



CFO ACT OF 1990

Driving the Transformation of Federal Financial Management

Highlights of [GAO-06-242T](#), a testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

In 1990, the Chief Financial Officers (CFO) Act, heralded as the most comprehensive financial management reform legislation in 40 years, was enacted. The Act's goal is to improve management through reliable, useful, and timely financial and performance information for day-to-day decisionmaking and accountability. This testimony outlines the legislative history of the CFO Act, and its key elements, progress to date in implementing the Act, and the challenges for the future.

Prior to passage of the CFO Act, the seemingly never ending disclosures of fraud, waste, abuse, and mismanagement in federal programs painted a picture of a government unable to manage its programs, protect its assets, or provide taxpayers with the effective and economical services they expect. The enactment of the CFO Act represented a broad-based recognition that federal financial management was in great need of fundamental reform.

The Act mandated a financial management leadership structure; required the preparation and audit of annual financial statements; called for modernized financial management systems and strengthened internal control; and required the systematic measurement of performance, the development of cost information, and the integration of program, budget, and financial systems.

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What GAO Found

In the 15 years since the enactment of the CFO Act, the federal government has made substantial progress in strengthening financial management. The past 3 administrations have all made financial management reform a priority. Improved financial management has been one of the cornerstones of the President's Management Agenda from the outset of the current administration. There has been a clear cultural change in how financial management is viewed and carried out in the agencies and a recognition of the value and need for good financial management throughout government, which was not the case in 1990. There are now qualified CFOs across government, who bring to the job proven track records in financial management. Financial management systems and internal control have been strengthened. Generally accepted government accounting standards have been developed. For fiscal year 2005, 18 of 24 CFO agencies received clean audit opinions on their financial statements, up from just 6 in fiscal year 1996. This year's audited financial statements were issued in just 1½ months after the close of the fiscal year as opposed to 5 months, which is the deadline in the Act. Agencies are also now preparing performance and accountability reports that tie together financial and performance information. Though not yet auditable, primarily because of problems in the Department of Defense, comprehensive annual consolidated financial statements are being issued in 2½ months as opposed to the 6-month timeframe allowed in the Act.

While there has been marked progress in the past 15 years and the CFO Act has proven itself as the foundation for financial accountability, GAO has identified five principal challenges to fully realizing the world-class financial management anticipated by the CFO Act. The need to:

1. modernize and integrate financial management systems to provide a complete range of financial and cost information needed for accountability, performance reporting, and decision making, with special emphasis on the Department of Defense, which has deeply-rooted systems problems,
2. build a more analytic financial management workforce to support program managers and decisionmakers,
3. solve long-standing internal control weaknesses,
4. enhance financial reporting to provide a complete picture of the federal government's overall performance, financial condition, and future fiscal outlook, and
5. ensure that financial management reform is sustained given the leadership changes that occur at the end of any administration and the long-term nature of many of the ongoing reform initiatives.

The continuing strong support of the Congress has been a catalyst to the important progress that has already taken place and will be essential going forward.