United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Commerce, Consumer and Monetary Affairs
Committee on Government Operations
House of Representatives

For Release on Delivery
Expected at
9:30 a.m.,
Wednesday
July 13, 1994

FINANCIAL MANAGEMENT

Status of CFO Act Implementation at the Department of the Treasury

Statement of Gregory M. Holloway
Director, Civil Audits
Accounting and Information Management Division

060458/152089

GAO/T-AIMD-94-157

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our preliminary review of financial management at the Department of the Treasury and its efforts to implement the Chief Financial Officers (CFO) Act of 1990. Our review was very limited in scope; however, as you requested, we plan to do additional work at Treasury.

The financial statement audits of Treasury's bureaus, funds, and activities performed pursuant to the CFO Act have identified serious problems with financial management systems and related internal controls at several of the Department's bureaus.[1] We found that Treasury has forthrightly acknowledged these serious problems and has placed strong leadership in key financial management positions. These individuals have demonstrated commitment to the CFO Act and have efforts under way to fix many of Treasury's long-standing problems. While implementing its improvement initiatives will be a long-term endeavor, Treasury should continue to take actions to enhance the CFO structure and ensure that financial management staff are adequately trained.

The five areas of CFO Act implementation which I will discuss today are

-- CFO qualifications,

-- CFO structure,

-- training of financial management staff,

-- financial management systems, and

-- audited financial statements.

For each area, I will discuss the act's requirements, describe Treasury's efforts to address those requirements, and provide our preliminary observations about those efforts.

CFO QUALIFICATIONS

A key element of the CFO Act is the requirement to have a qualified CFO and Deputy CFO who can provide strong financial management leadership throughout the agency. The act stipulated that individuals in these positions are to be responsible for oversight

---

[1]Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994); Financial Audit: Examination of IRS' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-120, June 15, 1994); and 1993 Audited Chief Financial Officer's Annual Report for the United States Mint (OIG-94-084).

of financial management activities relating to agency programs and operations and are to report directly to the agency head on such matters. The CFO Act envisioned this requirement as a foundation for improved financial management in the federal government.

Accordingly, the act established specific qualifications for the CFO and Deputy CFO. The act required that the CFO "possess demonstrated ability in general management of, and knowledge of, and extensive practical experience in financial management practices in large governmental or business entities." The act's requirements for the Deputy CFO were even more specific. This individual was to have "demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development, and not less than six years practical experience in financial management at large government entities."

Currently, Treasury appears to have strong leadership in these key positions. The CFO has sound academic training, is a certified public accountant, and has extensive general managerial experience. The Deputy CFO, who has held this position since it was established soon after the passage of the act, has an extensive financial management background. Both individuals have demonstrated a commitment to the objectives of the CFO Act and have developed plans for implementing its requirements.

CFO STRUCTURE

Treasury reported[2] that it made organizational changes and realigned financial management responsibilities to conform to the act's requirements, and revised many internal policy directives to consolidate departmentwide financial management responsibilities under the Department's CFO. It has mirrored the act's organizational structure at its bureaus. In its 12 bureaus,[3] Treasury currently has 10 CFOs and 1 acting CFO; whereas prior to the passage of the act, it only had CFOs at 2 bureaus (the Internal Revenue Service (IRS) and the Bureau of Engraving and Printing).

Treasury has made commendable efforts; however, it needs to take further actions to ensure that its CFO structure provides effective financial management for the Department's significant and complex financial activities. For example, the Treasury should strive to ensure that the CFO's responsibilities correspond to those listed in the act and that CFO Act implementation is strengthened at the bureau level.

---

[2]Chief Financial Officers Annual Report for Fiscal Year 1992.

[3]The Department of the Treasury comprises 11 distinct bureaus and the Departmental Offices.

CFO Responsibilities

The act envisioned that the CFO and Deputy CFO would have sufficient responsibility and authority to influence and direct financial management decisions throughout the Department. Specifically, the responsibilities of the CFO and Deputy CFO were to include

-- overseeing all financial management activities relating to the agency's programs and operations;

-- developing and maintaining an integrated agency accounting and financial management system, including financial reporting and internal controls;

-- directing, managing, and providing policy guidance and oversight of agency financial management personnel activities and operations; and

-- monitoring the financial execution of the budget and preparing timely performance reports.

Similar to the situation at the Department of Commerce on which we testified[4] on June 28, 1994, before this Subcommittee, Treasury's CFO also performs roles and functions beyond those envisioned by the act. As a result, the CFO has many responsibilities that are marginally related or totally unrelated to financial management. For example, the CFO is responsible for departmentwide procurement and personnel functions. These additional responsibilities have the potential to distract the CFO from promptly concentrating on fixing the significant financial management challenges facing the Department.

In our December 1992 transition series report,[5] we raised concerns that for a number of agencies, such as the situation at Treasury, the CFO designation was added to the position of assistant secretary for management or administration--positions that have very broad responsibilities. This is basically the way financial management responsibilities were structured before the CFO Act, and that approach did not work. Its continuing use, in cases in which the CFO has a large number of responsibilities beyond areas such as budgeting and financial management, could dilute the CFO's role and thereby not foster the needed urgency and undivided attention so vital to the success of this position. Treasury, which has provided broad responsibilities to its CFO, will have to ensure

---

[4]Financial Management: Status of CFO Act Implementation at the Department of Commerce (GAO/T-AIMD-94-150).

[5]Financial Management Issues (GAO/OCG-93-4TR, December 1992).

that the proper attention is placed on pressing CFO matters and, if not, consider appropriate changes.

Bureau CFO Structure

The CFO Act required a CFO and Deputy CFO position at the department level but did not require similar positions at the bureau level. However, the Office of Management and Budget's (OMB) guidance on CFO organization plans[6] recommended that the relationship between the CFO and component financial management activities be reenforced. This could be done through mechanisms such as CFO councils or CFO positions within the bureaus. It is especially important since the CFO Act makes clear that the CFO is responsible for overseeing all financial management activities relating to an agency's programs and operations.

Ten of the 12 bureaus currently have a CFO, and 1 bureau has an acting CFO. Eight of the bureaus have a Deputy CFO, and four have an acting Deputy CFO. Also, Treasury has established a Financial Management Council, which is chaired by the Deputy CFO and consists of financial management representatives, often the CFO or Deputy CFO, from each of the bureaus. This council meets monthly to address financial statement preparation, audit issues, and other financial management topics of interest. In addition, Treasury's Deputy CFO meets periodically with each bureau's CFO to discuss and provide guidance on resolving the bureau's specific financial management problems.

While Treasury has established CFO positions within most of its bureaus, some of these individuals do not have an accounting or finance related education or significant practical experience in financial management. In addition, similar to the situation previously noted for the Department's CFO, several of the CFOs at the bureaus also have many responsibilities that are marginally related or totally unrelated to financial management.

Treasury is a large, diverse agency. This diversity is reflected in its 12 bureaus, which are responsible for such various missions as formulating and recommending domestic and international financial, economic, and tax policy; participating in the formulation of broad fiscal policies that have general significance for the economy; managing the public debt; enforcing various laws, including those concerning Treasury-related crimes, internal revenue laws, tariff and export laws, and laws covering alcohol, tobacco, firearms and explosives; serving as the financial agent for the government; and manufacturing coins, currency, and other products for customer agencies. Bureau operations vary in size and complexity. The largest had a fiscal year 1993 operating budget of

---

[6]Guidance for Preparing Organization Plans Required by the Chief Financial Officers Act of 1990, M-91-07, February 27, 1991.

$7.4 billion, and the smallest had a budget of $111 million for the same period. The two largest bureaus--IRS and the U.S. Customs Service--constitute approximately 73 percent of Treasury's $12.7 billion fiscal year 1993 operating budget. Many of Treasury's bureaus are comparable in size and operation to large companies in the private sector, and several have reported numerous problems with their financial management systems and related internal controls.

Strong financial management leadership, strategically positioned throughout each of these bureaus and delegated appropriate responsibilities and authority, would further assist Treasury in improving its financial management and carrying out the goals and objectives of the CFO Act. For these reasons, we believe that each bureau's CFO and Deputy CFO should possess financial management qualifications and responsibilities similar to those stated in the act for the department-level CFO and Deputy CFO and function as the key liaisons with the Treasury CFO.

TRAINING OF FINANCIAL MANAGEMENT STAFF

The CFO Act requires the CFO to ensure that financial management staff are adequately trained to carry out agency financial management functions. The need for qualified financial management personnel has been recognized by GAO, OMB, and the Congress, and we have reported that well-qualified financial management personnel are critical to carrying out the act's requirements. In our transition series report, we called on the CFOs to address immediately the serious problem of attracting and retaining well-qualified financial management personnel. We said that if financial management staffing problems, which are prevalent across the government, are not dealt with effectively, progress in all areas will languish.

Treasury officials, including the bureau CFOs, recognize the need for improved training for financial management staff. Several of the bureaus' CFOs stated that a departmentwide financial management training program is badly needed. In an effort to strengthen staff capabilities, and thereby enable the Department to more fully implement the CFO Act, the Deputy CFO stated that Treasury plans to establish training curriculum and requirements for all financial management staff. In addition, Treasury has efforts under way to establish a comprehensive employee development program aimed at senior financial managers who are viewed as future CFOs and Deputy CFOs. Treasury officials visualize this training as a CFO Act driven program, directly related to and in response to the act's requirements and aimed at providing a better capability for addressing financial management weaknesses and obtaining unqualified opinions on its financial statements.

Although Treasury Department and bureau officials have made efforts to improve the technical skills held by the financial management staff, there is still room for substantial progress. For example, during our fiscal year 1993 financial statement audits of Customs and IRS, we noted that although top management at these agencies had demonstrated the vision for and dedication to improving financial management, they still face the significant challenge of establishing a financial management team with sufficient expertise to provide the reliable financial information needed to effectively achieve their missions.

It is important for Treasury officials to continue to invest in training to ensure that financial management personnel increase their professional skills to keep pace with emerging technology and developments in financial management. Given the limited opportunities to increase staffing, training and other forms of professional development for existing staff present the most concrete opportunities for Treasury to enhance staff capabilities. Treasury should place a high priority on fulfilling its plans to establish training requirements for all financial management staff and should monitor adherence to the requirements to ensure that staff are receiving the training.

In our transition series report, we called on the CFOs to place greater priority on training efforts and suggested that financial management personnel be required to participate in a minimum amount of continuing professional education (CPE). For example, government auditors are required to attain 80 hours of CPE every 2 years, and this requirement has helped ensure audit quality and professionalism.

FINANCIAL MANAGEMENT SYSTEMS

The Department of the Treasury recognizes that it continues to have serious problems with a number of its financial and revenue systems and is acting to correct them. Treasury is the primary revenue collector for the federal government: For fiscal year 1993, it reported collections of $1.2 trillion by IRS, $21.6 billion by Customs, and $12.9 billion by the Bureau of Alcohol, Tobacco and Firearms. In addition to these major revenue collectors, Treasury's Bureau of Public Debt is charged with accounting for the over $4.4 trillion of borrowings of the federal government and the related interest costs, which amounted to $292.5 billion in fiscal year 1993. The activities of each of these bureaus have a tremendous impact on the operations of the federal government; yet, each continues to have significant problems with its financial and revenue systems.

For instance, the Treasury Inspector General (IG) reported[7] problems with various accounting systems at the Bureau of Alcohol, Tobacco and Firearms. Specifically noted were deficiencies in the

[7]Semiannual Report to the Congress, March 31, 1994.

accounting systems intended to account for and report excise tax collections and control the bureau's inventory of over 13,000 firearms.

In addition, in its 1992 Annual Report, Treasury reported that the primary automated system utilized by the Bureau of Public Debt to perform financial management responsibilities is on the verge of technical obsolescence. This system is not an integrated accounting system and, therefore, requires the Bureau to maintain ad hoc systems to process certain data, such as commitment information critical in the budget execution process. Treasury also reported that other financial management related processes at the Bureau remain manual and cumbersome, including cash reconciliations and the production of various external reports such as the Treasury required financial statements (SF-220 series). A new administrative accounting system, intended to alleviate these problems, is targeted for implementation by October 1, 1994.

Further, in connection with our fiscal years 1992 and 1993 audits of the financial statements of IRS and Customs, we found antiquated and deficient financial management systems which did not provide the meaningful and reliable financial information needed to effectively manage and report on these bureaus' operations and to carry out their missions.

Primarily due to such financial systems problems, OMB placed the Department of the Treasury on its list of high-risk management areas. The problems at the Treasury bureaus generally stem from:

-- antiquated and nonintegrated core financial management systems;

-- core systems that do not readily and reliably provide needed financial information; and

-- nonstandardized subsystems.

Treasury reported[8] that it has made substantial progress in the area of financial systems and is in the process of developing an integrated, departmentwide financial management system which will provide relevant and reliable financial statements with the necessary performance and program measures. Specifically, Treasury is in the process of or plans to:

-- Further reduce the number of core financial systems in its bureaus. In 1989, it had 9 systems for 11 bureaus. Currently, its 12 bureaus use 4 systems. By fiscal year 1996, Treasury

---

[8]Secretary's Annual Statement and Report: Federal Managers' Financial Integrity Act, (Fiscal Year 1993); The Department of the Treasury Financial Management Status Report and Five-Year Plan, Fiscal Years 1993 - 1997 (August 1993).

plans to reduce the number of core systems to two for all of its bureaus. The two core systems are expected to comply with the requirements of the CFO Act and the Joint Financial Management Improvement Program guidelines for core accounting systems.

-- Standardize subsystems departmentwide (for example, revenue, procurement, and budget) using the strategies developed by its Financial Management Systems Advisory Council. Planned completion dates for the various subsystems range from 1994 to 1996.

-- Identify opportunities for cross-servicing (for example, between the Office of Inspector General and the Departmental Offices for administrative accounting services) on a Treasury-wide basis.

-- Developing a departmental database that will provide the CFO and the Department with more timely and frequent electronic access to key bureau-level financial and program performance data. Treasury plans to begin a live data transfer from three test pilot bureaus in September 1994, with implementation targeted for fiscal year 1995.

-- Ensuring that individual bureau financial system actions are made in accordance with departmentwide strategies.

Because of the difficulty and complexity of this undertaking, proper oversight and management will be critical to its success. Adopting modern and innovative management practices used successfully by other organizations could help Treasury to achieve its goals. For instance, Treasury may wish to consider adopting the practices leading private and public organizations have used successfully to manage their information resources. We reported on these practices in May 1994.[9] Despite spending more than $200 billion governmentwide on information management and systems over the past 12 years, the federal government has little evidence of meaningful results. We found, however, that solutions to seemingly intractable, complex information management problems do exist.

Our report focuses on what agencies can do now to improve performance by using new approaches to managing information and financial related technologies. Our report summarizes 11 fundamental practices that led to performance improvements. They fall under three key functions: (1) deciding to work differently, (2) directing resources toward high-value uses, and (3) supporting improvements with the right skills, roles, and responsibilities.

---

[9]Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

Another reason for improving its financial systems is to provide complete, reliable, and timely information, all of which form the basis for sound performance data. Treasury is taking steps to improve planning and performance through the use of financial and operational performance data. Treasury bureaus account for 4 of the 53 pilot projects under way to meet the requirements of the Government Performance and Results Act of 1993 (GPRA). The Bureau of Engraving and Printing, the U.S. Mint, IRS, and Customs' Office of Enforcement have all submitted performance plans to OMB as required under the GPRA. Because the scope of our work to date was limited, we did not evaluate the design of the performance plans. However, pursuant to the GPRA, we will be reviewing a cross section of GPRA pilots to assess the implementation of the GPRA, and this review will include at least one of the Treasury pilot projects.

Our transition series report and the National Performance Review both recommended shifting the focus of federal management and accountability more towards program results and outcomes. Greater accountability can be established through reporting that combines the agency CFO, Federal Managers' Financial Integrity Act (FMFIA), and GPRA reports and focuses on outcomes and results. Such a process will provide congressional and other decisionmakers with critical information needed to fully assess the results of federal programs and to establish future strategies. Because all four of Treasury's GPRA pilot agencies are also required to prepare audited financial statements under the CFO Act and submit annual FMFIA reports to the Department, the Treasury may be an appropriate candidate for piloting such a combined reporting approach.

AUDITED FINANCIAL STATEMENTS

The CFO Act requires that each department's IG perform financial statement audits of their respective revolving funds, trust funds, and commercial activities. In addition, it requires audits of the financial statements of IRS and Customs. Prior to implementation of the CFO Act, several of Treasury's bureaus and funds were required to be audited pursuant to other legislation. Table I summarizes the audit requirements and applicable fiscal year 1993 auditors' opinions for Treasury's bureaus, funds, and activities.

Table I: Summary of Audit Requirements and Fiscal Year 1993 Auditors' Opinions

Bureau/fund	Fiscal year 1993		Audited prior to CFO Act	Audited pursuant to CFO Act	Fiscal year 1993	
	Reported revenue (in thousands)	Reported expenditures (in thousands)			Auditors' opinion	Audited by
Not Currently Audited						
Bureau of Public Debt	$0	$292,696,810[a]	No	No		
Bureau of Alcohol, Tobacco and Firearms	12,921,538	399,821	No	No		
U.S. Secret Service	0	488,661	No	No		
Departmental Offices	0	151,330	No	No		
Federal Law Enforcement Training Center	0	110,947	No	No		
Total not currently audited	$12,921,538	$293,847,569				
Currently Audited						
Internal Revenue Service	$1,176,555,000	$6,969,000	No	Yes	Disclaimer	GAO
U.S. Customs Service	21,564,375	2,866,452	No	Yes	Disclaimer	GAO
Departmental Offices - Exchange Stabilization Fund	1,138,635	1,954,471	Yes	No	Unqualified	Treasury Inspector General
U.S. Mint	469,275	656,083	No	Yes	Disclaimer[b]	Independent Public Accountant (IPA)
Office of the Comptroller of the Currency	377,228	364,644	Yes	Yes	Unqualified	IPA
Bureau of Engraving and Printing	402,602	336,341	Yes	Yes	Unqualified	IPA
Financial Management Service - Salaries and Expenses[c]	100,560	318,597	No	Yes	Qualified	IPA
Office of Thrift Supervision	183,827	191,718	Yes	Yes	Unqualified	IPA
Departmental Offices - Working Capital Fund	123,173	123,173	No	Yes	Unqualified	IPA

Bureau/fund	Fiscal year 1993		Audited prior to CFO Act	Audited pursuant to CFO Act	Fiscal year 1993	
	Reported revenue (in thousands)	Reported expenditures (in thousands)			Auditors' opinion	Audited by
Departmental Offices - Treasury Forfeiture Fund	155,639	62,283	No	Yes	Unqualified	IPA
Departmental Offices - Gifts and Bequests Fund	119	74	No	Yes	Unqualified	IPA
Total currently audited	$1,201,070,433	$13,842,836				
Total	$1,213,991,971	$307,690,405				

Source: The primary source of information in this table is Treasury's Chief Financial Officers Annual Report for Fiscal Year 1993.

[a]Expenditures of the Bureau of Public Debt include $292.5 billion of interest on public debt.

[b]The U.S. Mint received an unqualified opinion on its fiscal year 1993 Statement of Financial Position.

[c]Includes revenue and expenditures of the Esther Cattel Schmitt Gift Fund. This Fund received an unqualified opinion on its fiscal year 1993 financial statements.

As authorized by the act, GAO elected to audit the fiscal years 1992 and 1993 financial statements of both IRS and Customs. In an effort to gain financial statement audit experience and position themselves to perform the financial statement audits required by the act, 32 Office of Inspector General (OIG) auditors participated in the fiscal year 1993 financial statement audit of Customs and 5 participated, along with numerous IRS internal auditors, in the fiscal year 1993 financial statement audit of IRS. The IG will perform the audit of Customs' fiscal year 1994 financial statements and anticipates performing the IRS audit in the future.

As of June 1994, the OIG had 256 professional staff, 175 of which were assigned as auditors. Our preliminary review of the OIG staff's backgrounds showed that 46 were certified public accountants, and an additional 104 had accounting or financial management related degrees.

As noted in table I, financial statement audits are not currently required for the bureaus of Alcohol, Tobacco and Firearms, Public Debt, United States Secret Service, Federal Law Enforcement Training Center, and portions of the Departmental Offices. Treasury has reported that it plans to have financial audits performed for the fiscal year 1995 financial statements of the bureaus of Alcohol, Tobacco and Firearms and Public Debt. In addition, the Department plans to conduct an agencywide audit for fiscal year 1996. We believe that meeting the fiscal year 1996 timetable set by Treasury for the agencywide audit is critical given (1) the significance of the activities of these bureaus on the operations of the federal government, (2) the significant financial management weaknesses that have been reported by the Department or the IG at several of these bureaus, and (3) that pending legislation (H.R. 3400 and S. 2170) calls for agencywide financial audits for all CFO Act agencies.

We have testified on several occasions, most recently on June 21, 1994,[10] on the substantive benefits and progress that have been achieved from the CFO Act's program of pilot agencywide financial statement audits. The pilot audits have demonstrated their value in many important ways, including better highlighting agencies' true financial conditions. Audited financial statements have also been integral to identifying management inefficiencies and weaknesses and highlighting gaps in safeguarding the government's assets and possible illegal acts. Additionally, the CFO Act financial audits have identified actual and potential savings of hundreds of millions of dollars. We are confident that the Department of the Treasury would also benefit from such a thorough review for those bureaus not currently covered under the act's requirements. Our audits of IRS and Customs have identified critical financial management problems, and the Department and these bureaus have demonstrated their commitment to addressing these problems. For example, in a letter to the Comptroller General[11] regarding reported findings and recommendations from our audit of Customs' fiscal year 1992 financial statements, the Secretary of the Treasury stated his assurance that implementation of the necessary financial management improvements is one of the Department's top priorities.

Benefits such as these strongly support our belief that the act's requirement for agencywide audited financial statements should be expanded to all 23 CFO Act agencies. We are encouraged by the House's passage of the provisions of H.R. 3400, the Government Reform and Savings Act of 1993, which included the requirement for agencywide audited financial statements for the government's 23 CFO Act agencies. The Senate Committee on Governmental Affairs last month reported a financial management reform bill, S. 2170, that would require CFO Act agencies to prepare agencywide audited financial statements. Our support for this legislation is based on the solid record of the CFO Act's pilots, which have been highly successful. The Director of OMB agrees with this assessment and reported to the Congress last November that the pilot program has been successful.

---

[10]Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD-94-149, June 21, 1994).

[11]Letter dated April 28, 1994, from Lloyd Bentsen, Secretary of the Treasury.

- - - - -

Mr. Chairman, this concludes my statement. We are at a critical juncture in our national government as we address the need for real management reform and the clear message from the American people that they want a smaller, more responsive government. I view the environment today as a tremendous opportunity for change and look forward to working with the Subcommittee as it strives for a better managed government. I will be glad to answer any questions that you or other members of the Subcommittee may have at this time.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (301) 258-4097 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested