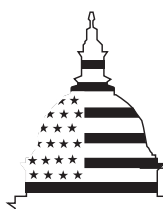


November 2000

**CENTERS FOR
DISEASE CONTROL
AND PREVENTION**

**Independent
Accountants Identify
Financial Management
Weaknesses**



G A O

Accountability * Integrity * Reliability



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

November 15, 2000

The Honorable Arlen Specter
Chairman
The Honorable Tom Harkin
Ranking Minority Member
Subcommittee on Labor, Health
and Human Services and
Education
Committee on Appropriations
United States Senate

The Honorable Pete Domenici
United States Senate

The Honorable Jeff Bingaman
United States Senate

On October 12, 2000, PricewaterhouseCoopers (PwC), an independent accounting firm, issued its report on the Centers for Disease Control and Prevention's (CDC) financial management¹ operations. You asked us to monitor and report on that effort. This report documents our concurrence with the report's findings, conclusions, and recommendations and provides our analysis regarding financial management deficiencies at CDC.

In 1999, the Department of Health and Human Services' Office of Inspector General reported that a component of the department, CDC, had redirected funds intended for the Chronic Fatigue Syndrome to other programs during fiscal years 1995 through 1998. Additional reports alleged that hantavirus funds had also been redirected. CDC has begun to scrutinize its financial management operations and has committed to Congress to take a series of corrective actions. These actions include (1) contracting with an outside

¹In its report, PwC uses the term "fiscal management" to encompass budgeting, accounting, financing, and reporting functions, whereas, it uses the term "financial management" to refer solely to accounting and financing activities. GAO, CDC, and other federal agencies typically use the term "financial management" to encompass the same elements for which PwC uses "fiscal management"—budgeting, accounting, finance, and reporting. Therefore, throughout this report, we use the term "financial management" when PwC used the term "fiscal management" in its report.

firm to help CDC improve its system to allocate overhead costs, (2) working with a wide range of organizations, including congressional committees, to improve CDC's budget presentation to the Congress, (3) shortening the time for making tentative budget ceilings available to CDC managers, (4) increasing the number of accountants in its financial management organization, and (5) an external review of the agency's financial management practices. To complete the external review of its financial management practices, CDC contracted with PwC. Specifically, CDC asked PwC to examine its financial management processes, systems, and human capital management. This work included a review of CDC's budget allocation and budget execution processes, the skill levels and experience of staff involved in financial management activities, and related manuals. CDC also asked PwC to benchmark CDC's financial management practices against those of other federal agencies' and private sector organizations' best practices.

Results in Brief

Overall, PwC found that CDC's financial management capabilities have not kept pace with its expanding mission and funding growth. PwC found significant weaknesses in CDC's financial management procedures, operations, systems, and staff. Collectively, these problems illustrate that CDC's financial management practices are not working well. According to PwC, financial management has been a distant second priority in relation to CDC's other functions. PwC makes numerous recommendations to correct these deficiencies and to build a sound financial management structure at CDC.

We concur with both PwC's conclusions and recommendations. Implementing PwC's recommendations will require a long-term commitment and years of sustained effort throughout CDC. The problems PwC discusses in its report are not limited to CDC's Financial Management Office (FMO). Correction of these deficiencies will require CDC to create plans for implementing and to subsequently follow through on a comprehensive financial management improvement strategy. An implementation strategy is particularly important because of the complexity of CDC's operations and the extent of its recurring financial management weaknesses and problems. PwC has provided CDC a framework for creating its improvement plan, to which CDC can add additional details and milestones.

The key to CDC's success is (1) increasing the visibility of financial management by making it an agencywide priority and (2) increasing the

accounting expertise of CDC's financial management leadership and staff. Such actions will improve chances that CDC will stay the course in implementing PwC's recommendations so that financial management will become a valued partner in enhancing CDC's public health missions. We are recommending that CDC (1) implement a comprehensive financial management improvement plan and (2) implement changes to elevate financial management's visibility and improve accounting expertise.

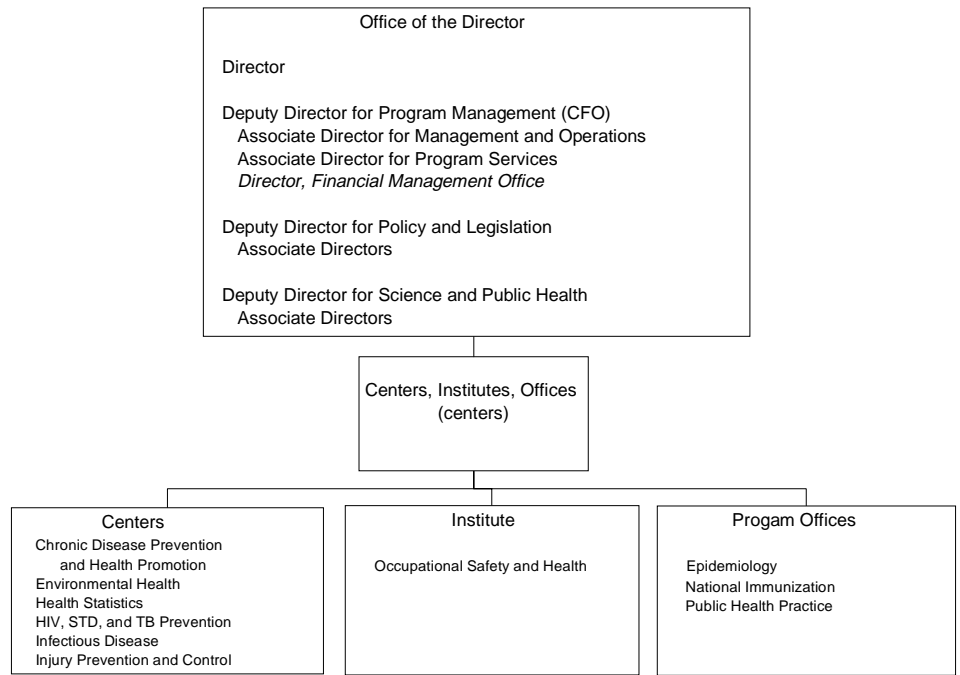
In commenting on a draft of this report, the Director of CDC stated that overall, CDC agreed with PwC's findings and recommendations and our concurrence with those findings and recommendations.

CDC's Mission and Organization

CDC is the lead agency for promoting health and quality of life by working to develop technology and innovations for preventing and controlling infectious and chronic diseases, injuries, workplace hazards, and disabilities. Its mission puts CDC at the forefront of our nation's efforts to improve the health and well being of the American public and covers a wide array of diseases, viruses, organisms, injuries, behaviors, and other public health risks.

To accomplish its mission, CDC is organized into centers, institutes, and offices (referred to in this report as "centers") with widely diverse mandates and scopes of work as CDC's organization chart in figure 1 illustrates.

Figure 1: CDC Organization Chart



Source: CDC.

Historically, the centers and their divisions have operated independently and have been given latitude in managing both their program and financial operations. The centers fund numerous public health projects undertaken by both domestic and international public health and community organizations.

CDC's mission and funding have expanded rapidly in the last decade. Commensurate with this growth and its mission and worldwide activities, CDC's budget has grown from \$1.1 billion in fiscal year 1990 to over \$3.7 billion in fiscal year 2000. CDC's annual budget has grown to 19 activities and over 130 subactivities. Responsibility for using budget authority for some of them has been shared by more than one center or division, which complicates the tracking of CDC's budget allocations and the subsequent use of appropriated funds as well as establishing accountability.

Scope and Methodology

To effectively monitor and evaluate PwC's work, we reviewed its methodology for conducting its work, its data collection techniques, resulting analysis, and the draft and final reports. PwC used six primary methods to complete its review, including interviews, facilitated group sessions, a risk culture survey, review of selected CDC documentation, benchmarking, and walk-throughs of system processes.

To obtain assurance about PwC's methodology, we reviewed and commented on its questionnaire used to interview employees; its questions and implementation methodology for a survey designed to assess the level of risk related to financial management practices at CDC—that is, a risk culture survey; and its objectives, agenda, and techniques used for the facilitated group sessions. The facilitated group sessions were a series of discussions among CDC staff that were led by a PwC representative who recorded participants' responses to questions and shared the results with the group for further discussion. We also reviewed PwC's approach for performing the benchmarking effort.

To gain assurance about PwC's data collection efforts, we attended approximately 20 percent of its interviews with CDC personnel and reviewed PwC's interview notes. We also attended interviews with congressional staff and Department of Health and Human Services officials. We reviewed the risk culture survey, facilitated group session, and benchmarking results, as well as documentation of CDC's financial management processes and systems. We also attended PwC's status meetings with CDC.

To obtain comfort with PwC's analysis, we compared our preliminary conclusions with its findings and recommendations. We also compared the findings, conclusions, and recommendations in PwC's draft and final report.

We performed our work from May through September 2000, at CDC headquarters in Atlanta, Georgia; at its remote location in Fort Collins, Colorado; at PwC's Atlanta office; and at congressional offices in Washington, D. C. We conducted our work in accordance with generally accepted government auditing standards. We requested comments from the Director of CDC or his designee on a draft of this report. The Director provided us with written comments, which are discussed in the "Agency Comments and Our Evaluation" section, and reprinted in appendix I.

PwC's Findings, Conclusions, and Recommendations

Overall, PwC found that CDC's financial management processes, procedures, systems, and capabilities have not kept pace with its expanding mission and funding growth. PwC found significant weaknesses in CDC's procedures, operations, systems, and staff skills sets. PwC also found that CDC's problems have accumulated over several years, stating that financial management appears to be suffering from neglect and is a distant second priority to CDC's other functions. PwC also reports that CDC has begun to correct some of its weaknesses. To describe the conditions at CDC, PwC grouped its findings into seven categories.

Financial Management Culture: PwC's report states that "science rules in CDC's culture." While the business of CDC is indeed science, this maxim has led to a culture that has not recognized the value of financial management. Specifically, PwC notes that CDC could benefit from recognizing the contribution that sound financial management operations can make in supporting CDC's scientific mission. As evidence of CDC's current culture, PwC reports that few center directors or associate directors for management and operations have financial management backgrounds or substantive financial management experience. Generally, the center associate directors are responsible for financial management activity at the center level. PwC also reports that center-level funding decisions have traditionally favored scientific over administrative positions to the detriment of CDC's overall financial management capabilities. PwC notes that although many commercial enterprises have come to view weak financial management and inaccurate financial reporting as one of their biggest risks, CDC's culture has not traditionally placed a high value on financial management.

PwC reports that CDC should elevate the value of financial management by making it an agencywide priority. To that end, PwC recommends that the CDC director continue his recent efforts to set a clear tone at the top by announcing that CDC will develop an agencywide financial management excellence initiative. According to PwC, this initiative should be designed to move from interim corrective action measures to a comprehensive, long-term improvement plan for all aspects of financial management: process, systems, and people. Because financial management operations are not confined to FMO, but are conducted in every center, PwC recommends that this initiative include incorporating a core set of financial management principles and responsibilities into the mission statement for FMO and financial management activities into the mission statement for other parts of the agency. PwC also recommends creating an agencywide financial

management improvement plan with the participation of managers from across CDC. PwC notes that implementing many of its recommendations will require a significant commitment of resources, which requires cooperation between CDC management and its constituents.

Financial Management Leadership: At the time PwC began its review, CDC had begun interim corrective actions for some of its problems, and PwC found that CDC's senior leadership had begun to develop a sense of accountability and urgency in improving financial management practices. However, PwC also found that senior CDC officials in financial management leadership positions do not have extensive accounting expertise, nor do they have professional or technical accounting credentials. Also, PwC reports that FMO staff members are generally not viewed by the centers as having expertise in financial management or as having an internal customer focus. PwC concluded that CDC would have difficulty moving toward excellence in accounting practices without an experienced accounting professional in a leadership position who is vested with the requisite authority and resources to implement the recommendations in PwC's report.

To strengthen financial management leadership, PwC recommends that CDC make organizational changes to achieve an optimal financial management organizational structure. This restructuring should enhance the agency's leadership and expertise in accounting. PwC emphasized that any organizational realignment must include the appointment of a champion for the Financial Management Excellence initiative—a person with accounting experience and credentials.

PwC reports that CDC's decisions about reorganizing and strengthening its financial management leadership will profoundly effect the success or failure of actions taken to implement PwC's other recommendations. PwC notes that CDC's decisions, therefore, must achieve three goals. First, CDC must be able to sustain improvement in its financial management leadership over the long run—beyond the time frame of the PwC-recommended improvement initiative. Second, CDC must enhance its accounting and financial management credibility with both its internal and external stakeholders. To assist in this process, PwC recommends that CDC establish an internal customer satisfaction measurement process. Third, CDC must select a champion for the improvement initiative who is an experienced accounting professional and vest that person with the authority and accountability necessary to succeed.

Staff Competency Levels: PwC reports that financial management staff and competency levels should be strengthened. PwC found four conditions that have led to weaknesses in staff competencies. First, the current appraisal system is not providing the financial management-related feedback necessary to manage performance effectively. Second, the current financial management position structure is inconsistent across the agency. Current pay grades do not accurately reflect job complexity and workload volume, which is inhibiting CDC's ability to attract and retain financial management staff. Third, current training and knowledge sharing is only marginally effective. Training content focuses on theory rather than practical application, and many of the available training courses are not taken. Fourth, CDC has no structured career path in financial management positions. Where career tracks are defined, they are not often followed because of constraints, such as CDC's administrative-averse culture, grade limitations, and lack of incentive. PwC reports that, collectively, these conditions have led to deficiencies in financial management competency and an insufficient number of qualified staff and are adversely affecting operational effectiveness.

To build financial excellence into the agency at large, PwC recommends that CDC establish an integrated financial management workforce development program, including financial management certification. PwC provides CDC specific recommendations to address each of the conditions PwC describes. Its recommendations include designation of a financial management workforce resource and professional development manager. This person could work with CDC's human resources group to develop training and to redesign CDC's position descriptions, grade structure, and performance appraisals to more accurately reflect CDC's current needs.

Processes and Practices: PwC concluded that CDC's current financial management processes could benefit from greater rigor and consistency. PwC reported that (1) procedural guidance and direction from FMO to the centers is not adequate, (2) fragmented and incompatible financial management systems are more damaging because of internal control weaknesses, and (3) the ad hoc manner in which CDC's common account structure has evolved has resulted in a chart of accounts that is inconsistent in both content and use. PwC noted that CDC's philosophy of providing maximum flexibility to the centers on financial management policy issues has led to a lack of practical "how to" instructions in some centers. For example, some centers have well-developed processes for budget projections and accounting reconciliations while others do not. Inadequate procedural guidance and insufficient understanding has turned

what was intended to be flexibility into continued misunderstandings and requests for more guidance.

PwC noted that the centers need more guidance on financial management procedures and recommends that CDC create a plan to develop and communicate practical guidance in financial management processes and systems. PwC notes that this plan should specify modules to develop and disseminate in the immediate, short, and long term. PwC also recommends that CDC analyze and evaluate the entire common account structure in light of current and future information needs.

Information and Communication Gaps: PwC reported that numerous gaps in communicating financial management information exist throughout the organization and between FMO and the centers. PwC concluded that improvements in information flow and communication could significantly improve management effectiveness. CDC staff reported that the most significant financial management issue causing them frustration related to the untimely notification of final budget ceilings to the centers, divisions, and branches. CDC staff reported that they sometimes do not receive final budget ceilings until April or later, thus limiting their ability to effectively manage and obligate funds. PwC found that FMO needed to provide timely and periodic updates about financial management activity on procedures such as changes in the common account structure. PwC also found that in some instances center-level management rather than FMO was causing bottlenecks in communication to the divisions and branches about such things as congressional intent and changes in budget ceilings.

PwC recommends that CDC establish fixed time frames for final budget ceiling notifications to all levels of CDC following receipt of its appropriation. PwC also recommends establishing a knowledge management and redesign plan for financial management processes. According to PwC, this plan should include (1) commitments to communicate important financial management information promptly and (2) a strategy for developing and publicizing a network of expert resources for key financial management areas that staff performing financial management tasks can go to for advice and practical “how to” instruction.

Financial Management Information Systems: PwC reports that systems supporting financial management must be understood better, used more fully, and applied more consistently. Currently, system capabilities are fragmented with no one system capable of satisfying all users’ needs. The overriding sentiment among CDC staff was one of “Which system should I

use for what tasks?” followed by “Show me how to use it.” Because systems are fragmented, inconsistencies in output occur that lead to a lack of data integrity. PwC found that system problems exist because there is no central financial management systems owner, nor is there a network of applications subject matter experts to offer users practical advice and guidance.

PwC supports CDC’s efforts to move toward replacing its multiple systems with one integrated accounting system that meets its unique needs. PwC recommends that as CDC moves to an integrated system, it ensure that the system is user friendly and highly functional and that CDC establish a feedback process for users to report system capability shortfalls. In the meantime, PwC recommends development of an interim improvement plan to foster greater consistency, efficiency, and internal control in existing systems’ applications. This effort would include designating a systems owner to maintain and control all systems’ documentation, standard operating procedures, upgrades, user training documentation, and to be a repository of all user issues. The systems manager would also work with FMO to design and implement a financial management system expert user network that staff could go to for assistance.

Budget Structure and Operating Environment: PwC reports that CDC’s budget structure and operating environment are very complex. PwC notes that the normal complexity of CDC’s programs has been compounded over the years by many factors, some of which were self-created. For example, the number of budget activity and subactivity line items has expanded over the years, in part, to represent program activities in a greater level of detail to appeal to CDC’s constituents and partners. CDC has over 130 subactivities displayed in its annual budget justification. PwC found that the accompanying accounting system has had nearly 14,000 common account numbers, further complicating financial management. PwC further states that as the agency struggles to manage the structure that has evolved, inadvertent mistakes and omissions might occur that could be misinterpreted by constituents as willful neglect. PwC also states that this expansion has inadvertently reduced the amount of flexibility in funding program activities necessary to respond to changes in public health needs.

PwC recommends that CDC continue its efforts to simplify and streamline its budget structure and presentation. PwC also recommends that CDC expand its limited review of a few common account numbers into a review of the entire structure.

GAO Analysis

We concur with PwC's findings, conclusions, and recommendations. Collectively, the problems PwC identified describe a financial management operation that does not work well. They also depict an agency that has not developed the characteristics of organizations with world-class financial management operations that we discuss in our Executive Guide.² Those organizations (1) made financial management an entitywide priority through clear, strong executive leadership, (2) redirected financial management's role toward meeting the organization's mission and goals, (3) developed a customer-focused financial operation, incorporating both people and systems, that provided useful information to management, and (4) built a financial management team that had the right mix of skills and competencies to deliver results.

Achieving world class status in financial management at CDC will require a sustained long-term effort. The key is leadership. CDC's director and CFO must continue their efforts to (1) change CDC's culture to one that values the contributions financial management can make to achieving CDC's public health missions and (2) improve financial operations and their associated services. These objectives are interrelated. To achieve them, CDC must (1) place well-qualified individuals with experience and expertise in financial management, especially accounting, in senior financial management positions to effectively lead and implement change throughout the agency and (2) build a financial management team that has the right mix of skills to deliver results.

To accomplish the first objective of changing CDC's culture, PwC recommended that CDC elevate the status of financial management to a key priority for the agency. Specifically, PwC recommended that the CDC director (1) begin a financial management excellence initiative to improve CDC's overall financial management capabilities and services and (2) make organizational changes to achieve an optimal financial management organizational structure that enhances financial management's status within CDC and improves financial management leadership's technical ability and credibility throughout CDC. These recommendations are critical for ensuring CDC's success in permanently improving its financial management operations and changing its culture to value financial management. Cultural change is a difficult, long-term process. A crucial

²*Executive Guide: Creating Value Through World-Class Financial Management* (GAO/AIMD-00-134, April 2000).

element in achieving long-term success is having executive leadership that sets and maintains the appropriate tone at the top. This process has begun at CDC, but needs to be enhanced and carried through. The CDC Director's personal leadership along with that of the Chief Financial Officer (CFO) in setting the tone should be visible and unambiguous. A financial management excellence initiative, as PwC recommends, with specific objectives and goals can become a cornerstone in setting the right tone.

Realigning and restructuring CDC's financial management leadership should become another cornerstone. This restructuring should emphasize the importance of financial management by increasing its visibility and by improving the accounting expertise and experience of senior FMO officials and by enhancing financial management's status within CDC. As PwC reports, CDC's decisions about organizational realignment to strengthen its financial management leadership will have a profound effect on the success or failure of actions taken to implement PwC's other recommendations. PwC also reports that any realignment must (1) position CDC to be able to sustain improvement in its financial management leadership over the long run, (2) enhance CDC's accounting and financial management credibility with both its internal and external stakeholders, and (3) include a financial management improvement champion who is an experienced accounting professional and who is vested with the authority and accountability necessary to succeed.

Integral to achieving these goals is increasing CDC's focus on financial management. CDC's CFO, who reports directly to the CDC Director as the Deputy Director for Program Management, has significant responsibilities other than financial management. Therefore, until recently, the leadership for financial management has been provided primarily by the FMO director, who functions like a Deputy CFO. However, the FMO director also has significant responsibilities beyond his financial management role. He also has responsibility for legislative affairs. With these competing priorities, the FMO Director has focused much of his attention on legislative affairs. As a result, insufficient attention was provided to budgeting and accounting activities. This appears to have contributed, in part, to the financial management weaknesses PwC identified.

In commenting previously on implementation of the CFO Act of 1990 (Public Law 101-576), especially in the early years of the act, we expressed concern that some agencies had simply added the CFO responsibilities to existing positions that encompass other broad and significant management and administration responsibilities. We noted that this arrangement was

basically the way financial management responsibilities were structured before passage of the CFO Act, and that approach did not work. We further noted that its continued use, in cases in which the CFO had a large number of responsibilities beyond financial management, could dilute the CFO's role, rather than fostering needed urgency and undivided attention on financial management issues. Over the years, we have seen dramatic changes to address this issue across government.

In addition to realigning and restructuring CDC's financial management leadership, increasing the leadership's expertise in accounting is also integral to achieving the goals set out above. The lack of accounting expertise among CDC's senior managers may have also led to insufficient attention to critical financial management issues and activities. Neither the CFO nor the FMO Director has formal training or extensive expertise in accounting. Without such expertise, senior managers may not have the perspective necessary to provide the type of leadership needed to achieve a world-class financial management operation. As PwC observes, CDC will have difficulty moving toward excellence in financial accounting practices without a thoroughly experienced accounting professional in a leadership position who is vested with the requisite authority and resources to implement the recommendations in PwC's report. As PwC notes, any restructuring of CDC's financial management should enhance the agency's leadership and expertise in accounting. PwC also emphasized that any organizational realignment must include the appointment of a champion for the financial management excellence initiative who has financial management experience and credentials. It is essential that this capacity be acquired at the CFO and Deputy CFO levels.

Filling senior financial management positions with experienced accounting professionals would align CDC's financial management with the concepts envisioned in the CFO Act and associated Office of Management and Budget (OMB) guidelines.³ Specifically, the CFO Act calls for the CFO to have, among other things, significant general managerial or other practical involvement relating to financial management. In addition, OMB's guidelines call for the CFO to have direct knowledge of and experience with budget execution concepts, financial accounting and reporting concepts and issues, and internal management control processes. The CFO

³Memorandum for the Heads of Executive Branch Department and Agencies Subject to the Chief Financial Officers Act of 1990 from the Director, Office of Management and Budget, Executive Office of the President, February 9, 1993.

Act and OMB's guidelines call for the Deputy CFO to have demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development. OMB's guidelines further call for the Deputy CFO to have in-depth experience in financial accounting and reporting concepts and principles as well as demonstrated ability to effectively implement financial management policies in complex organizations. CDC's current CFO structure does not have the extensive accounting experience envisioned by the act and its implementing guidelines.

Achieving the appropriate level of expertise at senior financial management levels will require CDC to recruit executives with extensive accounting experience, which may be time-consuming for CDC and may not be achieved in the short term. However, beginning the process of cultural change, improving financial management services, and enhancing financial management leadership must begin now even if it means appointing someone on an interim basis to carry out these responsibilities. If CDC management chooses such an interim measure, it must keep focused on the ultimate goal of formally realigning CDC's financial management to increase both its visibility and its accounting and financial management expertise. Only permanent change can ensure long-term success in improving CDC's financial operations and services as well as changing its culture.

Also important to implementing cultural change is establishing accountability and reporting structures for financial management functions performed in the centers and their divisions and branches. PwC recommends realigning the reporting structure so that personnel in the centers report to the CFO for the financial management functions they perform. PwC's recommendation is consistent with the requirements of the CFO Act and the findings of our Executive Guide. The CFO Act requires that the CFO have cognizance of and responsibility for all financial matters, including all financial management activities relating to programs and operations. Our Executive Guide also noted that world-class organizations' financial managers have line responsibility over financial management operations throughout the organization for all aspects of financial reporting. With such changes at CDC, both center management and the CFO can share responsibility, accountability, and authority over the staff performing financial management activities in the centers, thus ensuring that CDC's financial management leadership can influence change throughout CDC.

To accomplish the second objective of improving financial operations and their associated services, CDC's implementation of PwC's recommendations to strengthen the skill sets of CDC staff performing financial management functions both within the formal financial management structure and within the centers are particularly important. These recommendations comport with our Executive Guide's finding that world-class organizations place a priority on building a financial management team that delivers results in terms of providing line managers with meaningful information for decision-making. PwC's report makes specific recommendations for improving staff expertise.

To assist in accomplishing the second objective, CDC must also improve financial management systems by integrating the operation of systems and managers' needs. PwC's report describes a financial management information system environment that does not work for the users and does not easily produce useful information for managers. In our Executive Guide, we point out that organizations with world class financial management have developed systems that support the partnership between finance and operations. One key characteristic of these organizations is that their automated systems are designed and employed to not only accurately measure the costs of activities, but to also provide line managers with timely, accurate financial and nonfinancial information on the quality and efficiency of business processes and performance. PwC recommends, among other things, that as CDC moves to an integrated system, it ensure that the system be user friendly and highly functional and that CDC establish a feedback process to allow users to report system capability shortfalls. Implementing PwC's recommendations will move CDC closer to the goal of integrating its systems with its program needs.

Conclusions

The problems and financial management weaknesses PwC discusses are not confined to FMO—they exist to varying degrees throughout CDC. These weaknesses did not develop overnight. They are the result of years of financial management neglect. Until recently, financial management has been a low priority in relation to other CDC activities and has not been a valued partner with CDC's program managers. Consequently, correcting its weaknesses, building a strong financial management operation and sound financial controls, and changing CDC's culture to value financial management will require top-level executive leadership and a concerted and consistent effort for several years. CDC's Director and CFO should be personally involved in setting the tone and communicating that improving financial management is a key CDC priority.

CDC's Director can demonstrate the importance of financial management by realigning CDC's financial management structure to increase the accounting expertise of the senior managers within the CFO structure and by elevating the visibility of financial management. Filling key financial management positions with highly qualified and experienced people with proven track records can enhance CDC's ability to stay the course in building its own world-class financial management operation.

The strengthening of financial management operations that can result from the organizational changes that PwC recommends and the implementation of a comprehensive improvement plan would be in keeping with the intent of the CFO Act. One underlying purpose of the act is to transform financial management into a strong support activity that provides federal managers information for achieving core agency missions. It would also be in keeping with our financial management Executive Guide, which emphasizes that agencies make financial management improvement an agencywide priority in order to build a foundation of control and accountability and make financial managers partners with program managers. As CDC invests time, effort, and resources in improving its financial management, CDC and its constituents should remain focused on the ultimate objectives: to improve accountability for public funds and to help program managers achieve their public health missions.

As CDC engages in the process of upgrading its financial management operations, it can use PwC's report as a guide. PwC has provided CDC with both a framework and critical steps for beginning a long-term upgrading effort. PwC recommends immediate-, short-, and longer-term steps that CDC needs to undertake. It will be important that CDC incorporate PwC recommendations into a comprehensive financial management improvement plan and develop a strategy for implementing it. Such a comprehensive plan would (1) include short- and long-range plans with clearly defined objectives and goals, (2) identify specific corrective actions with corresponding target dates and resources necessary to implement those actions, and (3) identify offices and staff responsible for implementing the corrective actions to establish accountability. Accountability is an important vehicle for increasing the chances of successful implementation outcomes. Although PwC has provided much content for a plan, CDC must now fill in the details and begin to expeditiously implement it.

Recommendations

To improve financial operations and to begin changing CDC's culture to value financial management, we recommend that the CDC Director take the following actions:

- Prepare and expeditiously implement a comprehensive financial management improvement plan that incorporates the over 60 recommendations in PwC's October 12, 2000, report on its management review of CDC's financial management practices.
- Implement changes to its CFO organization to enhance the skill sets of its financial management staff and increase the overall visibility of financial management. In implementing these changes, CDC should ensure that its CFO executives have expertise and proven track records in their respective areas, especially in accounting.

Agency Comments and Our Evaluation

In written comments (reprinted in appendix I) on a draft of this report, the Director of CDC said that CDC concurred overall, with PwC's findings and recommendations and our concurrence with those findings and recommendations. He noted that PwC's report identifies areas where improvements are necessary for CDC to achieve financial management excellence. He also stated that PwC's report identifies a number of financial management strengths at CDC. In addition, the Director said that our report would be helpful as CDC addresses structural factors that led, in part, to financial management deficiencies. CDC also provided technical comments, which we have incorporated as appropriate.

As agreed with your offices, unless you publicly announce its contents earlier, we will not distribute this report until 30 days from its date. At that time, we will send copies to Representative John E. Porter, Chairman, and Representative David R. Obey, Ranking Minority Member, Subcommittee on Labor, Health and Human Services and Education, House Committee on Appropriations. We will also send copies to the Honorable Jacob J. Lew, Director of the Office of Management and Budget; the Honorable Donna Shalala, Secretary of Health and Human Services; and Dr. Jeffrey P. Koplan, Director, Centers for Disease Prevention and Control. Copies will be made available to others upon request.

This report was prepared under the direction of Gloria L. Jarmon, Director, who may be reached at (202) 512-4476 or by e-mail at jarmong.aimd@gao.gov, if you or your staffs have any questions, or you may contact Debra Sebastian at (202) 512-9385 or by e-mail at

sebastiand.aimd@gao.gov. Ray Bush, Sharon Loftin, Meg Mills, Ruth Sessions, and Dave Shoemaker were key contributors to this report.

A handwritten signature in black ink, reading "Jeffrey C. Steinhoff". The signature is written in a cursive style with a large initial "J" and a distinct "C" before the last name.

Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance

Comments From the Centers for Disease Control and Prevention



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30333

OCT 31 2000

Mr. Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Steinhoff:

We appreciate the efforts of your team in working with the independent public accounting firm that conducted a comprehensive review of the Centers for Disease Control and Prevention's (CDC) fiscal management practices over the past six months. This external review of CDC's fiscal management practices was a major and important element of my six point management action commitment to our appropriations committees in the U.S. Congress earlier this year. This six point plan has been and continues to be our agency's highest management priority.

We concur with the overall findings and recommendations of the public accounting firm's report and the General Accounting Office's agreement with those findings and recommendations. The accounting firm's report identifies a number of areas where improvements are necessary for CDC to achieve fiscal management excellence to complement its scientific excellence. The report also identifies a number of CDC fiscal management strengths that will serve as a strong foundation for future success. As noted in the report, these include:

- passionate commitment to mission across the agency and pride in achievement;
- strong accountability and urgency for fiscal management improvement throughout the agency's leadership;
- agency-wide allegiance to strong ethical principles;
- clear understanding of fiscal management objectives and adherence to existing policies;
- emphasis on sound fiscal management, stewardship, and internal control;
- two years of independent unqualified opinions on the agency's financial statements;
- development of an indirect cost allocation methodology to allocate overhead on a level-of-service basis;
- rigorous collaboration on the development of new and improved ways for displaying the agency's budget to Congress and external constituencies;
- extensive planning and analysis for a new financial management system to meet the agency's future fiscal management and reporting needs; and
- improvements already made in other areas of the six point management action plan.

Appendix I
Comments From the Centers for Disease
Control and Prevention

Page 2 - Mr. Jeffrey C. Steinhoff

Your report will be additionally helpful as we address some of the contributing structural factors that led, in part, to the findings of the report. These include the complexity of the CDC budget, weaknesses and limitations of the existing financial system, and fiscal management human resource issues deriving from certain personnel restrictions.

Also, as noted in your report, achieving fiscal management excellence and making the important structural changes recommended are major undertakings that will require commitment, time, and resources. We look forward to the support of our partners and stakeholders to reach these goals.

Again, we appreciate your team's efforts in helping to identify needed improvements in fiscal management at CDC so we can serve and continue to earn the confidence and trust of the public, our partners and constituencies, the Administration, and the U.S. Congress. We hope that these improvements will allow CDC to better protect the Nation's health and safety.

Sincerely,



Jeffrey P. Koplan, M.D., M.P.H.
Director

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