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June 1998

# FINANCIAL MANAGEMENT

## Training of DOD Financial Managers Could Be Enhanced



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

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**Accounting and Information  
Management Division**

B-279753

June 24, 1998

The Honorable William S. Cohen  
The Secretary of Defense

Dear Mr. Secretary:

With passage of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994, agencies are increasingly expected to implement improved financial and accounting practices with the goal of producing accurate and complete information on their operations, including auditable financial statements. Such information is critical for use by managers and policymakers in making difficult decisions as well as measuring agency performance and the full cost of government activities as envisioned by the Government Performance and Results Act of 1993. Financial management personnel are now required to use new federal accounting standards that are intended to provide greater accountability and enhanced decision-making in a cost-effective manner by enhancing existing accounting and reporting requirements. Integrating these new accounting standards and legislative requirements with existing financial management practices creates a challenge for financial managers throughout government.

The Department of Defense's (DOD) financial management systems, policies, and procedures continue to be hampered by significant weaknesses. We have issued several reports pointing out that DOD has not established policies nor begun to implement many of the accounting requirements that were being phased in and are now effective.<sup>1</sup> Consequently, DOD personnel are now confronting an enormous financial management improvement challenge, the most difficult in the federal government. Training is key to bringing DOD financial managers up-to-date and keeping them current on enhanced accounting standards and legislative requirements. Technical accounting and financial training can thereby improve the performance of financial management personnel so that they can more effectively lead the department's efforts to pass the test of a financial statement audit and achieve one of the key objectives of the CFO Act.

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<sup>1</sup>High-Risk Series: An Overview ([GAO/HR-95-1](#), February 1995), High-Risk Series: Defense Financial Management ([GAO/HR-97-3](#), February 1997), and Department of Defense: Financial Audits Highlight Continuing Challenges to Correct Serious Financial Management Problems ([GAO/T-AIMD/NSIAD-98-158](#), April 16, 1998).

This report represents the culmination of an effort we undertook to survey the backgrounds and training of key financial managers, not only throughout various DOD component organizations, but also in selected large state governments and private sector organizations. This led to a series of reports that provided profile information on the formal education, professional work experience, training, and professional certifications held by DOD key financial managers.<sup>2</sup> We also recently issued a report profiling the background and training of key financial management personnel in selected large state governments and private sector companies.<sup>3</sup> These key personnel have had considerable experience in operating the systems and using the practices necessary to produce reliable financial information to report to their taxpayers and stockholders, respectively.

This report summarizes lessons learned from the results of our survey of selected large state governments and private sector corporations that DOD could use to augment its existing plans to upgrade the competencies of its key financial managers. The audit work from the series of reports from which information was drawn in preparing this report was conducted from June 1996 through March 1998 in accordance with generally accepted government auditing standards. Our scope and methodology are described in appendix I. We requested written comments on a draft of this report from the Secretary of Defense or his designee. The Under Secretary of Defense (Comptroller) provided us with written comments. These comments are reprinted in appendix III and are discussed in the “Agency Comments and Our Evaluation” section.

## Results in Brief

A key lesson learned from our survey data is that many state government and private sector organizations place a strong emphasis on training as a means of upgrading workforce knowledge of current financial management, accounting, and reporting requirements. On average, key financial managers in the surveyed large state governments and private sector organizations received 31 hours and 26 hours of training, respectively, in 1996—most of which was in technical accounting subjects.

<sup>2</sup>Financial Management: Profile of DOD Comptroller/CFO Financial Managers ([GAO/AIMD-97-97](#), June 27, 1997), Financial Management: Profile of Air Force Financial Managers ([GAO/AIMD-98-4](#), November 28, 1997), Financial Management: Profile of Army Financial Managers ([GAO/AIMD-98-58](#), February 25, 1998), Financial Management: Profile of Navy and Marine Corps Financial Managers ([GAO/AIMD-98-86](#), April 15, 1998), and Financial Management: Profile of Defense Finance and Accounting Service Financial Managers ([GAO/AIMD-98-133](#), May 28, 1998).

<sup>3</sup>Financial Management: Profile of Financial Personnel in Large Private Sector Corporations and State Governments ([GAO/AIMD-98-34](#), January 2, 1998).

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Some of the surveyed organizations had established training requirements for their financial personnel. Also, several organizations noted that their programs were designed, in part, in recognition of the training requirements that existed for employees holding professional certifications.

These approaches may be useful to DOD in addressing its financial management problems. Over half of the key DOD financial managers we surveyed—who all held leadership positions throughout DOD’s network of financial organizations—had received no financial- or accounting-related training during 1995 and 1996. These key personnel face the challenge of leading DOD’s efforts to produce reliable financial data (1) throughout a large and complex DOD organization with acknowledged difficult financial deficiencies and (2) that build upon existing requirements to include recent, more comprehensive accounting standards and federal financial management system requirements. In addition, full implementation of the Government Performance and Results Act will require DOD financial personnel to provide information on cost data associated with the department’s program results. Technical financial- and accounting-related training to supplement on-the-job experiences of DOD’s key financial managers is critical to ensuring that such accurate financial data are available.

The Secretary of Defense has stated in a recent major reform initiative that while the department is a world-class organization, it is rendering second-rate education, training, and professional development to its civilian employees. He added that DOD must aspire to world-class educational standards. Each of the military services has or is planning programs to enhance the skills and competencies of their respective financial managers. Moreover, the Defense Finance and Accounting Service (DFAS) is developing a plan intended to identify the kinds of skills and developmental activities DFAS financial personnel need to improve their competencies. However, the DFAS plan does not yet address (1) how the competencies will be applied to key financial managers throughout DOD, (2) a specific curriculum supporting the competencies, (3) minimum training requirements for key financial personnel, and (4) how accountability will be established to ensure that the plan is effectively implemented. In addition, DOD has not yet established a departmentwide focus with accountability to ensure that efforts to improve DOD’s financial managers’ training are effectively coordinated with the Secretary’s broader training reform initiative.

## Background

Key DOD financial managers face considerable challenges in addressing

- the financial management needs of a DOD organization that is without parallel in the size, diversity, and complexity of its operations;
- repeated audit findings that deficiencies in personnel experience or competencies are a major contributor to DOD's continuing financial deficiencies; and
- existing and enhanced accounting requirements that must be implemented throughout DOD.

## Implementing Effective Financial Practices Across DOD Is a Daunting Challenge

DOD's financial managers are responsible for managing the financial operations of one of the largest and most complex entities in the world—over \$1 trillion in reported assets, 3 million military and civilian personnel, and outlays of about \$260 billion for fiscal year 1997. It has acknowledged responsibility for the world's largest dedicated infrastructure, reporting that its physical plant has an estimated value of about \$500 billion. In addition, based on data provided by DOD, the department has a network of approximately 32,000 financial management personnel, including the positions held by the 1,409 key financial managers responding to our prior surveys. These 1,409 financial management positions are assigned not only to the Office of the DOD CFO (the Under Secretary of Defense (Comptroller)) and to DFAS—the DOD “accounting firm,” but also to financial or budget components in the military services. Adding to the difficulty of carrying out financial operations in DOD is the continuing effort to downsize its operations.

DOD has a vast number of financial management systems.<sup>4</sup> In its 1997 report to the Office of Management and Budget (OMB), DOD reported that it had 156 financial management systems. However, as we reported,<sup>5</sup> DOD relies on a significant number of other financial management systems and processes operated by DOD entities outside the DOD Comptroller's organization, such as acquisition, logistics, and personnel, that provide financial data to DOD's accounting systems. These “mixed” systems are part of the financial systems network at DOD. Further exacerbating the task of DOD financial personnel operating with such a large network of systems

<sup>4</sup>Office of Management and Budget Circular A-127, Joint Financial Management Improvement Program system requirements, and the Federal Financial Management Improvement Act of 1996 define financial management systems to include the financial systems and the financial portion of mixed systems necessary to support financial management. A mixed system is defined as an information system that supports both financial and nonfinancial functions of the federal government or its components.

<sup>5</sup>Financial Management: DOD Inventory of Financial Management Systems Is Incomplete (GAO/AIMD-97-29, January 31, 1997).

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are the systems' seriously deficient processes and controls. For example, the DOD Inspector General recently concluded, in part, that DOD's financial management systems did not comply with federal accounting standards.

The diversity, complexity, and size of even the largest private sector corporations pale in comparison to DOD. For example, the company that ranked first in Fortune's April 1998 list of the 500 largest companies showed assets of about \$230 billion, less than 25 percent of DOD's reported assets for fiscal year 1997. The 1995 revenues of the largest of the Fortune 100 corporations responding to our recent study on financial managers were about \$80 billion and the 1993 revenues of the largest state responding to that same study were about \$110 billion.

In contrast to the largely deficient financial network with which DOD's financial personnel have been hamstrung for decades, effective, disciplined financial operations have been in place in the private sector and state governments for many years. Specifically, the disciplined process required to generate reliable, accurate financial data has been in place in the private sector for over 60 years following the 1929 stock market crash. In state governments, this disciplined process was enhanced by the passage of the Single Audit Act of 1984. In comparison, former Secretary of Defense William J. Perry stated in the 1995 Annual Report to the President and the Congress that the department's manifold financial management failures reflect a complex, multifaceted, and antiquated bureaucratic organization structure.

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## Personnel Experience and Competencies Contribute to Continuing Problems

The size and complexity of DOD's financial organization notwithstanding, audit reports over the past few years have cited personnel deficiencies, such as the lack of accounting experience or competencies, and inadequate training, as one of the causes of DOD's serious financial management deficiencies. For example, in our March 1996 report<sup>6</sup> on the results of our financial review of the Navy, we recommended that the Navy and DFAS take action to upgrade the experience of financial managers. In this regard, we cited numerous examples of Navy and DFAS personnel not performing routine required reconciliations or investigating and resolving unusual trends in large year-to-year account balance variations. More

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<sup>6</sup>CFO Act Financial Audits: Increased Attention Must Be Given to Preparing Navy's Financial Reports (GAO/AIMD-96-7, March 27, 1996).

recently, in October 1997,<sup>7</sup> in the course of its work on the department's working capital funds, which are intended to operate on a businesslike basis, the DOD Inspector General noted continuing pervasive weaknesses in the personnel area, including incomplete or no training, insufficient management oversight, and an inability to respond to a rapidly changing accounting environment. The Inspector General also pointed out the critical link between training and the successful introduction and use of new accounting systems. In addition, the DOD Inspector General reported a widespread failure of accounting personnel to understand basic accounting theories and principles that support transaction entries.

## Recent Legislative Initiatives and Enhanced Accounting Standards Increase Challenge

The key legislative initiatives affecting financial reform efforts in DOD and other federal agencies include the following.

- Chief Financial Officers Act of 1990 and Government Management Reform Act of 1994 (GMRA). Together, these acts charge the DOD CFO with, among other things, (1) directing, managing, and providing policy guidance and oversight of all agency financial management personnel, activities, and operations and (2) overseeing the recruitment, selection, and training of personnel to carry out agency financial management functions. Under this legislative mandate, DOD is to annually prepare and have audited DOD-wide and major component—including Army, Navy, and Air Force—financial statements, beginning with fiscal year 1996. The auditors' reports provide an annual public scorecard to measure agencies' progress in improving financial management.
- Government Performance and Results Act of 1993 (GPRA or "the Results Act"). The Results Act is intended to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. To the extent that DOD measures the efficiency of its operations, such measures are dependent upon accurate cost information.
- Federal Financial Management Improvement Act of 1996 (FFMIA). This act provides a legislative requirement to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the standard general ledger. In meeting these requirements, DOD will be required to implement new, evolving accounting standards, as discussed below, as well as the federal financial management system requirements established by the Joint Financial Management Improvement

<sup>7</sup>A Status Report on the Major Accounting and Management Control Deficiencies in the Defense Business Operations Fund for FY 1996, Audit Report of the Office of the Inspector General, Department of Defense (Report No. 98-002, October 3, 1997).



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Program (JFMIP).<sup>8</sup> DOD financial management personnel face a considerable challenge in meeting the act's provisions because few of DOD's systems meet federal financial management systems requirements and DOD has not yet comprehensively identified and assessed all of its financial management systems.

Another critical challenge for DOD's financial management personnel is the recently issued accounting standards—which represent enhancements to previous standards—that are currently being implemented (see appendix II for a listing of the standards).<sup>9</sup> If properly implemented, these standards will provide the impetus not only for the department to improve its financial management operations and reporting, but also to strengthen its ability to meet critical mission objectives because more accurate information will be provided to decisionmakers.

Neither DOD nor the military services have been able to withstand the scrutiny of a financial statement audit. In its disclaimer of opinion on DOD's consolidated financial statements for fiscal year 1997, the DOD Inspector General stated that although progress continues, significant deficiencies in the accounting systems and the lack of sound internal controls prevented the preparation of accurate financial statements. In addition, the Inspector General stated that the accounting data were not reliable and the DOD Inspector General was unable to satisfy itself that the data were accurate and complete.

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## Well-Trained Personnel Are Critical to Effective Financial Management

Only about half of the DOD key financial managers responding to our surveys had taken any accounting or other technical training related to their career fields in the 2 years we reviewed. Moreover, DOD has not established an annual training requirement for its financial management personnel. More than three-fourths of the state government and private sector company respondents to our survey said that they encouraged their financial managers to take training. It is also noteworthy that several of the state government and private sector respondents indicated that they

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<sup>8</sup>JFMIP is a joint and cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management to improve and coordinate financial management policies and practices throughout the government.

<sup>9</sup>These standards are the result of the establishment of the Federal Accounting Standards Advisory Board (FASAB) in October 1990. Using a due process and consensus building approach, the nine-member Board, which has since its formation included a member from DOD, recommends accounting standards for the federal government. Once FASAB recommends accounting standards, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General decide whether to adopt the recommended standards. If they are adopted, the standards are published by OMB and GAO and include a specified effective date.

had designed their training programs, in part, in recognition of the training requirements that existed for holders of professional certifications. In addition, some state government and private sector company respondents had established annual training requirements for their financial managers.

**Many Key DOD Financial Managers Received No Accounting and Financial Training**

Our recent studies showed that 53 percent of DOD’s key financial managers responding to our survey did not receive any accounting or financial training during calendar years 1995 and 1996, the 2-year period covered by our survey. As shown in appendix II, seven of the eight new federal financial accounting standards were issued either prior to or during that 2-year span. Furthermore, as discussed previously, the Federal Financial Management Improvement Act, which has major implications for financial managers, was passed in 1996. If DOD is to fully and effectively implement this legislation, its financial personnel must keep abreast of existing and evolving technical federal financial management system requirements.

As table 1 shows, 32 percent of DOD financial managers received only general training, which included topics such as computers and supervision. Moreover, an additional 21 percent of DOD respondents did not receive any training during 1995 and 1996.

**Table 1: Training Reported by DOD Financial Managers as Being Completed During 1995 and 1996**

Type of training	Percent reporting
Accounting only	3
Finance only	3
Combination of two or more of the following: accounting, finance, and general (see note)	41
General only	32
No training	21

Note: General training includes training courses in such topics as computer operations and supervision.

Source: GAO analysis of questionnaire results.

Nearly 75 percent and 90 percent of state government and private sector respondents, respectively, commented that they encouraged their employees to obtain training. Some of these state government and private sector respondents had established training requirements for their financial managers. In addition, several organizations noted that their programs were designed, in part, in recognition of the training requirements that existed for holders of professional certifications. For

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example, to keep a Certified Public Accountant (CPA) certificate current, 46 of 50 states require individuals to annually obtain at least 40 hours of technical training. Among state government and private sector respondents, 31 percent and 29 percent, respectively, reported having a professional certification (26 percent of the DOD respondents held at least one certification).<sup>10</sup>

About a third (33 percent) of the state governments we surveyed had specific financial management training requirements. Those states with such requirements had, on average, 36 hours of training required in 1996, including 26 hours in technical accounting training. Similarly, about a third (35 percent) of the private sector companies had specific financial management training requirements. Those respondents had, on average, 31 total hours of required training in 1996, including 18 hours in technical accounting.

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## Training Was a Focus of Efforts to Enhance Audit and Acquisition Workforce Professionalism

In order to equip employees to deal with rapidly changing management and business practices and requirements, the government has put in place specific training requirements intended to enhance the professionalism of other disciplines. For example, government auditors, including those at DOD, are subject to Government Auditing Standards, which require all audit organizations to have a program to ensure that their personnel maintain professional proficiency through continuing education and training. Under these requirements, each auditor responsible for planning, directing, conducting, or reporting on audits must complete, every 2 years, at least 80 hours of continuing education and technical training in subjects that contribute to the auditor's professional proficiency.

Similarly, DOD's acquisition community is instituting a continuous learning policy to enhance the existing certification program for the department's

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<sup>10</sup>These certifications were primarily the CPA and Certified Government Financial Manager (CGFM). Like the CPA requirement for annual training, the CGFM has a continuing education and training requirement of 80 hours every 2 years.

The CPA certification program has existed since 1917. State organizations administer this program, awarding the certificate based on the applicant's formal education, professional work experience, and successful completion of a comprehensive examination developed by the American Institute of Certified Public Accountants.

The CGFM program was initiated by the Association of Government Accountants in July 1994. Until June 30, 1996, the certificate was awarded based on an evaluation of an applicant's formal education and professional work experience in government financial management. Future certifications will require, in addition, the successful completion of three comprehensive examinations covering (1) the governmental environment, (2) governmental accounting, financial reporting, and budgeting, and (3) governmental financial management and control.

acquisition workforce. The challenge facing DOD's acquisition community is similar to that facing its financial management personnel. For example, in justifying changes in the training provided to DOD's acquisition workforce, the Under Secretary of Defense (Acquisition & Technology) stated that

"DOD's acquisition specialists . . . are challenged today as never before by the rapidly changing environment in which they must function. The pace of efforts to reform basic acquisition systems, reengineer federal operations, and replace traditional management structures with teams and matrixed organizations, coupled with downsizing and the information technology revolution, has resulted in continuously evolving work environments and requirements. To meet performance expectations in such environments, acquisition personnel must be current with reforms and trends, adaptable, flexible, and willing to learn new skills."

In response to the Defense Acquisition Workforce Improvement Act of 1991, DOD is implementing a new policy requiring acquisition professionals to participate in continuous learning activities that enhance and supplement the minimum standards for their career fields and specific acquisition assignments. The intent of this initiative was to help ensure that DOD's acquisition workforce maintains currency in acquisition reforms and disciplinary and functional specialties, while developing multifunctional technical and leadership skills. Under this program, personnel must earn the equivalent of a minimum of 80 continuing professional education hours every 2 years by participating in a variety of activities, including functional, technical, or leadership training; academic course work; experiential and developmental assignments; and professional activities related to their functional areas. In meeting the requirements for this program, emphasis is to be placed on maintaining currency in acquisition functional areas, acquisition reform subjects, other emerging acquisition policy areas, and the individual's own basic discipline or technical field.

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## Efforts Underway by DOD to Improve Its Financial Management Workforce

The Secretary of Defense recently recognized the importance of upgrading training for the civilian workforce across all disciplines in DOD. In his 1997 "Defense Reform Initiative: The Business Strategy for Defense in the 21st Century," Secretary of Defense Cohen stated that DOD considers itself to be a world-class organization despite rendering second-rate education, training, and professional development to its civilian employees. He added that among the lessons learned from corporate America is that every successful organization finds its people to be its most important asset, and

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reflects their importance in a strong, corporate-sponsored program of continuous training and professional development. He also stated that DOD must aspire to world-class educational standards.

The Secretary stated that the department will establish a Chancellor for Education and Professional Development. The Chancellor will be responsible for developing and administering a coordinated program of civilian professional education and training throughout the department; establishing standards for academic quality; eliminating duplicative or unnecessary programs and curriculum development efforts; and ensuring that DOD education and training responds to valid needs, competency requirements, and career development patterns. He added that the Chancellor will be responsible for operating through a consortium of DOD institutions offering programs of professional development, which is similar to the approach in the defense acquisition area.

Under the Secretary's recent reform initiative, the DOD Chancellor for Education and Professional Development will have overall responsibility for overseeing training of all DOD civilian personnel. Under the CFO Act and related OMB guidance, agency CFOs are to "direct, manage, and provide policy guidance and oversight of agency financial management personnel . . . including . . . the recruitment, selection, and training of personnel to carry out agency financial management functions . . ." and should have the authority to provide agencywide policy advice on the training of all financial management personnel to ensure a cadre of qualified financial management professionals throughout the agency. In line with this mandate, the DOD CFO would be the focal point to coordinate with the DOD Chancellor for Education and Professional Development on training needs for DOD's large network of financial personnel (both civilian and military personnel). Although DOD has not yet established a coordinated agencywide training program for its financial management personnel, there are a number of initiatives planned or underway throughout DOD that are intended to enhance the professionalism of the financial management workforce. For example, DFAS officials informed us that beginning with fiscal year 1997 they have centralized control over training funds at DFAS headquarters and have allocated 3 percent of its budget<sup>11</sup> for training its financial management staff—an amount within the range of that spent for training reported by state government and private sector respondents. It is particularly encouraging that DFAS is currently finalizing a Financial Management Career Development Plan for its employees that outlines areas of needed expertise by occupational series.

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<sup>11</sup>The allocated amount equals 3 percent of the salaries and benefits for financial management staff.

DFAS plans to implement this “comprehensive framework to establish flexibility, development, and advancement of the DFAS workforce” during fiscal year 1998. The plan calls for job series-specific competencies and recognizes that these competencies may be obtained through a combination of education, training, and work experiences.<sup>12</sup> According to DFAS, a number of sources were considered in developing these competencies, including prior studies by JFMIP and the Office of Personnel Management. In addition, according to a DFAS training official, DFAS contracted with the Office of Personnel Management to obtain assistance in developing the overall career development concept and in obtaining data on core competencies related to DFAS job functions. Within the plan, DFAS recognized the value of professional certifications to workers as a means of achieving expertise and excellence in their fields and as a means of encouraging employees to continue their education and hone their professional skills.

The plan represents a good start—it demonstrates a growing DFAS understanding of the importance of and commitment to training. But, the plan could be improved in several critical areas. For example, the plan does not specifically address

- minimum annual training requirements, including a recognition that the majority of the training must be in technical accounting or other related financial management areas;
- the key competencies associated with knowledge of accounting concepts, such as the statements of federal accounting standards, and JFMIP’s systems requirements;
- how the general courses/subject areas will be linked to specific training courses that can be used to attain an identified competency; and
- how the competencies and developmental activities identified will be applied to both new hires and individuals currently on-board by job series and grade level.

Financial management personnel in the military services will not be subject to the DFAS plan; although, according to DFAS training officials, DFAS financial management courses will eventually be available to financial management personnel in the military services. In addition, officials from each military service told us that they have or are developing their own individual programs for their respective financial managers. The military

<sup>12</sup>The financial management series included in the plan are GS-510 accounting, GS-511 auditing, GS-501 financial administration and program, and GS-560 budget analysis. Other series-specific groupings are administrative financial management support, information management technology, human resources management, professional management support, administrative support, legal, and contracting.

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services' efforts to improve the skills of their financial management personnel include (1) an Air Force professional development guide for its financial management and comptroller officers, which provides information on career broadening, formal training, and professional development, (2) an Army initiative intended to improve its personnel capabilities with respect to information technology, workforce effectiveness, financial management tools, funds management, and resource management, and (3) a Navy effort to revise its training program for its civilian financial management workforce to address financial management competencies. However, according to military service officials, these planned or ongoing initiatives to enhance the military services' financial management personnel do not yet include requirements for a structured, formalized training program with an annual training requirement for financial managers or for consideration of professional certifications as a means of ensuring continual training.

However well-intentioned the DFAS and military plans for upgrading their key financial management personnel, they do not provide the departmentwide perspective called for by the Secretary's reform initiative or in the CFO Act. The department has not yet named a Chancellor for Education and Professional Development. Such departmentwide focus and accountability for overseeing the development and implementation of a comprehensive training program for DOD's financial personnel, along with personnel in other disciplines, is critical if DOD is to avoid potential duplication and ensure proper coordination among all training and professional development programs.

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## Conclusions

We are encouraged by the recognition of the importance of training for civilian personnel across all professional disciplines in the department and for DOD's financial community, in particular. Various DOD organizations have initiatives planned or underway that are intended to enhance their financial management training programs.

When appointed, the DOD Chancellor for Education and Professional Development must work closely with the DOD CFO, as the designated focal point under the CFO Act for the department's financial personnel and associated financial training, to ensure the implementation of a comprehensive, coordinated training program for financial management personnel throughout the department. By building into these efforts the lessons learned from state government and private sector entities' experiences, DOD can better move toward developing and maintaining a

well-trained, experienced, and innovative cadre of financial managers. Such a well-trained cadre will be necessary if the department is to address its decades-old legacy of deeply entrenched, serious financial weaknesses.

## Recommendations

We recommend that the Secretary of Defense ensure that the Under Secretary of Defense (Comptroller) and the Director of DFAS modify the DFAS Financial Management Career Development Plan to include the following.

- Minimum annual training requirements, the majority of which should be in technical accounting or related financial management training courses.
- Key competencies associated with knowledge of accounting concepts, such as the Statements of Federal Financial Accounting Standards, and JFMIP's systems requirements for all DOD financial management job series.
- A specific curriculum that provides a linkage between general courses and/or subject areas to specific training courses that can be used to attain an identified competency.
- Procedures to ensure that both new hires and current financial management staff attain relevant competencies.

In addition, we recommend that the Secretary of Defense ensure that the Under Secretary of Defense (Comptroller) develop and implement a formalized, structured training program for financial management personnel throughout the department that takes into account the DFAS Financial Management Career Development Plan and those initiatives that are either underway or planned in the military services. This program should be developed in conjunction with the DOD Chancellor for Education and Professional Development.

## Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD agreed with the general conclusion presented in the report regarding providing a strong emphasis on training as a means of upgrading workforce knowledge of current financial management, accounting, and reporting requirements. However, DOD did not fully agree with our recommendations regarding minimum annual training requirements and a formalized, structured training program for financial management personnel throughout DOD.

In regard to our first recommendation that the DFAS Financial Management Career Development Plan be modified to include minimum annual training requirements, DOD suggested that requirements be changed to goals. In



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support of this modification, DOD stated that factors such as a lack of training funds can impede an employee's ability to attain all required training within a specified period.

We continue to recommend that minimum training requirements be established. Given the poor training record of DOD financial managers in the past—as we reported, 53 percent of our survey respondents had received no accounting or financial training over a 2-year period—and the range of new accounting and systems issues to be mastered, it is imperative that training requirements be established as soon as possible. Without stated minimum requirements and the strong commitment to training that they would represent, it is unlikely that the objectives of DFAS' Career Development Plan will be achieved. Furthermore, if the department is committed to providing training and enhancing the quality of its financial management workforce, adequate funding will be made available for training.

DOD also stated that tracking achievement of required training would be extremely difficult to implement. We disagree with DOD's position. Some level of tracking is obviously necessary to monitor staff progress in meeting the requirements; however, developing and implementing a tracking system need not be a difficult task. For example, in the acquisition community, the planned tracking is the responsibility of the approximately 100,000 acquisition employees and their supervisors. Central management oversight tracking is being planned at the component level (about 50 components throughout DOD have acquisition personnel), not at the individual level. For DOD Inspector General audit staff, fulfillment of training requirements is monitored centrally and periodic reports are provided to staff and supervisors which show the status of training received at that point in the 2-year period.

Also, although DOD's response refers to the difficulty in levying penalties for employees not meeting annual training requirements, our recommendation does not call for DOD to levy penalties. The overall purpose of these recommended requirements is not to penalize staff or to create an adversarial relationship between the employee, the supervisor, and the organization, as DOD's response implies. Rather, the purpose is to ensure that as many financial managers as possible are provided the up-to-date, technical training they need to carry out their responsibilities. Other functions that currently offer a continuous learning environment do not seek to penalize staff. For example, the DOD Inspector General's office requires its audit staff to complete 80 hours of training over a 2-year

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period. A grace period of 2 months is provided for staff to complete this requirement if training has not been completed at the end of the 2-year cycle. In the acquisition community, the plans allow for waivers to be granted if a staff member is unable to meet the stated standard after an initial 3-month grace period. The waivers can be extended for an additional 2 years, if specified conditions are met.

In addition, DOD's response states that it may not be feasible or beneficial to specify training requirements for all financial managers at all levels. The DFAS plan, which our recommendation addresses, specifies those financial management job series and grade levels that are covered by the plan. The job series are Accounting (GS-510), Auditing (GS-511), Budget Analysis (GS-560), and Financial Administration and Program (GS-501). The grade levels are GS-7 through Senior Executive. The plan states that, as of July 1996, these job series and grade levels include nearly 5,500 positions at DFAS. These and comparable military positions are generally the same as the key financial managers included in our surveys, which we identified in conjunction with DOD.

Further, DOD did not fully agree with our recommendation that the Under Secretary of Defense (Comptroller) develop and implement a formalized, structured training program for financial management personnel throughout the department in conjunction with the DOD Chancellor for Education and Professional Development. Rather, DOD stated that DFAS will be charged with developing a generic plan that can be used as a model, but that individual organizations should be allowed flexibility in implementing the career management plans. While it is appropriate for DFAS to develop a model or baseline plan for DOD's financial management staff, the role of the Under Secretary of Defense (Comptroller) is critical in both the development and implementation of formalized, structured training programs for financial management personnel throughout the department. Although individual organizations may have to tailor such programs for the specific needs of their staffs, the oversight of the Comptroller is crucial to ensure that such training is consistent and as current as possible throughout the department. Moreover, as stated in the report, the CFO Act specifically charges agency CFOs with responsibility for overseeing the training of personnel to carry out agency financial management functions.

In addition, regarding our recommendation that these training programs be developed in conjunction with the DOD Chancellor for Education and Professional Development, the Chancellor would not be able to carry out the responsibilities defined in the Secretary of Defense's 1997 Defense

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Reform Initiative if he or she were not involved in the coordination and administration of the training of DOD's financial managers.

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This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight within 60 days of the date of this report. You must also send a written statement to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of this report.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs; the House Committee on Government Reform and Oversight and its Subcommittee on Government Management, Information, and Technology; and the Director of the Office of Management and Budget. We are also sending copies to the Director of the Defense Finance and Accounting Service; the Assistant Secretaries of the Air Force, Army, and Navy (Financial Management and Comptroller); and to the Under Secretary of Defense (Comptroller). Copies will also be made available to others upon request.

If you have any questions about this report, please contact me at (202) 512-9095. Major contributors to this report are listed in appendix IV.

Sincerely yours,



Lisa G. Jacobson  
Director, Defense Audits

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## Abbreviations

CFO	chief financial officer
CGFM	Certified Government Financial Manager
CPA	Certified Public Accountant
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GS	general schedule
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget

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# Scope and Methodology

In developing the information for this report, we drew upon the data gathered and summarized in each of the individual reports on the qualifications of financial managers in the Office of the DOD Comptroller, the Air Force, the Army, the Navy, and DFAS. We also drew upon the information gathered from our audit of the state governments and private sector companies that may be useful to DOD in assessing changes needed to enhance its financial management workforce. The audit work for these six GAO audits was performed in accordance with generally accepted government auditing standards from June 1996 through March 1998. To supplement the earlier reports, we obtained information from each service and DFAS about their plans to augment or improve the qualifications of their financial management personnel. We also reviewed prior audit reports from GAO and the DOD Inspector General. We requested written comments on a draft of this report from the Secretary of Defense or his designee. The Under Secretary of Defense (Comptroller) provided us with written comments. These comments are reprinted in appendix III and are discussed in the “Agency Comments and Our Evaluation” section.

Our recent reports covering DOD, the military services, and DFAS focused on those military and civilian personnel that fill key financial management positions. DOD and military service officials helped us identify 1,409 key financial management positions to be included in the surveys out of approximately 32,000 financial management positions throughout DOD. The positions surveyed most often included comptrollers, deputy comptrollers,<sup>1</sup> and budget officers from the military services and accounting and finance managers from DFAS. Individually prepared responses were received from 884 (63 percent) of those surveyed. Table I.1 shows the breakdown, by agency, of the population of financial managers and of the respondents included in the surveys.<sup>2</sup>

**Table I.1: Distribution of Population Survey and Respondents by Organization**

Organization	Population	Respondents	Response rate (percent)
DOD Comptroller	21	19	90
Air Force	204	173	85
Army	301	233	77
Navy	306	194	63
DFAS	577	265	46
<b>Total</b>	<b>1,409</b>	<b>884</b>	<b>63</b>

<sup>1</sup>The Army uses the titles resource manager and deputy resource manager, respectively.

<sup>2</sup>The population does not include all financial managers, such as those in the various defense agencies.

For state governments and Fortune 100 companies, we requested information on the qualifications of key financial management personnel from organizations closest in size and complexity to federal agencies. These organizations included the 25 largest state governments (based on revenues received in 1993, which was the latest available information at the time of the survey) and the 100 largest private corporations in the United States (based on 1995 revenues as reported in the April 29, 1996, issue of *Fortune*, which was the latest available issue at the time of the survey), commonly referred to as the “Fortune 100.”

For the state governments, surveys were sent to the 25 state CFO/Comptroller offices. The 1993 revenues of the state governments responding to our survey ranged from \$10.8 billion to \$108.2 billion. Responses were received from 19 states, including 18 state comptroller offices (or their equivalent) and 67 operational departments within 19 of the surveyed states (one state comptroller office did not respond although one of its departments did respond). The responses, which represented 1,127 state government financial managers, were prepared and submitted by the various state government offices.

For the Fortune 100 companies, surveys were sent to the CFO/Comptroller offices. The responding companies represented nearly all major industry groupings. The 1995 revenues of the private sector respondents ranged from \$12.7 billion to \$79.6 billion. Responses were received from 34 Fortune 100 companies and from 54 divisions or subsidiaries of these companies. The responses, which represented 3,450 private sector financial managers, were prepared and submitted by the various corporate offices.

# Federal Financial Accounting Standards

<b>Number</b>	<b>Title</b>	<b>Issue date</b>	<b>Effective date</b>
1	Accounting for Selected Assets and Liabilities	March 30, 1993	For fiscal years ending September 30, 1994, and thereafter
2	Accounting for Direct Loans and Loan Guarantees	August 23, 1993	For fiscal years ending September 30, 1994, and thereafter
3	Accounting for Inventory and Related Property	October 27, 1993	For fiscal years ending September 30, 1994, and thereafter
4	Managerial Cost Accounting	July 31, 1995	For fiscal years beginning after September 30, 1997
5	Accounting for Liabilities of the Federal Government	December 20, 1995	For fiscal years beginning after September 30, 1996
6	Accounting for Property, Plant, and Equipment	November 30, 1995	For fiscal years beginning after September 30, 1997
7	Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting	May 10, 1996	For fiscal years beginning after September 30, 1997
8	Supplementary Stewardship Reporting	June 11, 1996, adopted by the principals	For fiscal years beginning after September 30, 1997 <sup>a</sup>

<sup>a</sup>Except for the consolidated financial report of the federal government.



# Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100



JUN 16 1998

Mr. Gene L. Dodaro  
Assistant Comptroller General  
Accounting and Information Management Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "FINANCIAL MANAGEMENT: Training of DOD Financial Managers Could Be Enhanced," dated May 21, 1998 (GAO Code 918933/OSD Case 1625).

The Department agrees with the general conclusion presented in the report regarding providing a strong emphasis on training as a means of upgrading workforce knowledge of current financial management, accounting, and reporting requirements. The enclosure provides additional information regarding the specific recommendations.

Thank you for the opportunity to comment on the draft report.

Sincerely,

William J. Lynn

Enclosure

GAO DRAFT REPORT DATED MAY 21, 1998  
(GAO Code 918933) OSD CASE 1625

"FINANCIAL MANAGEMENT: TRAINING OF DOD FINANCIAL  
MANAGERS COULD BE ENHANCED"

DEPARTMENT OF DEFENSE COMMENTS TO  
THE GAO RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense ensure that the Under Secretary of Defense (Comptroller/CFO) and the Director, Defense Finance and Accounting Service (DFAS) modify the DFAS Financial Management Career Development Plan to include the following:

- Minimum annual training requirements, the majority of which should be in technical accounting or related financial management training courses.
- Key competencies associated with knowledge of accounting concepts, such as the Statement of Federal Financial Accounting Standards and Joint Financial Management Improvement Program's systems requirements for all DoD financial management job series.
- A specific curriculum that provides a linkage between general courses and/or subject areas to specific training courses that can be used to attain an identified competency.
- Procedures to ensure that both new hires and current financial management staff attain relevant competencies. (pp. 25-26/GAO Draft Report)

**DOD RESPONSE:** Partially concur. The Department generally agrees with the recommendation but requests that the first bullet be changed to read "minimum annual training goals" instead of "minimum annual training requirements." Tracking achievement of required training and levying penalties for not meeting requirements would be extremely difficult to implement. Additionally, factors such as a lack of training funds can impede an employee's ability to attain all "required" training within a specified period. Further, while it may be possible to specify training requirements for many financial management job series, it may not be feasible, or beneficial to do so for all financial management job series for all grade levels.

See comment 1.

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**Appendix III**  
**Comments From the Department of Defense**

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense ensure that the Under Secretary of Defense (Comptroller/CFO) develop and implement a formalized, structured training program for financial management personnel throughout the Department that takes into account the DFAS Financial Management Career Development Plan and those initiatives that are either underway or planned in the military services. The GAO further recommended that this program be developed in conjunction with the DoD Chancellor for Education and Professional Development. (p.26/GAO Draft Report)

DOD RESPONSE: Partially concur. DFAS will be tasked to develop a generic plan that can be used as a model and baseline for Military Department or Defense Agency unique career management plans. This plan will provide a valuable tool to guide the Military Departments and Defense Agencies in updating standards for a highly trained and qualified workforce. Differences in organizational structures and work processes will be recognized and flexibility will be allowed in implementation of career management plans. A standard plan that does not accommodate the Department's different organizational structures and needs will not serve to improve the quality of our financial management workforce.

See comment 1.

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**Appendix III**  
**Comments From the Department of Defense**

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The following is GAO's comment on the Department of Defense's letter dated June 16, 1998.

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**GAO Comment**

1. Discussed in the "Agency Comments and Our Evaluation" section of the report.

# Major Contributors to This Report

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