

GAO

Report to the Chairman, Committee on  
Governmental Affairs, U.S. Senate

June 1988

# FINANCIAL MANAGEMENT

## Progress of OMB's Chief Financial Officer



Approved for release by the General  
Accounting Office on 10/13/88  
by the Director, GAO

542462/136161



United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Financial  
Management Division

B-227712

June 6, 1988

The Honorable John Glenn  
Chairman, Committee on Governmental  
Affairs  
United States Senate

Dear Mr. Chairman:

Your October 26, 1987, letter asked GAO to evaluate the progress to date by the Office of Management and Budget's (OMB) Chief Financial Officer (CFO). In particular, you requested that we assess progress on the financial management agenda the CFO presented to your Committee.

We believe that a governmentwide CFO is one of the key elements needed to bring about change in the financial management arena. In testimony before your Committee in July 1987,<sup>1</sup> we stressed the need for (1) centralized financial management leadership that is responsible for developing and implementing a governmentwide improvement plan, (2) corresponding financial management leadership in executive branch departments and agencies, and (3) annual preparation and audit of agency and governmentwide financial statements.

The administrative appointment of a CFO has started the process of establishing a central office and position dedicated to planning, implementing, and monitoring financial management reform efforts. We did not expect the CFO to have resolved all of the government's serious financial management problems in the short time frame since his appointment, or even to be close to resolving these problems. Although initiatives to improve the government's financial information and systems were underway when the CFO was named, we believe that establishing this position has enhanced the stature of these efforts and the likelihood of progress.

While we are encouraged that OMB has recognized that a CFO is key to supporting improvements in financial practices and systems, we believe efforts related to particular initiatives reflected on the CFO's agenda have had mixed results. Specific initiatives and targets were achieved in some cases, particularly where a single action or the finalization of an

<sup>1</sup>The Federal Financial Management Reform Act of 1987 (GAO/T-AFMD-87-18, July 23, 1987).

administration's "Reform '88" program, which is made up of a series of individual OMB reform initiatives begun in the early 1980s. For example, OMB has issued guidance in the areas of (1) establishing, evaluating, and improving internal controls (OMB Circular A-123), (2) developing and operating financial management systems (OMB Circular A-127), (3) managing federal credit programs and collecting loans and other receivables (OMB Circular A-129), and (4) implementing prompt payment procedures (OMB Circular A-125). These areas are overseen by OMB, in some cases in conjunction with Department of the Treasury efforts.

In recent years, bills have been introduced in the Congress to require the establishment of a CFO for the federal government. Your Committee is currently considering legislation to reform federal financial management (S.1529, 100th Congress). This bill would statutorily create a permanent governmentwide CFO in the Department of the Treasury as well as a supporting CFO structure in major agencies. It would also legislate specific responsibilities and duties for improving federal financial management systems, strengthening internal controls, and implementing other financial management reform initiatives.

Consensus is growing that congressional action to legislate a CFO for the government would ensure continuity in and progress toward improving the government's financial management. On July 23, 1987, the Director of OMB administratively created the position of Chief Financial Officer for the federal government. The CFO was placed organizationally within OMB and was given responsibility to provide leadership, policy direction, and oversight to federal financial management. OMB's Associate Director for Management was named as CFO and continues to serve in both capacities.

Also on that date, the newly designated CFO appeared before your Committee. At that time, he presented to you an agenda that set out financial management goals and implementation schedules for several initiatives. Items on the agenda, some of which parallel the intent of provisions in S.1529, included the following:

- upgrading agency systems,
- implementing standard systems,
- reducing the number of agency systems through cross-servicing arrangements,
- creating a council of federal financial managers,
- establishing controllers in each agency, and
- improving agency internal controls.

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## Agency Systems Upgrades

A single primary accounting system is to be established in each major agency. When implemented, these systems are to provide agencywide financial information and lay the foundation for compiling accurate governmentwide financial information.

The CFO's agenda set out a number of steps related to agency system upgrades, including reviewing agencies' plans and monitoring their progress in this effort. One of the CFO's first actions was to meet with agency officials to discuss their financial management plans, which are required by OMB Circular A-127. The CFO's staff has recently met with agencies again to review their system plans. Day-to-day responsibility for working with agencies to carry out the provisions of OMB Circular A-127 has been given to Treasury.

The CFO's agenda projected that all agencies would implement primary accounting systems by the end of 1988. This milestone will not be met. The President's fiscal year 1989 Management Report recognized this. Agencies now plan to have primary accounting systems implemented between now and 1992. The longest delay, 1992, is related to the Department of Defense financial systems, which account for 30 percent of the federal budget. Another delay relates to the Department of Health and Human Services, which accounts for another 35 percent of the budget. Implementation of its primary accounting system has been delayed until 1990.

We consider this modified schedule to be more achievable than the dates shown on the CFO's agenda, given the magnitude of the issues to be addressed and the history of difficulties experienced by agencies in implementing new financial systems. Problems and slippage occur when upgrading agency systems, and these efforts must be seen as long-term endeavors that underscore the need for continued CFO oversight. The CFO's critical dates were, from the outset, overly optimistic. We are currently undertaking a separate review of agencies' efforts to develop new systems and implement OMB Circular A-127, and will provide you with the resulting report when issued.

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## Standard Systems

Financial management data throughout the government must be compatible and comparable. Therefore, it is critical to prescribe standards that ensure consistency in the gathering and processing of that data for all agencies. Such standards would provide a set of requirements that agencies can use so that they do not have to develop requirements of

scheduled installation of the standard general ledger in all agencies by October 1988. The President's fiscal year 1989 Management Report reflects that while many agencies are expected to complete this installation in 1988, few were finished, and several will not be done until 1990 and 1991.

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## Cross-Servicing

One action that agencies can take to improve the quality and efficiency of their financial systems is eliminating redundant systems through cross-servicing arrangements and consolidation of systems. Under the cross-servicing concept, certain agencies provide data processing and accounting services to other agencies or one agency's existing system is transferred to another agency. Several types of subsidiary systems have been very successful in past cross-servicing arrangements, particularly payroll systems.

The CFO's agenda in this area included transferring the payroll system of the Department of Agriculture's National Finance Center to the Department of the Interior and the Veterans Administration by June 1988 and December 1988, respectively. This plan has been revised and the proposed target dates for completion were extended. The President's Council on Management Improvement is choosing a current government payroll/personnel system to become a standard system for the government. The President's fiscal year 1989 Management Report, dated February 1988, stated that payroll/personnel operations at Interior and the Veterans Administration are now expected to begin within 2 years, using the selected systems. This delay would be until at least 1990.

Another item on the CFO's agenda involved Treasury providing accounting services to 16 small agencies by December 1988. At the time of our review, none of these agencies were being serviced by Treasury.

Modifications to the CFO's original plan and to target dates in these areas indicate the problems associated with adopting cross-servicing arrangements and gaining agency acceptance of the concept.

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## CFOs Established in Each Agency

In addition to the governmentwide level, the CFO concept should be applied at the departmental level as well. Senate bill 1529 recognizes the importance of this function by creating statutory agency CFOs to conduct, supervise, and coordinate all financial management system activities and operations of an agency.

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areas of concern. Each of the scheduled projects was substantially finished within anticipated completion dates for these initiatives. At the same time, there is a continuing need for CFO leadership in overseeing agencies' on-going processes of identifying and correcting internal control weaknesses.

As highlighted in our December 1987 report entitled, Financial Integrity Act: Continuing Efforts Needed To Improve Internal Control and Accounting Systems (GAO/AFMD-88-10), a number of tough and long-standing internal control problems remain and require the attention of agency management. Agencies' annual reports required under the act, audits by inspectors general, and our reviews continue to reveal serious internal control weaknesses. Further, we have found that in some cases the actions cited by agencies for correcting material weaknesses have not effectively alleviated the internal control problems.

Both combating internal control problems and attaining the goals set by the Congress in the Financial Integrity Act will require a sustained commitment from future administrations. Internal control problems continue to surface through the on-going evaluation process which has been established. Monitoring agencies' programs to improve internal control systems is, therefore, critical, and a CFO affords a centralized focal point for doing this. We are currently reviewing the results of efforts to improve internal controls since passage of the act and will provide you with that report when it is available later this year.

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## Other CFO Priority Initiatives

OMB has advised your Committee that the CFO will be responsible for a range of financial management reform areas. Some of these areas were not specifically addressed in the CFO's agenda. We are highlighting two of these areas, credit management/debt collection and cash management, in our assessment of the CFO's activities because of their significance in providing the government with better financial operations.

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## Credit Management and Debt Collection

The government's credit programs have grown rapidly over the past 20 years. Delinquent non-tax debt owed to the government has also significantly increased. The Congress acted to curb the spiraling amount of delinquent debt by passing the Debt Collection Act of 1982. This act authorized agencies to use debt collection tools, such as collection agencies, generally available to the private sector. Our reviews of agencies' efforts to collect non-tax debts owed to the government consistently

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result in more favorable prices for goods and services provided by the private sector.

OMB has encouraged agencies to (1) increase their use of electronic funds transfers to more accurately time payments, (2) expand the use of bank lockboxes to ensure immediate deposit of collections, and (3) improve the timing of intergovernmental transfer of funds. However, additional actions are needed to improve cash management, especially to correct deficiencies in agency payment processes.

Our work has shown, and OMB has agreed, that significant progress has been made, but that agencies still experience some problems in paying their bills on time. In 1987, the administration increased emphasis in this area by establishing cash management improvement performance goals through targeted levels of interest savings for agencies and other measures. Also, OMB has supported legislation to strengthen the Prompt Payment Act.

A key CFO role arises from the need to ensure that agencies implement good payment practices and overcome their serious cash management problems. One of the biggest financial management challenges is putting modern payment systems in place, and a CFO could be the catalyst for agency progress in this area.

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## Constraints to the CFO's Mission and Financial Management Reform Progress

As part of our evaluation of the CFO's progress, we identified four factors which we believe have constrained the CFO's activities or which have the potential to impede financial management reform. These factors are outlined in the following paragraphs.

First, the CFO is responsible for areas in addition to those related to the Chief Financial Officer function. We noted, for example, that in his dual capacity as CFO and Associate OMB Director for Management, the current CFO must handle OMB's budget examination function for the Office of Personnel Management and the General Services Administration. This responsibility requires substantial time that a CFO could otherwise devote to improved governmental financial management.

Second, the CFO has not been given enough staff resources. The CFO believed that only a few additional people were needed to support his function. He requested four new staff positions. Two additional staff members were provided. We seriously question whether the personnel resources OMB has devoted to CFO activities are adequate to provide

to budget responsibilities. A wide range of witnesses discussed OMB's poor record in sustaining management improvement initiatives in testimony before your Committee in 1986 and 1987. The government is facing a long-term effort which must transcend administrations and be kept on course. We cannot afford to restart the process every few years, or, worse yet, stop progress at a time when momentum is building.

## Areas Requiring CFO Emphasis

Since his appointment, OMB's Chief Financial Officer has been given responsibility for a number of important financial management areas. We believe that the overall role and the duties of the CFO position should be reexamined now, after almost a year has passed, to clarify and refine them as necessary. In this connection, we believe certain areas should be an integral part of a CFO's responsibilities.

Briefly, a CFO should be the administration's principal advisor on financial management matters, including

- setting policies and prescribing requirements for the establishment and operation of the government's financial management systems,
- assisting agencies in recruiting and training financial management personnel,
- coordinating and monitoring financial management activities,
- reviewing financial management improvement budget requests, and
- advising on resources needed to develop and operate financial management systems.

In addition, a CFO should develop and oversee implementation of a governmentwide plan to modernize the government's financial management systems and operations. Two specific areas are especially critical to achieving this objective.

1. Improving Financial Reporting. Financial systems do not currently provide decisionmakers at all levels of the Executive Branch and the Congress the reliable and timely information needed to help make policy and management decisions. This information is especially critical as leaders in the Congress and the administration address the deficit problem and face difficult choices between spending alternatives. Likewise, agency managers need good financial information to manage the day-to-day operations of our government. A CFO should take the lead by ensuring that agency financial management systems provide essential financial information to effectively monitor program execution, anticipate overruns, and establish a basis for future program and budget planning.



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the public in order to assure that the presentation is fairly stated and not misleading. The Inspector General sees that audited financial statements independently assess whether an agency's accounting systems contain adequate safeguards to protect resources entrusted to the agency and whether financial information reported to management is reliable and accurate.

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## CFO Should Be Legislatively Established

As you know, improved federal financial management has been a high priority of GAO for many years, and we have devoted considerable effort to examining and recommending improvements in this area. At this time, we have a sense that significant changes are occurring and that a foundation has been created for substantial improvements. However, our optimism is guarded.

We are encouraged by the growing consensus that, rather than being administratively appointed, a CFO requires a legislative mandate. The President's fiscal year 1989 Management Report states: "The important next step is to develop legislation that will define and provide statutory underpinning for a permanent Chief Financial Officer structure throughout Government." In addition, OMB has stated its intention to introduce legislation to establish a governmentwide CFO in the near future.

Improved management techniques supported by legislative requirements have, in our view, the greatest opportunity for implementation. We believe that statutory authorization is ultimately necessary for the successful implementation and permanence of management initiatives.<sup>1</sup> Although it does not guarantee success, the legislative process extends the base of interest in and commitment to reform measures. Legislation can also provide an ongoing requirement for action and an institutional focal point which can be held accountable for progress.

Through legislation, the Congress provided the key impetus to sustain reform in procurement, paperwork reduction, internal controls, debt collection, and prompt pay. It has also statutorily established the inspectors general and the single audit concept. We believe that the Congress should now give similar backing to improving the government's financial management by legislatively establishing a CFO concept for the government. This would give the function a sense of structure, force of law, and permanence that is not currently present with the administratively

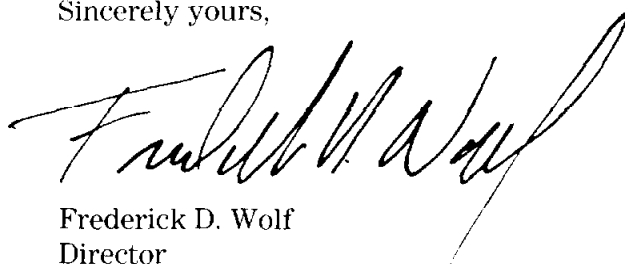
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<sup>1</sup>Selected Government Wide Management Improvement Efforts—1970 to 1980 (GAO/GGD-83-69, August 8, 1983).

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Responsible OMB officials provided comments on this report, and we have incorporated these comments where appropriate. Unless you announce the contents of this report earlier, we will not distribute it until 30 days from its date of publication. At that time, we will distribute copies to the Director of OMB, interested congressional committees, and other interested parties.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frederick D. Wolf". The signature is written in a cursive style with a large, sweeping initial "F".

Frederick D. Wolf  
Director

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# Implementation Schedule for the Standard General Ledger and Primary Accounting Systems for Major Departments and Agencies

|   | Standard general ledger | Primary accounting system |
|---|-------------------------|---------------------------|
| <b>Department</b>                             |                         |                           |
| Agriculture                                   | 1988                    | Completed                 |
| Commerce                                      | 1989                    | 1989                      |
| Defense                                       | 1988                    | 1992                      |
| Education                                     | 1988                    | Completed                 |
| Energy  | 1988                    | Completed                 |
| Health and Human Services                     | 1990                    | 1990                      |
| Housing and Urban Development                 | 1988                    | Completed                 |
| Interior                                      | 1990                    | 1990                      |
| Justice                                       | 1988                    | 1988                      |
| Labor   | 1988                    | Completed                 |
| State   | 1990                    | 1990                      |
| Transportation                                | 1991                    | 1991                      |
| Treasury                                      | 1988                    | 1988                      |
| <b>Agency</b>                                 |                         |                           |
| Environmental Protection Agency               | Completed               | Completed                 |
| General Services Administration               | Completed               | Completed                 |
| National Aeronautics and Space Administration | 1988                    | 1991                      |
| Office of Personnel Management                | 1988                    | 1988                      |
| Small Business Administration                 | 1988                    | 1989                      |
| Veterans Administration                       | 1988                    | 1991                      |

Note: This implementation schedule was included in the President's fiscal year 1989 Management Report. The information presented has not been independently verified with representatives of the agencies involved.

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# Major Initiatives on the Chief Financial Officer's Agenda—Comparison of Initial and Current Milestones for Completion

| Initiative  | Completion dates          |                         |
|---|---------------------------|-------------------------|
|   | CFO's July 1987 milestone | Current milestone       |
| Upgrade agency systems by:  |                           |                         |
| —implementing primary accounting systems  | December 1988             | 1992 <sup>3</sup>       |
| Standardize agency systems by:  |                           |                         |
| —developing financial systems requirements  | August 1987               | issued January 1988     |
| —establishing a schedule of qualified vendors to provide financial systems meeting requirements | February 1988             | "                       |
| —implementing revised systems   | December 1988             | "                       |
| —implementing a standard general ledger   | October 1988              | 1991 <sup>4</sup>       |
| Consolidate and reduce the number of accounting systems through cross-servicing arrangements:   |                           |                         |
| —Transfer the Department of Agriculture's National Finance Center payroll/ personnel system to  |                           |                         |
| the Department of the Interior  | June 1988                 | 1990 <sup>5</sup>       |
| the Veterans Administration   | December 1988             | 1990 <sup>5</sup>       |
| —Treasury to provide accounting services to 16 small agencies                                   | December 1988             | " <sup>6</sup>          |
| Establish a chief financial officer in each agency  |                           | Completed November 1987 |
| Establish a CFO Council   |                           | Completed November 1987 |
| Internal control initiatives  | July 1987-February 1988   | Completed <sup>7</sup>  |

<sup>2</sup>See appendix II for implementation dates related to each agency.

<sup>3</sup>The project to issue a schedule of approved vendors was directly related to the development of the financial systems requirements. The financial systems requirements were completed roughly 5 months later than anticipated on the CFO's agenda. The target date on the CFO's agenda for issuing a schedule of approved vendors based on the financial system requirements was, therefore, impacted accordingly. OMB officials have, however, told agencies to proceed with individual procurements so that there would not be slippage in implementing revised systems.

<sup>4</sup>Not only were the target dates for these items revised, but also the Department of Agriculture's National Finance Center payroll/personnel system may not be the system selected for these cross-servicing arrangements.

<sup>5</sup>At the time of our review, none of these 16 agencies were being serviced by Treasury.

<sup>6</sup>Target dates for specific internal control initiatives on the CFO's agenda were substantially completed as projected. However, a CFO should oversee the ongoing process established by agencies to evaluate internal control systems and correct internal control weaknesses.



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## Abbreviations

|     |                                 |
|-----|---------------------------------|
| CFO | Chief Financial Officer         |
| GAO | General Accounting Office       |
| OMB | Office of Management and Budget |

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appointed CFO. Further, a statutorily mandated CFO for the government would give financial management the prominence necessary to achieve reform.

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## Observations

In hindsight, the CFO's agenda contained many initiatives with target dates that, from the outset, were overly optimistic and could, therefore, not be realized. Considering the magnitude of the job to be done in improving the government's financial management systems, the revised dates for some of these initiatives that were included in the President's fiscal year 1989 Management Report will likely be modified as well.

Nonetheless, during the short time since his appointment, the CFO has begun to provide a critical element—central leadership and guidance—to the administration's governmentwide efforts to improve agencies' financial systems and internal controls. We must build upon the initiatives underway to improve federal financial management.

As with any newly created position, opportunities for additional responsibilities for the CFO are possible. The views we have outlined on the functions of a CFO have been offered as a framework around which the duties of this position—whether administratively or legislatively established—can be defined and clarified. We have also commented on areas which we believe have constrained progress of both the CFO and past efforts to reform financial management. We are not, however, making recommendations in this report to address these issues because the CFO's role is evolving and will be further examined and defined as legislative proposals in this area are considered.

Most significantly, consensus as to the need to legislate the position of Chief Financial Officer continues to grow. We now need to focus on the specific details which can lead to enactment, such as where to best locate the governmentwide CFO within the governmental structure. In this regard, we have testified before your Committee (see footnote 2) that we favor a governmentwide financial management leadership position to be established within the Department of the Treasury. Once established in law, the CFO's function must be given the full support of the President and the Congress.

GAO looks forward to continuing to work with the Committee as it addresses this important legislation. We are ready to assist in any way we can.

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The CFO's agenda does not address financial reporting or management information.

If the right kind of information is not available, it is hard to estimate the benefits of making informed decisions or the costs of making bad decisions. Also, consistent and reliable financial information is necessary for the Congress to decide the worth of a particular program, for agency program managers to evaluate performance, and for agencies to decide whether to continue performing commercial services or contract out.

2. Requiring Financial Statements and Annual Financial Audits. In testimony before your Committee,<sup>3</sup> we have repeatedly emphasized that annually preparing and auditing financial statements are integral parts of improving agency financial management by promoting discipline and accountability. Audited financial statements are a means to assure that comprehensive information on the status and integrity of the financial condition of agencies is consistent and meaningful. Financial statement audits also assure a proper link among accounting transactions, accounting systems, and financial statements. An appropriate CFO role, therefore, would be to foster accountability and systems integrity by overseeing agencies' annual preparation and issuance of financial statements and requiring that they be audited. Unfortunately, the CFO has not yet fully endorsed this concept.

The Commissioner of the Social Security Administration aptly described the benefit of preparing annual financial statements and having them audited in her agency's 1988 annual report to the Congress:

"All Federal agencies are now being asked to provide a public accounting of their financial stewardship. Thus, for the first time this year, the Social Security Administration is publishing financial statements as part of its annual report. The statements fully disclose financial information on all agency-administered programs. Audited by the Department of Health and Human Services Office of Inspector General, the statements demonstrate the financial soundness of Social Security."

In a March 30, 1988, memorandum to members of the President's Council on Integrity and Efficiency, the Inspector General of the Department of Health and Human Services stated that the auditor of the Department is obligated to audit any financial statements prepared and submitted to

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<sup>3</sup>Testimony on The Federal Management Reorganization and Cost Control Act of 1986 (May 13, 1986); Improving Government Management and Accountability (GAO/T-AFMD-87-1, February 18, 1987); and The Federal Financial Management Reform Act of 1987 (GAO/T-AFMD-87-18, July 23, 1987).

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appropriate policy direction and oversight given the magnitude of the problems and the large number of agencies involved.

Regarding personnel resources in general, OMB historically has not had the staff necessary to complete projects, such as the one initiated through JFMIP to define standards for systems. As a result, staff from other agencies or interagency working groups carried out much of the work to complete this project. The standard reporting requirements were the responsibility of Treasury, the standard general ledger was developed through a team led by the Department of Transportation, and the core system requirements group was directed by a project leader from GAO.

In our view, these working arrangements have contributed to delays in both starting and completing initiatives. For example, now that the system requirements have been established, we believe that the next step toward standard systems is a follow-up project to standardize government financial data. While there is agreement that this work is critical, and one of several projects necessary to further strengthen financial systems, it has been delayed because OMB has not committed to providing a project director and senior staff. We brought this matter to the CFO's attention in a March 4, 1988, letter and said that little more could be done on the project without OMB's commitment. As of May 1988, OMB had still not acted to support this effort.

Third, the successful improvement of the government's financial information and systems depends upon the level of agency performance. Our past work has shown that it is often necessary to provide incentives to agencies to comply with requirements in the financial area. Likewise, agency management sometimes lack a sustained commitment to carry out financial management reform in their agencies. Unless agencies follow through with plans and goals established in conjunction with CFO activities, the government will continue to rely on antiquated systems and concepts that do not provide the financial information and accountability needed by the Congress, federal managers, and the public.

Finally, because modernizing the government's financial systems and improving its financial information are long-term undertakings, continuity is particularly essential. Many times we have seen that as administrations and personnel change, the interest in and dedication to fulfilling unlegislated reform objectives change as well. While the current administration has emphasized financial management reform, OMB has historically lacked support for management activities in deference

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demonstrate the need for continued reform and additional legislation in this area.

Under Reform '88, OMB has worked for a number of years to establish better agency programs for credit management and debt collection. In 1985, OMB Circular A-129 set out a program for the agencies' administration of their credit management and debt collection operations. In 1986, OMB reinforced this guidance by establishing a nine-point credit management program as part of Reform '88 and designating Treasury as the lead agency for these functions. The President's fiscal year 1989 Management Report defines the administration's objectives and strategies for bringing its credit management and debt collection problems under control. In line with this, time-phased performance goals for achieving all phases of credit management have been established for major agencies having loan programs.

These actions are especially important since the President's fiscal year 1989 Management Report indicated that direct and guaranteed loans now exceed \$700 billion. Our past work has shown that continuous and aggressive actions in credit management and debt collection must be maintained both by OMB and, more importantly, by the agencies. We believe, therefore, that it is imperative for a CFO to emphasize the continuing need for improved credit management and debt collection, and to oversee these areas.

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## Cash Management

The government's \$2 trillion annual cash flow is another area that must be effectively administered. Managing this level of funds requires depositing collections promptly as well as making government disbursements and paying bills on time. Over the years our work has shown that payments to vendors were often made either too early or too late and that advances to grantees were made well before funds were needed. Legislative efforts to improve one aspect of these problems resulted in passage of the Prompt Payment Act.

Cash management understandably receives considerable attention from the Congress, the administration, state and local governments, and the public alike. The government can generate substantial savings by considering the time value of its money. In addition, the timing of its payments can positively or negatively affect the cash position of those receiving its funds. Paying commercial vendors on time also avoids interest penalties required under the Prompt Payment Act and may

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To carry out the July 1987 agenda, OMB's Chief Financial Officer recommended in November 1987 that the head of each agency designate a CFO. As a result, all major departments and agencies now have administratively established CFOs.

Also, as proposed on the agenda, the CFO created, in November 1987, a council composed of agency-level CFOs. This CFO Council is an advisory body on governmentwide accounting and financial management policy. It is chaired by the CFO for the federal government, with Treasury's Fiscal Assistant Secretary serving as the deputy chairman. The CFO Council, which has established four subgroups, has met several times to discuss topics such as a permanent CFO structure for the government. It is expected that the CFO Council will also consider consolidation and modernization of financial systems, and improved quality of financial information.

The CFO Council's role is still evolving and its impact in advancing financial management improvement is yet to be felt. We believe, however, that the concept is sound and is consistent with the establishment of similar groups, such as the President's Council on Integrity and Efficiency, and the President's Council on Management Improvement.

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## Strengthening Internal Controls

Weaknesses in agency internal controls, many of which are longstanding, have a profound effect upon all government programs and operations. Fraud, waste, and abuse in federal activities and programs have led to the loss of billions of dollars of government funds, eroded public confidence, and undermined the federal government's ability to operate effectively. Continuing concern over the poor condition of the government's internal controls and accounting systems led the Congress to pass the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b) and (c)). Beginning in 1983, OMB provided to agencies (through Circular A-123) instructions for evaluating internal controls and reporting the status of their internal control systems to the President and the Congress.

The CFO's agenda set out several initiatives during 1987 and 1988 to help achieve an overall goal of ensuring that internal control weaknesses are identified and that existing material weaknesses are corrected. These initiatives included a range of activities, from reviewing 1986 and 1987 Financial Integrity Act reports prepared by agencies to monitoring agencies' corrective actions on material weaknesses and emphasizing special

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their own. At the same time, the standards can be used as criteria to evaluate new and existing systems on a uniform basis.

One of the CFO's stated objectives on the agenda is to implement standard governmentwide financial management systems in all major agencies. Initiatives to meet this objective included working through the Joint Financial Management Improvement Program<sup>2</sup> (JFMIP) to develop requirements for agency systems. Developing these requirements was projected for completion in August 1987. The Core Financial System Requirements was published by the JFMIP in January 1988 and represents a major step toward improved federal financial management systems. This document presents minimum requirements to be met by each agency's system, and builds upon prior initiatives to develop standard financial reporting requirements and the U.S. Government Standard General Ledger.

Also included on the agenda was a project for the General Services Administration to establish a schedule of qualified vendors that have systems available which meet these requirements. The CFO's agenda called for this schedule to be issued in February 1988. Delay in meeting the CFO's agenda in establishing financial system requirements will cause the procurement schedule to likewise be moved beyond the date shown on the agenda. Work is now underway to evaluate contractor proposals to provide systems based on the standard requirements.

Agencies' implementation of revised systems to meet the requirements is scheduled on the agenda for the end of 1988. Even though the procurement schedule has not been completed, OMB officials have told agencies to proceed with individual procurements so that delays in implementing revised systems will not occur.

Now that the system requirements have been established, we believe that the next step toward standard systems is a follow-up project to standardize government financial data. The problems encountered in starting this project, and the need for a stronger CFO role in this effort, are discussed later in this report.

Closely related to standard systems is implementation of the standard general ledger, which is another aspect of the CFO's agenda. The agenda

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<sup>2</sup>The Joint Financial Management Improvement Program is a joint and cooperative undertaking of GAO, OMB, Treasury, and the Office of Personnel Management, to work with operating agencies to improve financial management policies and practices.

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## Objective, Scope, and Methodology

This report provides an assessment of the CFO's progress in addressing government financial management problems. In performing this evaluation, we determined the current status of each item on the OMB Chief Financial Officer's agenda, considered related financial management areas emphasized by OMB and the CFO, and identified functions that we feel should be the responsibility of the CFO.

We also analyzed the CFO's agenda and considered information in the President's fiscal year 1989 Management Report. Furthermore, we discussed the CFO's role, responsibilities, and progress with the CFO and his staff.

GAO has done a considerable amount of work related to improving the government's financial management. This work is relevant to the matters discussed in this report. We have drawn heavily on this work in developing our positions on the CFO concept and the key elements of financial management reform.

Our assessment was done during March and April 1988. This allowed us to include in our analysis the CFO's activities as presented in the President's fiscal year 1989 Management Report, which became available during that time period. Responsible officials from OMB provided comments on our report, and we have incorporated their comments where appropriate.

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## Improving Financial Management Systems

Financial management systems, concepts, and practices followed by the federal government are weak, outdated, and inefficient. As the President's fiscal year 1989 Management Report states, "Once a leader in the early days of automation, the Government's financial systems and operations have eroded to the point that they do not meet generally accepted standards."

The administration's strategy for improving the government's financial management systems involves consolidating and standardizing its many separate financial management systems. New systems are to be acquired based on prescribed functional requirements. Key components for improving financial management systems, as outlined in the CFO's July 1987 agenda, include (1) upgrading agency systems, (2) standardizing agency systems, and (3) eliminating some agencies' systems by having other agencies perform accounting services for them (cross-servicing arrangements).



ongoing effort was involved. In a number of key areas, however, progress has been limited; milestones on the agenda presented to your Committee by the CFO have not been achieved and in some cases are not close to being achieved despite having 1988 targets. The President's report, Management of the United States Government—Fiscal Year 1989 (Management Report), recognizes this and plans and milestones have been changed to more realistic approaches and time frames. Progress has been impacted by certain issues, such as collateral duties and the lack of resources, which, in our view, have constrained the CFO's activities.

Appendix I summarizes current dates for completing major initiatives on the CFO's agenda and compares them with target dates presented in the July 1987 agenda. Appendix II presents the dates for agencies' implementation of a standard general ledger and primary accounting systems, which are two critical elements of the CFO's agenda.

From a broader perspective, instituting changes in financial systems and concepts is a long-term challenge involving many facets and requiring a concerted commitment by the Congress, the administration, and the operating agencies. While OMB's Chief Financial Officer represents centralized leadership to address essential elements in solving the government's long-standing financial management problems, the leadership provided by a CFO must encompass an even wider range of responsibilities, including those related to fostering improved agency management information, controls, and accountability; developing annual agency and governmentwide financial reporting; requiring that financial statements be audited; and performing other major functions. Most importantly, we continue to strongly believe that legislation is needed to establish a CFO with a clearly delineated mandate centered around developing and implementing a governmentwide financial management improvement plan. We are encouraged that OMB has come to the same conclusion and has indicated in the President's fiscal year 1989 Management Report that it supports legislation to establish a CFO.

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## Background

GAO has long supported the need for major reform in federal financial management. In 1985 we outlined a plan for strengthening the government's accounting and reporting in a report entitled, Managing the Cost of Government: Building An Effective Financial Management Structure (GAO/AFMD-85-35, February 1985).

The administration has also emphasized financial management reform. Improvement of federal financial management is a central feature of the

