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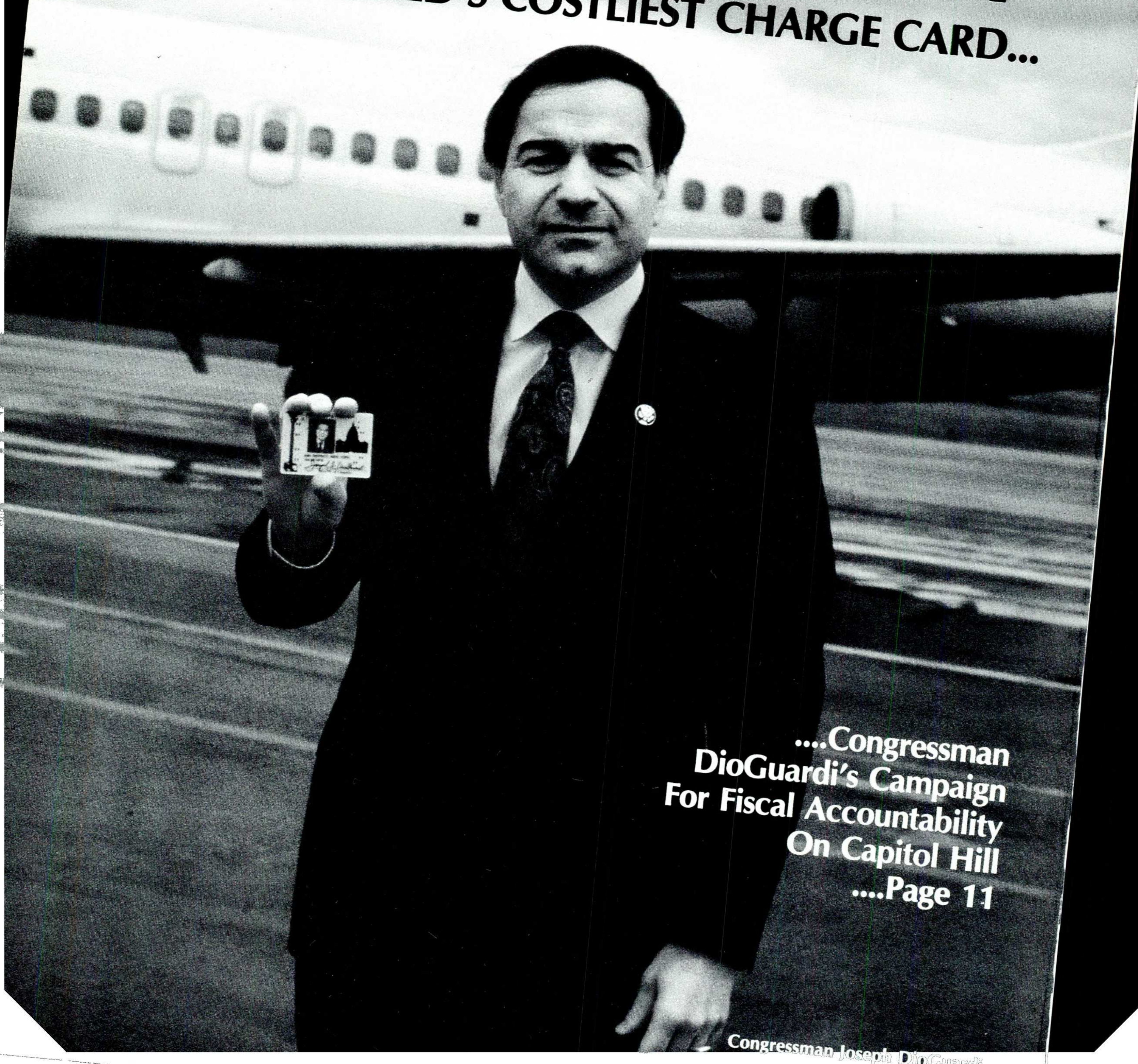
CUTTING CREDIT

ON THE WORLD'S COSTLIEST CHARGE CARD...



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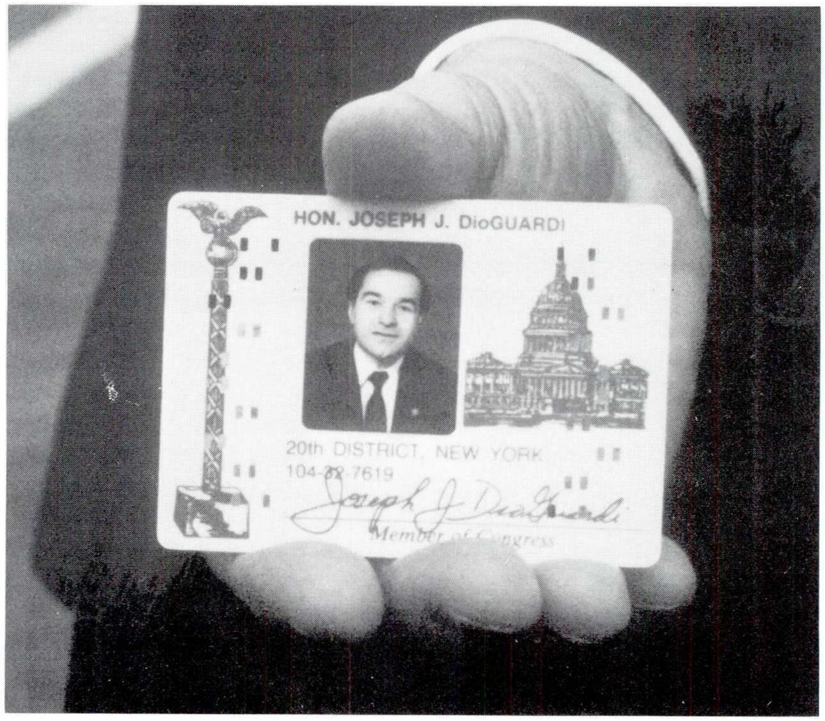
Congressman Joseph DioGuardi

Cutting The Credit Line On The World's Costliest Charge Card:

Congressman DioGuardi's Campaign For Credible Accounting On Capitol Hill



Westchester Congressman Joseph DioGuardi has introduced some refreshingly simple concepts into the smoke-filled, debt-laden deliberation that has kept federal accounting—and fiscal accountability—dangerously muddled.

He has begun to refer to his voting card, used by each Congressman to register his votes, as the world's costliest charge card. And people are starting to listen to the feisty financial wizard from New Rochelle who has torn some pages from Management Accounting 101 to write a new chapter on responsible Federal Financial Management. In the exclusive guest essay that follows, Congressman DioGuardi calls for a U.S.-Chief Financial Officer to bring leadership and stability to a "credit card" system run awry.—S.A.

Any good accountant taking a hard look at federal budget management would tell his client—the taxpayer—that safeguards were everywhere wanting.

Accessibility is nowhere discernible in a management accounting system that is simply not working.

Well-intentioned efforts to reach Gramm-Rudman deficit reduction targets and the "smoke and mirrors" means of reaching such targets are painful reminders of the poor quality of accounting in the Federal government. Some systems are not in very good shape, and many don't tell us if we're making good decisions on cutting programs. All require a new form of management leadership.

There is nothing new about the problem per se. For years, the General Accounting Office's famous blue-covered reports have been telling us the same story: our departments and agencies are a veritable jungle of special purpose, incompatible, antiquated accounting systems producing unreliable, and often irrelevant financial information. One of the latest GAO studies,moreover, reports that 53% of agency accounting systems do not conform to GAO accounting principles, standards and related requirements. The indicators, again, spell it out for us: Federal financial management is in shambles and there is little accountability to the American taxpayer for the revenues spent on their behalf.

A bill we introduced in the House of Representatives, the Federal Financial Management Improvement Act of 1987, is designed to put in place the linchpin of financial discipline that is nowhere to be found in Washington.

The Federal Financial Management Improvement Act would:

1) Establish an independent Office of the Chief Financial Officer of the United States within the Executive Office of the President for the purpose of providing government-wide direction and coordination of finanical management activities;
2) Establish an office of the Assistant Secretary for Financial Management within each executive agency; and
3) Create a Federal Financial Management Council chaired by the Chief Financial Officer (CFO) and composed of the Assistant Secretaries of each executive agency.

Other voices besides my own and that of the GAO have called attention to the inadequacy of Federal accounting systems and the lack of accountability inherent in the existing Federal financial management system. The Grace Commission dealt at length with the problem, and one can also look to a September 1985 study by the Systems Committee of the President's Council on Management Improvement concerning a "Strategic Plan for Federal Financial Management."

That study is unique in that it does not depend on the assessments of outside critics. Its results come from those on the firing line: financial management executives in Federal departments and agencies. Those interviewed for the study regarded less than 50% of governmental accounting and financial reporting systems as capable of producing timely, accurate and relevant information for management decisionmaking. 61% of the systems cannot provide the data necessary for assessing management performance. 35% of the systems were considered incapable of providing sufficient data to support the allocation of funds, and 33% do not provide effective control over and accountability for assets.

The extent to which the government as a whole departs from basic accounting textbook requirements—to say nothing of common sense—defies logic. An earlier GAO study, Managing the Cost of Government, pointed out for example, that agency budgeting and accounting for program costs are largely done on different bases, and are isolated from one another. Budgets are requested and justified in terms of programs and projects, such as infant health care or dams for flood control. Accounting and other financial reports, however, often focus on appropriations and categories of expenses such as travel or personnel, without relating them to the particular programs or projects for which the money was requested and approved.

As well as producing bad financial information, inadequate accounting systems are a pervasive source of government waste—that bottomless use of the "credit card" of government. But countless other instances of costly financial mismanagement abound—the Grace Commission found 47 volumes worth.

In the case of both faulty internal control evaluations and faulty accounting system compliance assessments, the GAO has cited the Office of Management and Budget (OMB) failure to develop adequate guidelines as a principal cause. But something more fundamental is at issue. Despite OMB's best intentions, the development of such guidelines may require more time, resources and expertise—and the actual process more leadership—than OMB can provide, or is likely to provide under the current system. OMB's lack of resources, and frankly, the secondary role of financial management to budgetary considerations, hampers the Office's ability to give adequate emphasis to financial management matters.

The management which Administration officials say is alive and well in OMB is administrative management, and they can justly take credit for helping to revive the situation. Whether financial management is equally alive and well is an entirely different question. It is a highly specialized area which deserves independent, top level attention in its own right.

It does not now have that status. Despite the number of financial management improvement initiatives that have been undertaken, no structure or mechanism has been developed to improve financial management on a government-wide basis and insure not only continuity of effort across successive administrations, but systematic progress toward a set of established, long term financial management goals.

Instead, almost the opposite is true. As the Grace Commission and the President's Commission on Management Improvement have pointed out, financial management leadership responsibilities and functions are seriously fragmented and disorganized, resulting in inconsistencies, overlap and duplication.

Federal financial management functions are split among three central agencies in the executive branch: OMB, the Office of Personnel Management (OPM) and the Department of the Treasury, the various executive branch agencies and the GAO in the legislative branch. None of these entities has clear cut responsibility for oversight and direction of the Federal government's finanical management operations and activities. In addition, financial management responsibilities have frequently been shifted from one central agency to another; and in each central agency, financial management functions must compete with a number of other assigned responsibilities for their fair share of attention.

There is a missing link in the Federal government. The financial management leadership void must be filled — a CFO would achieve this goal.

Instituting a Chief Financial Officer for the United States would be a quantum leap forward in addressing the issue of Federal financial management accountability and it is appropriate to highlight several key components of the Federal Financial Management Improvement Act.

First, creation of an independent office for the CFO. We have considered the difficult question of where a CFO function should be placed. At one time or another, OMB, the Treasury Department or a new office of Federal Management have all been considered as alternatives. In my opinion, the best organizational approach would be a new, independent office in the Executive Office of the President. History has shown that financial management functions placed in other organizations do not receive the attention they deserve.

Second, duties of the CFO. The CFO will have responsibility for operational financial management leadership—comparable to the responsibility accorded a controller in the private sector.

Third, term of office of the CFO. Financial Managment improvements have a long gestation period. Progress cannot be interrrupted by changes in priorities and direction from administration to administration. Obviously, a certain amount of dislocation will occur under the best of circumstances, but I have attempted to insure maximum, long term continuity by establishing a CFO tenure of ten years.

Fourth, creation of the position of Assistant Secretary for Financial Management. The establishment of this position will ensure top level, department-wide attention to

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the implementation of financial management initiatives and activities at the agency level; eliminate inconsistencies that exist among agencies in the status and structure of financial management operations; and eliminate internal agency overlap, duplication, and inconsistency in financial management activities.

Finally, creation of a Federal Financial Management Council. This Council will be composed of the CFO and the agency-level Assistant Secretaries for Financial Management. The Council will provide an important avenue of communication and interchange between the central financial management function and its counterparts in the departments and agencies—resulting in more effective implementation and coordination of financial management initiatives.

Gramm-Rudman was called a bad idea whose time had come. A Chief Financial Officer for the Federal Government is a good idea whose time is long overdue. Sound financial management practices are not just accountant's issues. It is not just a Republican issue and it is not just a Democratic issue. Colleagues on both sides of the aisle can agree on the clear need for action in this vital area. If we do not give our efforts to build fiscal discipline into the system a solid foundation of valid financial information and genuine financial discipline, the entire structure is capable of collapsing right around us.

Thus, while the word "accountability" has been most often used in a foreign policy context, lately, there is a great need to apply it to financial areas: how tax payer dollars are managed and spent. A CFO would go a long way in finally giving the taxpayer the kind of management that is not just needed, but deserved.

It's wrong to allow governmental charge card debits, subject only to an antiquated monitoring system, to accrue unabated, only to be passed along to generations ahead of this one for payment. It's time for a new accountability.