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A CHIEF FINANCIAL OFFICER FOR THE UNITED STATES

by the Honorable Joseph J. DioGuardi (R-NY)

Editor's Note: *This is the first in a series of opinion pieces on accounting issues which can be pulled out and kept. They will appear occasionally and explore subjects of concern to the accounting community and nonprofit accounting.*

The accounting profession is receiving an increasing amount of attention on Capitol Hill. Many people in Congress would like to see the profession take a greater role in blowing the whistle on financial fraud and abuse in the private sector. They believe this would help put an end to the kinds of scandals that have recently rocked Wall Street and our entire nation.

However, if there is one true scandal going on today in the United States that accountants should let the public know about, it is the manner in which the Federal government is managing the books of our nation. Many corporate executives would be likely to face jail sentences if they utilized the same accounting practices that are routinely employed in hundreds of Federal offices across our nation. Simply put, our nation's financial management systems are in ruins.

The Gramm-Rudman deficit reduction law and the "smoke and mirrors" means of reaching its targets is a painful reminder to us 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.

Sadly, there is nothing new about this sad state of affairs. For years, the General Accounting Office's (GAO) 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 recent GAO study, moreover, reports that 53% of agency accounting systems do not conform to GAO accounting principles, standards and related requirements. In short, Federal financial management is in shambles and there is little accountability to the American taxpayer for the revenues spent on their behalf.

A bill I have introduced in the House of Representatives with 56 of my colleagues, the Federal Financial Management Improvement and Public Accountability Act of 1987 (H.R. 3142), is designed to end all this and put in place the linchpin of financial discipline that is nowhere to be found in Washington.

H.R. 3142 would:

1) Establish an independent Office of the Chief Financial Officer of the United States within the Executive Office of the President of the United States for the purpose of providing government-wide direction and coordination of financial 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.

In addition, the CFO would be responsible for producing annual consolidated financial statements for the Federal government using generally accepted accounting principles.

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 decision making. 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. 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's (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.

While it appears that OMB finally is giving financial management the attention it deserves by recently announcing their own appointment of a chief financial officer, it is a highly specialized area which deserves independent, top level attention in its own right.

It does not now have that status within OMB. 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 assure 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. 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 financial 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 and a CFO within the Executive Office of the President 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. A great deal of thought has been given to 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 for the CFO. Financial management improvements have a long gestation period. Progress cannot be interrupted 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 consistency 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 insure top level, department-wide attention to 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 accountants' issues. It is not just a Republican issue and it is not just a Democratic issue. Colleagues on both side 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.

Republican Congressman Joseph J. DioGuardi represents New York's 20th District and is a member of the Board of Directors of API.