standards for the 510 series. The revised qualification and classification standards focus on qualitative rather than quantitative measures. Currently there are 7 agencies piloting these standards.

Another strong component initiated by the HR Committee is the establishment of a CFO Council Fellows Program. This program helps prepare future financial managers by building a cadre of diverse and experienced talent. In addition, a Council Recruitment Consortium was established. The Consortium pools resources to gain leverage in the hiring of financial personnel, and it creates "Brand" recognition for Federal financial management through the delivery of a single message. The Council also established a CFO Careers Program, which targets entry-level financial personnel, and a CFO Internship Program to augment its existing Presidential Management Intern (PMI) program

To target qualified people, the CFO Council has contracted with Washington Service Center, Office of Personnel Management, to develop recruitment literature and materials, provide training to recruiters, coordinate recruitment trips, use automated tools to streamline hiring, and constantly evaluate the results of the program. In addition, the CFO Council is exploring the development of partnerships with colleges and universities for recruitment, internships, professional development courses, and faculty exchange.

Ms. McGettigan emphasized that the CFO Council recognizes the need for investment in human capital and recognizes there is an urgent need to be active in this area. Three goals have been adopted: assessments, continuing professional education and professional certifications. In order to achieve the three goals, she indicated that agencies and Federal managers must all use good human resource practices and strong partnerships must be developed in order to be successful. ■

Continued from page 1

been carried out since 1992. The results of these audits are clear. In 1994, only 58 percent of the performance measure information was certifiable as accurate. Four years later, 70 percent of performance measures were certified accurate.

To increase knowledge of the performance measure audits, the Auditor's Office developed the *Guide to Performance Measures*. The Guide is recognized as an important tool nationally and internationally. To ensure that its work is useful, the SAO helps agencies and the Legislature understand the results of its work. The Legislature used the results of the SAO's work to increase general revenue by more than $58 million for the 2000-2001 biennium. At the end of the session, legislative leadership recognized the SAO for its contributions.

Mr. Alwin is committed to developing his employees, creating innovative self-assessment guides, and providing useful and understandable, financial information to further the SAO vision of "helping government achieve expected results."

The State Auditor Office's performance management system is an outstanding public sector innovation. Over a decade ago, to maximize the office's ability to effectively apply its collective talent, Larry restructured the office to eliminate the traditional financial and performance audit divisions and created a single assurance services division. This change allows the SAO to assign staff members wherever their abilities and skills are needed. Larry's strong commitment to training and education for his staff members helps to ensure that they will succeed no matter where they are assigned.

Lawrence F. Alwin has led the way in making the Texas State Auditor's Office a nationally recognized leader in professional experimentation and a source for innovation in audit strategies. His state auditing practices are now being widely used by others throughout the country.

As the CFO, Ken Bresnahan served as primary financial management advisor to the Secretary of Labor. He provided executive leadership in the development and implementation of financial management policy for the Department, directed the production of all required external financial and accounting reports, operated the Department's central accounting and payroll systems, and led Departmental efforts to strengthen the investment in human capital for financial management. Mr. Bresnahan has provided a strategic focus for financial management issues and ensured that financial management outcomes in the Department were among the best in government.

For example, through his leadership and vision, Labor earned its first three consecutive unqualified ("clean") audit opinions for consolidated financial statements. Mr. Bresnahan was also instrumental in modernizing the Department's financial systems, including core accounting, payroll, travel and charge card management. As a consequence, the Department met or exceeded all new systems requirements imposed by the CFO Act and related legislation. Under his leadership, a new "virtual library" of financial management policies and procedures was developed. The virtual library has become a best practice and serves as a useful tool for public and private concerns.

Mr. Bresnahan was committed to establishing and maintaining a top-notch work force throughout the financial management community. He recognized that a substantive and sustainable management would only be achieved with support from a knowledgeable workforce

He was active in the governmentwide CFO Council and chaired the Human Resources Committee for the Council. Under his leadership, a CFO Council Fellows Program was established to provide career development opportunities to promising future financial management leaders. In addition, he led the establishment of a Joint Recruitment Consortium. The Consortium allowed several Federal Agencies to work as a team to mount an aggressive college recruitment campaign to fill Federal financial management positions. He also partnered with the Office of Personnel Management to improve the classification and qualification standards for financial management personnel. Also, while he was chair of the Human Resources Committee and in partnership with JFMIP, the series of Core Competencies documents was developed. He was instrumental in promoting awareness of human capital issues and promoted the professional development of Federal financial management personnel. ■

Intragovernmental Transactions/ Eliminations Study

A Charter was signed on March 14, 2001, by the Steering Committee of the Joint Financial Management Improvement Program (JFMIP) to authorize a project to address issues that impact the processing, elimination, and reporting of intragovernmental transactions. The signatories were Jeffrey Steinhoff, JFMIP Steering Committee Chair and Managing Director, Financial Management and Assurance, GAO; Joseph Kull, Deputy Controller, Office of Federal Financial Management, OMB; Donald Hammond, Fiscal Assistant Secretary, Department of the Treasury; Kathleen McGettigan, Chief Financial Officer, OPM; William Early, Jr., Chief Financial Officer, GSA; and Karen Cleary Alderman, Executive Director, JFMIP.

The project was initiated with a contract award to KPMG LLP in early April. The contractor is currently developing a detailed project plan. Highlights from the Project Charter include:

I. Purpose

After several years of effort, it is still not possible to effectively eliminate interdepartmental transactions for the consolidated U.S. Financial Statement, and many agencies are still having difficulty reconciling intragovernmental transactions within their own agencies. For the most part, this complex problem has been approached in a fragmented way, and issues have been addressed individually rather than in an integrated fashion. Major issues still exist, and these issues appear to be clustered around three themes: business practices and procedural issues, financial systems and associated technical issues, and cultural issues.

Disparate business practices and widely divergent data structures result in significant transaction differences. Before intragovernmental transactions can be eliminated for reporting purpose, the transaction differences must be identified and reconciled. Even when an agency is able to identify and reconcile the differences, significant resources must be expended. The inability to identify and reconcile intragovernmental transactions has been cited as a material weakness governmentwide and is a factor in the General Accounting Office's disclaimer of opinion on the U.S. Financial Statements.

The purpose of the project authorized by this charter is to develop recommendations and actions that, if implemented, will reduce the scope of differences produced by intragovernmental transactions. Particular emphasis will be given to the reengineering of business practices and standardization of processes.

II. Project Scope and Duration

The scope of the project focuses on research and analysis activities and the development of recommendations for mitigating the problems associated with the processing, elimination, and reporting of intragovernmental transactions. Such recommendations may include common business rules, policy improvements, standard data structures, revisions to existing technical tools, change management strategies, continuous process improvements, and system improvements.

The level of effort necessary to complete the research project is estimated at four staff years. The project is expected to begin on or about March 5, 2001, and end in September 2001.

III. Expected Outcomes

A brief window of opportunity exists to develop and present to the new Administration proposed solutions to the intragovernmental problems. Anticipated outcomes include recommendations, strategies, and a plan to produce:

- Greater consistency in the execution of intragovernmental transactions
- Reduction in reconciling differences enabling redirection of scarce resources to other financial management improvements
- Foundation for evaluation of subsequent technology needs and system requirements ■

At the JFMIP Conference, head table guests after Scantlebury Awards presentation from left to right Kathy McGettigan, Bob Reid, Bill Early, Joe Kull, Ken Bresnahan, Larry Alwin, Jeff Steinhoff, David Walker, Karen Alderman, and Cornelia Schneider.

JFMIP New Horizons for Financial Management

JFMIP 30th Annual Financial Management Conference Highlights

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