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Testimony



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**The Qualifications for and
Role of Agency Chief Financial
Officers**

Statement of
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Before the
Committee on Governmental Affairs
United States Senate



Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to discuss the qualifications needed by individuals to fill the financial management leadership positions created at agencies by the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). Filling agency CFO positions with high-quality people is essential. They will be key leaders responsible for carrying out financial operations and ensuring the success of efforts to reform federal financial management.

The CFO legislation addresses in detail the various aspects of financial management that require attention and lays out very well the qualifications it is important for leaders of the effort to possess.

In preparing my statement, I was, of course, well aware of a rider which has been attached by House subcommittees to appropriation bills considered in that body--a rider that precludes the use of funds to implement the CFO Act. Let me just say at the outset that whether or not the House rider eventually becomes law, it is essential that the Office of Management and Budget (OMB) and other government agencies have qualified people leading the effort needed to bring the government's financial structure and practices under proper control.

With that brief introduction, I will address the issue with reference to provisions of the CFO Act while making clear that essential leadership qualifications need not be dependent upon the act itself.

The CFO Act, which was enacted in November 1990 under the leadership of this Committee and the House Committee on Government Operations, provides the foundation to make long-needed improvements in federal financial management. It includes the ingredients for meaningful reform--leadership through a network of CFOs, long-range planning, audited financial statements, and accountability reporting.

For years, weak financial management systems have been the subject of countless audit reports and have been reported by agencies themselves under the Federal Managers' Financial Integrity Act (31 U.S.C. 3512 (b), (c)). The CFO Act sets forth requirements to help correct financial system weaknesses and ensure that accurate and reliable financial information is available to manage programs. I have long felt that legislative requirements, as included in the CFO Act, are key to improving governmentwide financial operations and continue to believe that the act's requirements are necessary to help avert serious financial and control breakdowns.

Sound financial management systems, reliable financial information, and strong internal controls are needed to help manage agency operations and avoid the potentially devastating financial burden that poorly controlled programs can place on American taxpayers. The dire consequences of past failures to adequately control agency programs are exemplified by the HUD scandal. It is understandable that the public has lost confidence in government's ability to manage and does not believe the government has been an effective financial steward.

As part of the financial management reform, the CFO Act established CFO positions at major agencies and overall qualification requirements for these positions. A cadre of experienced financial management professionals across government is envisioned. Knowledge, skill, and ability in financial management and accounting is vital for strong agency CFO leadership. With this background, agency CFOs will be well prepared to fulfill their role as a focal point for financial management and a principal factor in reversing the deteriorated state of agency financial management systems and controls.

THE CFO ACT ESTABLISHED AGENCY CFOs
AND OVERALL QUALIFICATION STANDARDS

The CFO Act creates chief financial officer positions in 23 major agencies. The act requires that the CFOs report directly

to agency heads and oversee all financial management activities relating to the programs and operations of an agency.

These requirements give a prominent voice to agency financial matters and access to top agency management by placing CFOs at the highest agency organization level. Also, these requirements entrust the CFOs with responsibility and accountability for sound financial management of the government's multi-billion dollar programs.

The act underscores that agency CFOs should have impeccable credentials, proven track records in financial management, and qualifications commensurate with the positions. Specifically, it requires that each agency 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."

Also, the CFO Act creates agency Deputy CFO positions. The act requires that deputy CFOs have

"demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development, and not less than 6 years

practical experience in financial management at large governmental entities."

Thus, for each major agency, the CFO Act establishes a commanding leadership organization. The overall financial management experience expected of agency CFOs will be complemented by their deputies' more in-depth knowledge of federal accounting and budgeting and the design, implementation, and operation of financial management systems.

To further emphasize the importance of agency CFOs and their deputies, the CFO Act calls on OMB to develop and maintain CFO and deputy CFO qualification standards. OMB is currently preparing these standards and, during the course of its work to prepare them, we provided our views, which I will now discuss.

ESSENTIAL KNOWLEDGE, SKILLS,
AND ABILITIES FOR AGENCY CFOs

Foremost, an agency CFO would need a background in financial management and accounting. To carry out the broad mandates of the CFO Act, agency CFOs must have demonstrated capability as influential financial management leaders, successful catalysts for bringing about change, and accomplished managers at the top levels of an organization.

An agency CFO must have the ability to provide overall financial management direction, including the ability to organize and guide diverse units within and outside the direct chain of command toward an integrated program of sound financial management. Also, a CFO must be skilled at (1) effectively communicating financial management objectives and issues to the agency head and other top-level officials outside the financial management arena and (2) applying sound judgment in planning, developing, and implementing financial management systems.

The CFO qualification standards drafted by OMB provide overall guidance for the type of qualifications needed by a person in an agency CFO position. Overall, OMB's draft standards would establish suitable qualifications for agency CFOs. In this regard, the draft standards would require significant general managerial or other practical involvement in financial management operations, which would be needed to meet the act's qualification requirements.

In some areas, such as financial accounting and reporting concepts, OMB's draft CFO qualification standards call for a "general" knowledge. While recognizing that a combination of an agency's CFO and deputy CFO talents is envisioned, general knowledge may not be enough. We believe a better qualification standard would be for an agency CFO to have "sufficient"

knowledge to lead and supervise an agency's complex financial management operations.

Some of the areas where sufficient experience and knowledge would be most useful are

- generally accepted accounting principles;
- laws and regulations applicable to financial management and financial operations;
- budget preparation and execution;
- principles of reporting financial information, including the preparation of financial statements and cost reports;
- principles and application of financial analysis;
- design, installation, and management of automated financial management systems;
- financial performance standards and measurement concepts;
- internal and management control concepts and techniques for administrative and program operations; and

-- the process for auditing financial statements and financial management systems and evaluating internal control systems.

Knowledge, skills, and abilities in these areas could have been gained through high-level experience in a private sector business, a field such as public accounting, a major agency of the federal government, or a state or local government. Some agencies will fill CFO and deputy CFO positions with people who served as their CFO prior to passage of the CFO Act. An academic degree in a field such as accounting, finance, business administration, public administration, or information systems is desirable.

THE ROLE OF AGENCY CFOs IS CENTRAL TO
IMPROVED FEDERAL FINANCIAL MANAGEMENT

Under the CFO Act, the CFO, as an agency's principal executive for financial matters, is to ensure that financial management policies and internal controls are effective and that financial management systems produce information that is useful, reliable, and timely. An agency CFO is to be empowered with responsibility for accounting, budget execution, and other financial management activities throughout an agency.

The CFO Act requires that agencies develop organization plans for consolidating financial activities under their new CFO

positions and submitting the plans to OMB. Also, the act requires that OMB review agency organization plans under the act and either approve or disapprove them.

On February 27, 1991, OMB issued guidance (M-91-07) for preparing organization plans required by the CFO Act. It is currently reviewing the agency plans it has received. We have analyzed OMB's guidance and, overall, believe that it does a good job of specifying a CFO's authorities, functions, and responsibilities. For example, the guidance specifies that an agency CFO's role is to

- be both chief financial management policy officer and chief financial management adviser to the agency head, which would entail authority to (1) establish financial management policies for the agency and its component parts and (2) ensure compliance throughout the agency with applicable accounting standards and requirements;
- manage directly, and/or monitor, evaluate, and approve, the design, budget, development, implementation, and operation of agencywide and agency component accounting, financial, and asset management systems;
- mandate agencywide (and for agency program and financial components) data and reporting format requirements, prepare

consolidated and/or combined agency financial statements, and work with the Inspector General to improve the statements' independent review and auditability; and

-- approve planning, budget formulation, and proposed legislation affecting financial management, at both the agency and agency component levels, and monitor and approve the structure of budget execution.

Also, the OMB guidance addresses the need for an agency CFO to have duties complementary to the position. For example, the OMB guidance provides that the CFO should have authority to clear the design for information systems that provide financial data and/or program data used in financial statements to ensure that CFO needs are met. Also, the OMB guidance provides the CFO with authority to review all major legislative and other programmatic proposals, including major procurements, in order to provide advice to the head of the agency on federal cost and program benefit estimates.

At the same time, an agency CFO must not be overly burdened by ancillary duties if they would detract from the ability to devote full time and attention to financial management responsibilities. A CFO must focus on financial management, rather than financial management being a small part of a host of other management responsibilities. It will all get down to how

the role is carried out and the amount of attention placed on the job by the CFO.

There is much work for agency CFOs to accomplish to improve the quality of financial information and basic accountability and financial control. Their role is pivotal to achieving the CFO Act's objective of gaining financial control of government operations.

Mr. Chairman, the CFO Act recognizes the critical need for federal financial management reform and represents the most comprehensive financial management reform package in 40 years. The act sends an undisputable message--the sorry state of federal agencies' financial management systems and operations must be changed. That change can come about only with strong, forceful, and well-qualified CFOs heading agencies' financial management reform efforts. While OMB has firmly established the agency CFOs' role consistent with the CFO Act, it may take time to place CFOs and deputy CFOs with the qualifications required by the act in every major agency. It is the agencies' and OMB's responsibility to ensure that the people named to the CFO positions can meet the CFO Act's challenges through exemplary financial management and accounting experience and ability.

That concludes my formal remarks. I would be pleased to answer any questions that you or members of the Committee may have at this time.