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# Preface

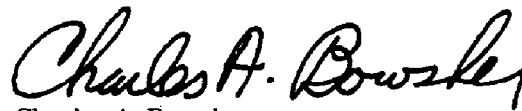
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The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) marks the beginning of what promises to be a new era not only in federal management and accountability, but also in efforts to gain financial control of government operations.

The government has a responsibility to use timely, reliable, and comprehensive financial information when making decisions which have an impact on citizens' lives and livelihood. Despite good intentions and past efforts to improve financial management systems, this is still not done.

The Congress mandated financial management reform by enacting the CFO Act, which was signed into law by President Bush on November 15, 1990. This is the most comprehensive and far-reaching financial management improvement legislation since the Budget and Accounting Procedures Act of 1950 was passed over 40 years ago. The CFO Act will lay a foundation for comprehensive reform of federal financial management. The act establishes a leadership structure, provides for long-range planning, requires audited financial statements, and strengthens accountability reporting.

Federal financial managers, auditors, and program managers at all levels of government will be affected as agencies take actions required under the CFO Act to improve financial management systems and information. This booklet will help agency managers and other interested parties (1) become familiar with the CFO Act's principal features and (2) better understand the actions needed to successfully implement the act.



Charles A. Bowsher  
Comptroller General  
of the United States

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**Abbreviations**

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

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# OMB's Leadership Role

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Strong centralized leadership is key to solving the government's long-standing financial management problems. The Congress, the administration, GAO, and others have supported this kind of leadership for federal financial management.

The CFO Act provides for such leadership by giving the Office of Management and Budget (OMB) broad, new authority and responsibility for directing federal financial management, modernizing the government's financial management systems, and strengthening financial reporting. The act also creates a new position in OMB—the Deputy Director for Management, who is to be the government's chief official responsible for financial management.

While the CFO Act emphasizes improved financial management, it also charges OMB's Deputy Director for Management with overseeing many of the federal government's general management functions. These functions include information policy, procurement policy, property management, and productivity improvement.

The act specifies that the Deputy Director for Management's financial management functions shall include

- establishing governmentwide financial management policies and requirements and monitoring the establishment and operation of financial management systems;
- monitoring resources required to effectively operate, maintain, and enhance financial management systems through activities such as reviewing agency budget requests for financial management systems and operations;
- reviewing and, where appropriate, recommending to the Director of OMB changes to the budget and agency legislative proposals to ensure that they are in accordance with OMB's financial management plans;

- overseeing and making recommendations to agency heads on the administrative structure of agency financial management activities;
- monitoring the financial execution of the budget; and
- ensuring that the government has a highly qualified cadre of financial management professionals.

The CFO Act also establishes a new Office of Federal Financial Management in OMB to carry out these governmentwide financial management responsibilities. To head this office, the act establishes the position of Controller, an individual who is to possess "demonstrated ability and practical experience in accounting, financial management, and financial systems." This individual will handle day-to-day operations to ensure that financial operations are being properly carried out governmentwide.

Both the Deputy Director for Management and the Controller are to be appointed by the President with the advice and consent of the Senate.

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# Agency CFOs

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Influential financial management leadership is as important at the agency level as it is at OMB. For this reason, an agency CFO must be a key figure in an agency's top management team.

To provide a sound leadership structure linked to OMB's financial management responsibilities, the CFO Act creates chief financial officer positions in 23 major agencies. For most of the agencies, the CFO is to be a presidential appointee and is to be assisted by a deputy chief financial officer. Both are to have extensive financial management experience.

The CFO Act specifies that OMB's Deputy Director for Management is to develop and maintain qualification standards for agency CFOs and their deputies. On June 6, 1991, OMB issued interim standards, which provide guidance to agencies on the types of experience, knowledge, skills, and abilities needed by agency CFOs.

An agency CFO is to report directly to the agency head on financial management matters. The CFO's responsibilities are to include the following:

- developing and maintaining integrated accounting and financial management systems;
- directing, managing, and providing policy guidance and oversight of all agency financial management personnel, activities, and operations;
- approving and managing financial management systems design and enhancement projects;
- developing budgets for financial management operations and improvements;
- overseeing the recruitment, selection, and training of personnel to carry out agency financial management functions;
- implementing agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control; and



- monitoring the financial execution of the agency budget in relation to actual expenditures.

On February 27, 1991, OMB issued guidance (M-91-07) for preparing organization plans required by the CFO Act. That guidance details the authorities, functions, and responsibilities that a CFO is to have for compliance with the act.

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# Consolidated Financial Management Operations

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The responsibility for developing and operating financial management systems is often fragmented between accounting organizations and program components. This leads to costly systems development failures and poorly controlled systems that are unresponsive to the needs of agency managers.

To consolidate responsibility for an agency's financial management, the CFO Act requires that

"an agency Chief Financial Officer shall oversee all financial management activities relating to the programs and operations of the agency."

Under the act, an agency CFO's responsibility will extend to every aspect of financial management related to operating agency programs. Governmentwide organizational change is needed to vest the CFOs with authority related to accounting, budget execution, and other financial management operations. This will ensure that one person who is part of top management has overall responsibility for establishing and implementing effective financial management policies, internal controls, and financial management systems.

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# Enhanced Financial Management Systems

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For years, serious financial management system problems have been reported by audits and by agencies themselves under the Federal Managers' Financial Integrity Act (31 U.S.C. 3512 (b), (c)). These reports paint a bleak picture of a government with antiquated financial systems that do not satisfy today's financial information needs.

To correct this situation, the CFO Act mandates that agency CFOs are to develop and maintain agency financial management systems that comply with

- applicable accounting principles, standards, and requirements;
- internal control standards; and
- requirements of OMB, the Department of the Treasury, and others.

Agency financial management systems are to provide complete, reliable, consistent, and timely information. Financial data are to be prepared on a uniform basis and be responsive to the financial information needs of agency management. To upgrade agency financial management systems, the act calls for agency CFOs to approve and manage agency financial management systems design or enhancement projects.

OMB's February 27, 1991, guidance to agencies for preparing organization plans under the act specifies that a CFO should have authority to

"manage directly, and/or monitor, evaluate, and approve, the design, budget, development, implementation, operation, and enhancement of agencywide and agency component accounting, financial and asset management systems."

Further, the OMB guidance states that CFOs should be full participants in agency information resources management decisions.

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# Financial Management Plans

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A structured approach to planning and developing financial systems projects is critical to their success.<sup>1</sup> For example, this approach to financial management systems development could specify (1) goals for resolving financial systems problems, (2) policies and strategies for accomplishing these goals, and (3) milestones for plan implementation. By using this approach, systems can be designed, maintained, and revised from an agencywide perspective.

The CFO Act requires OMB to prepare and submit to the Congress a governmentwide 5-year financial management plan. The plan, which is to be updated annually, is to describe planned OMB and agency activities for the next 5 fiscal years to improve the financial management of the federal government. It should be a vision of how financial management reform will be carried out—a blueprint for change with a set of clear expectations. Further, the act requires agency CFOs to prepare and annually revise agency plans to implement OMB's 5-year financial management plan.

Each 5-year plan submitted by OMB is to include information such as the following:

- a description of the existing financial management structure and any changes needed to establish an integrated financial management system;
- a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems;
- proposals to eliminate duplicate and other unnecessary systems and projects to bring existing systems into compliance with applicable standards and requirements;
- milestones for equipment acquisitions and other actions necessary to implement the 5-year plan;

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<sup>1</sup>GAO's Critical Factors in Developing Automated Accounting and Financial Management Systems (January 1987).

- financial management personnel needs and actions to ensure those needs are met;
- a plan for ensuring the annual audit of financial statements of executive agencies pursuant to the act;
- cost estimates for implementing the governmentwide 5-year plan; and
- a report on executive branch implementation of the plan during the preceding fiscal year.

The comprehensive governmentwide and agency plans called for in the act should enable top managers to monitor major financial management systems development efforts and operations. Thus, these plans will help ensure that financial management systems and internal control improvement efforts are completed on schedule, correct problems, and comply with applicable requirements.

Improved planning should help ensure that financial reporting provides for complete, reliable, consistent, and timely information that responds to managers' financial information needs. Over time, these plans will help to bring about continuity in systems development projects and facilitate a unified approach to setting priorities and allocating resources.

The Department of the Treasury has issued guidelines for examining financial management systems improvement plans.<sup>2</sup> These guidelines, which were developed in cooperation with OMB and other agencies, would be useful in devising agency systems improvement plans under the CFO Act, as well as in assessing their adequacy.

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<sup>2</sup>Financial Management Systems Plan Review Methodology, Department of the Treasury, Financial Management Services, December 1990.

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# Improved Financial Information

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The lack of useful financial information impedes the federal government's efforts to build an effective financial management structure.<sup>3</sup> Better management information (such as reports of performance indicators) can be an early warning measure which identifies developing problems before they reach critical proportions. Also, decisionmakers need reliable financial information to assess the implications of alternatives and improve the economy and efficiency of government operations.

Several of the CFO Act's requirements aim to improve the financial information available to agency managers, the Congress, and others. One of them requires that agency CFOs develop and maintain accounting and financial management systems which report cost information.

Another calls for the integration of accounting and budgeting information. Thus, principles used in accounting for program costs are to be consistent with those used in developing program budgets. This clear linking of budgeting and accounting information can benefit both management control and planning.

The act also specifies that agency financial management systems must provide for the systematic measurement of performance. Therefore, agency CFOs will have an important responsibility to see that financial management systems are designed to report cost trends and other performance indicators.

Most importantly, the act requires that financial statements be prepared and audited. This requirement is further discussed in the following section. Together, these features of the CFO Act will

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<sup>3</sup>Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35 and 35-A, February 1985).

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**Improved  
Financial Information**

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improve the reliability and usefulness of agency financial information.

Analyses of financial statements can also provide managers with valuable information on trends and the financial viability of programs. To assist agencies in analyzing financial statements, GAO issued a guide entitled, Financial Reporting: Framework for Analyzing Federal Agency Financial Statements (GAO/AFMD-91-19, March 1991). As an example, the guide includes an analysis of the financial statements issued by the Department of Veterans Affairs for fiscal years 1986 through 1989; applies the attributes, measures, and techniques set forth in the framework; and discusses the results of the analysis.

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# Financial Statements and Audits

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Since 1984, GAO has audited the financial statements for various federal agencies, including the General Services Administration and the Departments of Agriculture, the Air Force, Housing and Urban Development, and Veterans Affairs. These audits improved the quality of agency financial information and identified significant problems in agency financial operations and reporting.

The CFO Act requires that financial statements be prepared for trust and revolving fund operations and for agency programs that are substantially commercial functions. For example, this would include programs for providing (1) insurance, (2) loans and loan guarantees, and (3) a service or thing of value for which a fee, royalty, or rent is charged. The act also establishes a pilot project whereby certain agencies, listed in table 1, are to prepare agencywide financial statements for specific years.



**Table 1: Agencies Included in Financial Statement Pilot Project**

Agency	Fiscal year		
	1990	1991	1992
Agriculture	X	X	X
Labor	X	X	X
Veterans Affairs	X	X	X
General Services Administration	X	X	X
Social Security Administration	X	X	X
Housing and Urban Development		X	X
Army		X	X
Air Force			X
Internal Revenue Service			X
Customs Service			X

The CFO Act requires that the financial statements be audited. These audits are the responsibility of the inspectors general but may be conducted by, and at the discretion of, the Comptroller General, in lieu of an inspector general.

Inspectors general may contract with independent public accountants to conduct financial statement audits. GAO's Guide to Federal Agencies' Procurement of Audit Services From Independent Public Accountants (GAO/AFMD-12.19.3, April 1991) provides advice in this regard.

Reports of audits conducted under the CFO Act must be completed by June 30 of the year following the close of the fiscal year for which the financial statements were prepared. Further, OMB is required to report to the Congress by June 30, 1993, on the benefits, difficulties, and costs associated with preparing these financial statements and having them audited.

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# Annual Financial Management Status Reports

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To heighten accountability and make the financial results of programs clearly visible, agency CFOs are responsible under the act for preparing annual reports and transmitting them to agency heads and OMB. These reports are due within 60 days of the submission of the auditor's report on its audit of the annual financial statements (approximately August 31 of each year) and are to include the following information:

- a description and analysis of the status of agency financial management;
- the annual financial statements and audit reports prepared under the CFO Act, where applicable;
- a summary of the reports on internal accounting and administrative control systems submitted to the President and the Congress under the Federal Managers' Financial Integrity Act; and
- other information the agency head considers appropriate concerning agency financial management.

GAO's November 1990 report on the Department of Veterans Affairs<sup>4</sup> is an example of a report that contains this information. This type of report shows accountability for government programs and resources and can be used for oversight and decision-making when assessing department programs and determining public policy.

In addition to these agency reports, the CFO Act calls for OMB to annually submit to the Congress a governmentwide financial management status report at the time of the President's budget submission. This report is to include a description and analysis of the status of financial management in the executive branch from a governmentwide perspective and a summary of the information contained in agency CFO annual financial status reports.

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<sup>4</sup>Financial Audit: Department of Veterans Affairs Financial Statements for Fiscal Years 1989 and 1988 (GAO/AFMD-91-6, November 14, 1990).

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# Financial Management Staffing

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The lack of a cadre of highly qualified financial management professionals has long hampered effective federal financial management operations. The CFO Act addresses the need for such professionals to fill CFO and Deputy CFO positions and to adequately staff financial management operations.

For example, the act requires OMB's Deputy Director for Management to develop and maintain qualification standards for agency CFOs and their deputies and to advise agency heads on selecting people to fill these positions. Also, the Deputy Director for Management is responsible for (1) providing advice to agencies on the qualifications, recruitment, performance, and retention of financial management personnel, (2) assessing the overall adequacy of the professional qualifications and capabilities of financial management staffs throughout the government, and (3) making recommendations on ways to improve the quality of those staffs.

The act specifically places with the agency CFOs responsibility for recruiting, selecting, and training personnel to carry out agency financial management functions. OMB's February 27, 1991, guidance for implementing the act (M-91-07) states that agency CFOs should have authority to provide agencywide policy advice on financial management staffing matters.

Many agencies have major components that perform financial management operations. OMB's guidance states that agency CFOs are responsible for (1) approving job descriptions and skill requirements for those who head these components' financial management activities and operations and (2) participating in their annual performance evaluation.

Overall, the government faces a major challenge in attracting and retaining an adequate number of

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**Financial  
Management Staffing**

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people with the skills needed to staff financial management operations. The 5-year financial management plans called for by the act will provide a basis for identifying and addressing potential staffing resource problems.

A continuing education policy for financial managers is also important in maintaining a well-trained and high-caliber financial management work force. Such a policy is recommended by the Joint Financial Management Improvement Program<sup>6</sup> in its December 1990 report, Continuing Professional Education: Federal GS-510 Accountants.

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<sup>6</sup>The Joint Financial Management Improvement Program is a cooperative undertaking of OMB, the Department of the Treasury, GAO, and the Office of Personnel Management to improve financial management practices throughout government.

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# The CFO Council

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In November 1987, the CFOs that had been administratively named by agencies formed an advisory body on governmentwide accounting and financial management policy. This body provided a forum to exchange ideas and consider issues of common interest, such as modernizing financial systems and improving the quality of financial information.

To continue these efforts, the CFO Act established a Chief Financial Officers Council. The act specifies that the Council will be chaired by OMB's Deputy Director for Management. Other members will be OMB's Controller, Treasury's Fiscal Assistant Secretary, and the agency CFOs appointed under the act.

As specified in the act, the CFO Council's functions are to advise agencies and coordinate their activities on financial management matters, such as (1) consolidating and modernizing financial systems, (2) improving the quality of financial data and information standards, (3) strengthening internal controls, and (4) developing legislation affecting financial operations and organizations.

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# Government Corporations

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The CFO Act institutes changes in the financial management of government corporations, such as the Resolution Trust Corporation and the Federal Deposit Insurance Corporation.

First, government corporations are required to annually prepare a report on their internal accounting and administrative controls, consistent with the Federal Managers' Financial Integrity Act requirement for reports by executive agencies. These reports should be based on annual reviews of the corporation's controls. Whenever the reviews detect significant problems, the corporations should develop specific corrective action plans.

Prior to enactment of the CFO Act, the Government Corporation Control Act (31 U.S.C. 9105) required GAO to perform a financial statement audit of covered corporations at least once every 3 years. The CFO Act changes the timing and responsibility for these audits. Each corporation is now required to have its financial statements audited annually by the inspector general or by an independent public accountant. The Comptroller General retains the discretionary authority to conduct the audit.

The CFO Act also requires the head of the corporation to submit an annual management report to the President and the Congress no later than 180 days after the end of the corporation's fiscal year. To inform the Congress about the corporation's operations and financial condition, these reports are to include information such as the corporation's audited financial statements and report on internal controls.

# Setting Accounting and Auditing Standards

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Relevant accounting and auditing standards are critical to the CFO Act's financial statement and audit initiatives. The act calls for agency financial systems to comply with applicable accounting principles, standards, and requirements. Also, audits of financial statements prepared under the act are to be done in accordance with generally accepted government auditing standards.

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3511 (a)) directs the Comptroller General, in consultation with OMB and Treasury, to prescribe accounting principles, standards, and related requirements for executive agencies to follow. The CFO Act provides that OMB's Deputy Director for Management is to establish governmentwide financial management policies and requirements for executive agencies.

To ensure the relevancy of federal accounting standards, the Comptroller General, the Director of OMB, and the Secretary of the Treasury have agreed to a cooperative approach to the standard-setting process by establishing the Federal Accounting Standards Advisory Board. This nine-member advisory board of knowledgeable individuals from government and the private sector will make recommendations to the heads of GAO, OMB, and Treasury on proposed accounting standards designed to meet the needs of federal agencies and other users of federal financial information.

The Board is studying a wide range of accounting standards. In March 1991, the Board recommended that agencies continue to use, on an interim basis, the applicable accounting standards contained in agency accounting policies, procedures manuals, and/or related guidance to prepare their financial statements under the CFO Act. Where these applicable standards differ from those of GAO's Policy and Procedures Manual for Guidance of Federal Agencies (Title 2), agencies are to fully disclose the differences and the alternative accounting basis

used in preparing their statements. On June 11, 1991, OMB adopted this recommendation (M-91-11).

Generally accepted government auditing standards are issued by the Comptroller General in GAO's Government Auditing Standards (1988 Revision), the "Yellow Book." Updates to the standards will consider recommendations from the newly established Government Auditing Standards Advisory Council. The Council will advise the Comptroller General on auditing standards issues throughout the standard-setting process. It will be involved in the identification, development, and issuance of revisions to Government Auditing Standards as well as interpretations of and guidance on the standards.



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