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FINANCIAL MANAGEMENT

Status of CFO Act Implementation at the Department of Commerce

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our preliminary review of financial management at the Department of Commerce and its efforts to implement the Chief Financial Officers (CFO) Act of 1990. Our review was very limited in scope; however, as you requested, we plan to do additional work at Commerce.

We found that Commerce has forthrightly acknowledged serious problems with its financial management systems and related internal controls and has placed strong leadership in key financial management positions. These individuals have demonstrated commitment to the CFO Act and have efforts under way to fix many of Commerce's long-standing problems. While implementing its improvement initiatives will be a long-term endeavor, Commerce should begin considering actions to (1) enhance the CFO structure, (2) ensure that financial management staff are adequately trained, and (3) move toward an agencywide financial statement audit.

The five areas of CFO implementation which I will discuss today are

-- CFO qualifications,

-- CFO structure,

-- training of financial management staff,

-- financial management systems, and

-- audited financial statements.

For each area, I will discuss the act's requirements, describe Commerce's efforts to address those requirements, and provide our preliminary observations about those efforts.

CFO QUALIFICATIONS

A key element of the CFO Act is the requirement to have a qualified CFO and Deputy CFO who can provide strong financial management leadership throughout the agency. The act stipulated that individuals in these positions are to be responsible for oversight of financial management activities relating to agency programs and operations and are to report directly to the agency head on such matters. The CFO Act envisioned this requirement as a foundation for improved financial management in the federal government.

Accordingly, the act established specific qualifications for the CFO and Deputy CFO. The act required that the 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." The act's requirements for the Deputy CFO were even more specific. This individual was to have "demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development, and not less than six years practical experience in financial management at large government entities."

Currently, Commerce has strong leadership in these key positions. These individuals have extensive financial management backgrounds, have demonstrated a commitment to the objectives of the CFO Act, and have developed plans for implementing many of its requirements.

CFO STRUCTURE

Since Commerce now has sound leadership in key financial management positions, the next step it should take is fortifying the CFO structure. This involves ensuring that the CFO's and Deputy CFO's responsibilities correspond to those listed in the act and strengthening CFO Act implementation at the bureau level.

CFO Responsibilities

The act envisioned that the CFO and Deputy CFO would have sufficient responsibility and authority to influence and direct financial management decisions throughout the department. Specifically, the responsibilities of the CFO and Deputy CFO were to include

-- overseeing all financial management activities relating to the programs and operations of the agency;

-- developing and maintaining an integrated agency accounting and financial management system, including financial reporting and internal controls;

-- directing, managing, and providing policy guidance and oversight of agency financial management personnel activities and operations; and

-- monitoring the financial execution of the budget and preparing timely performance reports.

Commerce's CFO and Deputy CFO perform roles and functions beyond those envisioned by the act. As a result, they have many responsibilities that are marginally related or totally unrelated to financial management. For example, they are responsible for Commerce's procurement and personnel functions. These additional responsibilities have the potential to distract the CFO from concentrating on financial management issues throughout the department.

In our December 1992 transition series report,[1] we raised concerns that for a number of agencies, such as the situation at Commerce, the CFO designation was added to the position of assistant secretary for management or administration--positions that have very broad responsibilities. This is basically the way financial management responsibilities were structured before the CFO Act, and that approach did not work. Its continuing use, in cases in which the CFO has a large number of responsibilities beyond areas such as budgeting and financial management, could dilute the CFO's role and thereby not foster the needed urgency and undivided attention so vital to the success of this position. Commerce, which has provided broad responsibilities to its CFO, will have to ensure that the proper attention is placed on CFO matters and, if not, consider appropriate changes.

Bureau CFO Structure

The CFO Act required a CFO and Deputy CFO position at the department level but did not require similar positions at the bureau level. However, the Office of Management and Budget's (OMB's) guidance on CFO organization plans[2] recommended that the relationship between the CFO and component financial management activities be reenforced. This could be done through mechanisms such as CFO councils or CFO positions within the bureaus. It is especially important since the CFO Act makes clear that the CFO is responsible for overseeing all financial management activities relating to the programs and operations of the agency.

Commerce is a large, diverse agency. This diversity is reflected in its 14 bureaus, which are responsible for various missions--such as fostering technology, stimulating and regulating international trade, promoting commerce, analyzing social and economic activity, and studying the environment and natural resources. Bureau operations vary in size and complexity. The largest has a fiscal year 1994 budget of $2.1 billion, and the smallest has a budget of $6 million for the same period. Five of the largest bureaus comprise approximately 90 percent of Commerce's $3.8 billion fiscal year 1994 budget. Many of Commerce's bureaus are comparable in size and operation to large companies in the private sector, and most have reported numerous problems with their financial management systems and related internal controls.

The bureaus' top financial managers generally do not have financial management qualifications or responsibilities comparable to those of the CFO and Deputy CFO. The Commerce Inspector General's (IG)

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[1] Financial Management Issues (GAO/OCG-93-4TR, December 1992)

[2] Guidance for Preparing Organization Plans Required by the Chief Financial Officers Act of 1990, M-91-07, February 27, 1991.

September 1993 semiannual report[3] discussed the qualifications of these managers, stating, "The long-term effects of Commerce's outdated financial systems was compounded by the critical shortage of qualified financial managers and accountants."

In addition, the bureaus' top financial managers have varying levels of responsibility that, in some cases, do not include all financial management activities. For example, financial management issues at the Economic Development Administration are divided between two different deputy assistant secretaries who have various other responsibilities and neither reports to the CFO. This fragmentation could diminish the CFO's ability to oversee financial management issues throughout the department. Furthermore, according to the IG's most recent semiannual report,[4] some financial managers were "subordinate" to administrative directors responsible for issues unrelated to financial management. The IG stated that this resulted in a "general de-emphasis of the role, importance, and organizational standing of the financial management function."

Strong financial management leadership, strategically positioned throughout each of these bureaus, would help Commerce place an appropriate emphasis on financial management and carry out the goals and objectives of the CFO Act. For example, our financial statement audits of IRS and Customs have shown that it is extremely beneficial, particularly for large bureaus, to have a CFO at the bureau level. Therefore, we believe Commerce should consider establishing a CFO position within each of its bureaus. This person should (1) possess financial management qualifications and responsibilities similar to those stated in the act for the department CFO, (2) report directly to the bureau chief, and (3) function as the key liaison with the Commerce CFO.

TRAINING OF FINANCIAL MANAGEMENT STAFF

The CFO Act requires the CFO to ensure that financial management staff are adequately trained to carry out agency financial management functions. The need for qualified financial management personnel has been recognized by OMB and the Congress, and we have reported that well-qualified financial management personnel are critical to carrying out the act's requirements. In our transition series report, we called on CFOs to address immediately the serious problem of attracting and retaining well-qualified financial management personnel. We said that if financial management staffing problems, which are prevalent across government, are not dealt with effectively, progress in all areas will languish. As

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[3]Semiannual Report to the Congress, September 30, 1993.

[4]Semiannual Report to the Congress, March 31, 1994.

stated previously, Commerce's OIG reported serious deficiencies with the department's financial management staff capabilities.

To strengthen staff capabilities, and thereby better enable the department to implement the act, the Deputy CFO issued a directive requiring departmentwide training for financial management staff. This directive required finance directors to develop individual development plans for all financial management staff and ensure that staff received at least 40 hours of training per year tailored to their development needs. However, since budgetary resources were not allocated for this level of training, some bureaus resisted the directive. Consequently, Commerce has reported that training has been provided based on availability of funds and workload demands, not on an assessment of training needs. Commerce is in the process of developing a training plan for the department.

Investments must be made in training to ensure that financial management personnel increase their professional skills to keep pace with emerging technology and developments in financial management. Given the limited opportunities to increase staffing, training and other forms of continuing professional development for existing staff present the most concrete opportunities for Commerce to enhance staff capabilities. It is important that Commerce establish training requirements for its financial management staff and monitor adherence to the requirements to ensure that staff are receiving this training.

We support the CFO's original requirement for 40 hours of training. In our transition series report, we called on the CFOs to place greater priority on training efforts and suggested that financial management personnel be required to participate in a minimum amount of continuing professional education (CPE). For example, government auditors are required to attain 80 hours of CPE every 2 years, and this requirement has helped ensure audit quality and professionalism.

FINANCIAL MANAGEMENT SYSTEMS

Commerce officials have acknowledged[5] that the department's financial management systems are in major disrepair; and the systems are on OMB's list of high-risk management areas. Commerce's Office of Inspector General (OIG) confirmed[6] that conclusion and stated that fundamental recordkeeping was not occurring at Commerce. To address these problems, Commerce is beginning to develop and implement a complete overhaul of its financial management systems. Because of the difficulty and

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[5]Chief Financial Officer Five Year Financial Management Plan (1993 - 1997).

[6]Chief Financial Officer Annual Report, 1993.

complexity of this undertaking and Commerce's previous difficulties with systems improvement initiatives, proper oversight and management will be critical to the success of this effort. Adopting modern and innovative management practices used successfully by other organizations could help Commerce to achieve its goals.

Commerce officials described problems with the department's financial management systems as follows:

> "The department currently uses eight different primary financial systems. In most cases these evolved from accounting systems developed in the 1960s and 1970s without regard for the informational needs of program managers and executives and without the flexibility to respond to future information needs. Most are poorly documented and extremely difficult and costly to maintain; they are labor intensive, fragmented, inflexible, outdated, and have not kept pace with changing requirements and technology. Audit surveys and reports by the department's OIG and vulnerability assessments by the bureaus confirm that we have serious problems with the reliability, efficiency, and internal controls of our present financial systems. As a result, our overall system has been placed on OMB's Governmentwide list of high risk management areas."

The Commerce OIG, in confirming the severity of the financial management problems, identified the following internal control weaknesses at most or all bureaus.

-- Management exercises inadequate oversight and supervision of financial and accounting activities.

-- Financial management staff are not familiar with accounting and financial reporting requirements.

-- Financial reports are not analyzed and reviewed.

-- General ledgers are not reconciled with subsidiary ledgers, and adjustments are not adequately documented.

-- Supporting documentation for transactions is not maintained.

-- Property records are incomplete or erroneous.

-- Financial, budgetary, and program management do not coordinate performance information they develop and present in annual financial statements.

To address its financial management problems, Commerce is developing a departmentwide comprehensive accounting system. Commerce expects that this project, known as the Commerce Administrative Management System (CAMS), will bring its financial management systems into full compliance with the requirements of the CFO Act and the Joint Financial Management Improvement Program guidelines for core accounting systems.

Commerce has spent the last 3 years planning this project and expects to begin piloting the core system at three of its bureaus in fiscal year 1995 and to complete implementation by fiscal year 1998. CAMS is to consist of a core financial system, which is currently in the bid process, and seven subsystems, which are in various stages of design.

Because the scope of our work to date was limited, we did not evaluate the design of CAMS. As part of our ongoing, more detailed review of the Department of Commerce, we will focus on the implementation of CAMS and its ability to address the problems that continue to plague the department's financial management operations.

Although we support Commerce's effort to develop this integrated and comprehensive system and agree that a new system is critically needed, Commerce, similar to other federal agencies, has historically had problems with systems initiatives. During the past year, we have reported on problems with other Commerce systems improvement initiatives at the Patent and Trademark Office and the National Oceanic and Atmospheric Administration (NOAA).[7] For example, our work on NOAA's National Weather Service modernization effort identified weaknesses in the management and oversight of this initiative including the need for a central manager or chief architect to guide it. The department is taking steps to implement our recommendations.

In view of Commerce's history of systems improvement problems--as well as the size, complexity, and rapid implementation schedule of the project--proper management will be essential to CAMS' success. Certain management challenges will need to be monitored or addressed. They include the following:

-- ensuring that the internal control structure has been properly evaluated and that identified weaknesses have been fixed,

[7] Patent and Trademark Office: Key Processes For Managing Automated Patent System Development Are Weak (GAO/AIMD-93-15, September 30, 1993), and Weather Forecasting: Systems Architecture Needed For National Weather Service Modernization (GAO/AIMD-94-28, March 11, 1994).

-- ensuring that data integrity has been established before implementing CAMS at any bureau,

-- monitoring and evaluating the initial pilots to ensure that CAMS' objectives are being met,

-- continuing to commit the necessary levels of resources or providing funding to obtain contractor assistance to ensure that CAMS stays on schedule,

-- close monitoring of concurrent projects to minimize risk of costly modifications and poor interface, and

-- maintaining parallel operations during implementation at all three pilot bureaus to ensure CAMS' reliability.

To address some of these challenges, Commerce may wish to consider adopting the practices leading private and public organizations have used successfully to manage their information resources. We reported on these practices in May 1994.[8] Despite spending more than $200 billion governmentwide on information management and systems over the past 12 years, the federal government has little evidence of meaningful results. We found, however, that solutions to seemingly intractable, complex information management problems do exist. Our report focuses on what agencies can do now to improve performance by using new approaches to managing information and financial related technologies. Our report summarizes 11 fundamental practices that led to performance improvements. They fall under three key functions: (1) deciding to work differently, (2) directing resources toward high-value uses, and (3) supporting improvements with the right skills, roles, and responsibilities.

AUDITED FINANCIAL STATEMENTS

The CFO Act requires that each department's OIG perform financial statement audits of their respective revolving funds, trust funds, and commercial activities. As a result, almost 90 percent of the Department of Commerce's total budget dollars were subject to audit. The following 13 funds and activities are to be audited by the Commerce IG, in accordance with the act's provisions:

-- Economic Development Administration Revolving Fund,

-- Bureau of the Census,

-- Economics and Statistics Administration,

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[8]Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

-- International Trade Administration,

-- NOAA-Coastal Zone Management Fund,

-- NOAA-Damage Assessment and Restoration Revolving Fund,

-- NOAA Fishing Vessel Obligation Guarantee Program,

-- Patent and Trademark Office,

-- National Institute of Standards and Technology,

-- National Technical Information Service (NTIS),

-- National Telecommunications and Information Administration,

-- General Administration-Working Capital Fund, and

-- General Administration-Gifts and Bequests.

As authorized by the act, OMB granted the Commerce OIG a waiver for all fiscal year 1991 audits, except for the audit of NTIS which has been contracted out to a public accounting firm since 1990. Beginning in fiscal year 1992, the Commerce IG adopted an incremental audit approach which focused first on what the IG called a "Financial Statements Preparation and Audit Survey" (FSPAS).

The FSPAS is a formal program to identify major problems in Commerce's internal control structure which must be corrected before a successful audit can be performed. The objective is to incrementally progress until full scope financial statement audits are conducted for fiscal year 1995. For fiscal years 1992 to 1994, the OIG plan was to perform limited scope audit procedures to assess the progress of corrective actions and facilitate a balance sheet audit in the following year. The only full scope audit performed in fiscal year 1993 was for NTIS and was contracted out. Many of the more limited scope audits planned for fiscal year 1993 either had not begun or were still under way. Based on current progress, the planned full-scope audits for fiscal year 1994 may not be done on schedule.

As of June 1994, the OIG had 166 professional staff, 91 of which were assigned as auditors. Our preliminary review of the OIG staff backgrounds showed that 28 were certified public accountants, and an additional 40 had accounting or financial management related degrees. The number of professional staff assigned to financial statement audits required under the CFO Act was recently increased from 10 to 18, which is a positive step. The OIG, however, has recognized the need for even greater resources to do this work. In its March 1994 semiannual report, it stated, "To do a complete job, we would need to assign many more auditors to CFO Act work." The

OIG projects that roughly 12 to 22 additional staff will be needed for the financial audits.

As the OIG plans ahead under its incremental audit approach toward full scope audits in fiscal year 1995, we believe the primary focus should be on performing an agencywide financial statement audit. This makes particular sense for Commerce since presently 90 percent of its total budget is subject to audited financial statements and given that pending legislation (H.R. 3400 and S. 2170) calls for agencywide financial audits for all CFO Act agencies.

We have testified on several occasions, most recently on June 21, 1994,[9] on the substantive benefits and progress that have been achieved from the CFO Act's program of pilot agencywide financial statement audits. The pilot audits have demonstrated their value in many important ways, including better highlighting agencies' true financial conditions. Audited financial statements have also been integral to identifying management inefficiencies and weaknesses and highlighting gaps in safeguarding the government's assets and possible illegal acts. Additionally, the CFO Act financial audits have identified actual and potential savings of hundreds of millions of dollars. We are confident that the Department of Commerce would also benefit from such a thorough review.

Benefits such as these strongly support our belief that the act's requirement for agencywide audited financial statements should be expanded to all 23 CFO Act agencies. We are encouraged by the House's passage of the provisions of H.R. 3400, the Government Reform and Savings Act of 1993, which included the requirement for agencywide audited financial statements for the government's 23 CFO Act agencies. The Senate Committee on Governmental Affairs earlier this month reported a financial management reform bill, S. 2170, that would require CFO Act agencies to prepare agencywide audited financial statements. Our support for this legislation is based on the solid record of the CFO Act's pilots, which have been highly successful. The Director of OMB agrees with this assessment and reported to the Congress last November that the pilot program has been successful.

[9] Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD-94-149, June 21, 1994).

Mr. Chairman, this concludes my statement. We are at a critical juncture in our national government as we address the need for real management reform and the clear message from the American people that they want a smaller, more responsive government. I view the environment today as a tremendous opportunity for change and look forward to working with the Subcommittee as it strives for a better managed government. I will be glad to answer any questions that you or other members of the Subcommittee may have at this time.

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