

SAGE
STRATEGIC ADVISORS TO
GOVERNMENT EXECUTIVES



FEDERAL **ROADMAP**

CFO



**PARTNERSHIP
FOR PUBLIC SERVICE**



The Partnership for Public Service is a nonpartisan, nonprofit organization that works to revitalize our federal government by inspiring a new generation to serve and by transforming the way government works.

This resource provides federal chief financial officers with a high-level overview of the evolution of federal financial management, a detailed explanation of required duties and an outline of evolving duties based on emerging trends in the industry.

FEDERAL CFOS: PROVIDING ACCOUNTABILITY, TRANSPARENCY AND INSIGHT

Federal chief financial officers (CFOs) were established with the passage of the CFO Act of 1990. With that act, Congress and the president broadened the focus of federal financial management beyond an emphasis on budget formulation, planning and budget execution to incorporate a more disciplined approach to financial performance and accountability. To that end, financial statements and audits—long required in the private sector—debuted on the federal scene and required new systems and processes to meet stringent financial audit requirements, comply with evolving standards and regulations and maintain effective internal controls in processes and systems.

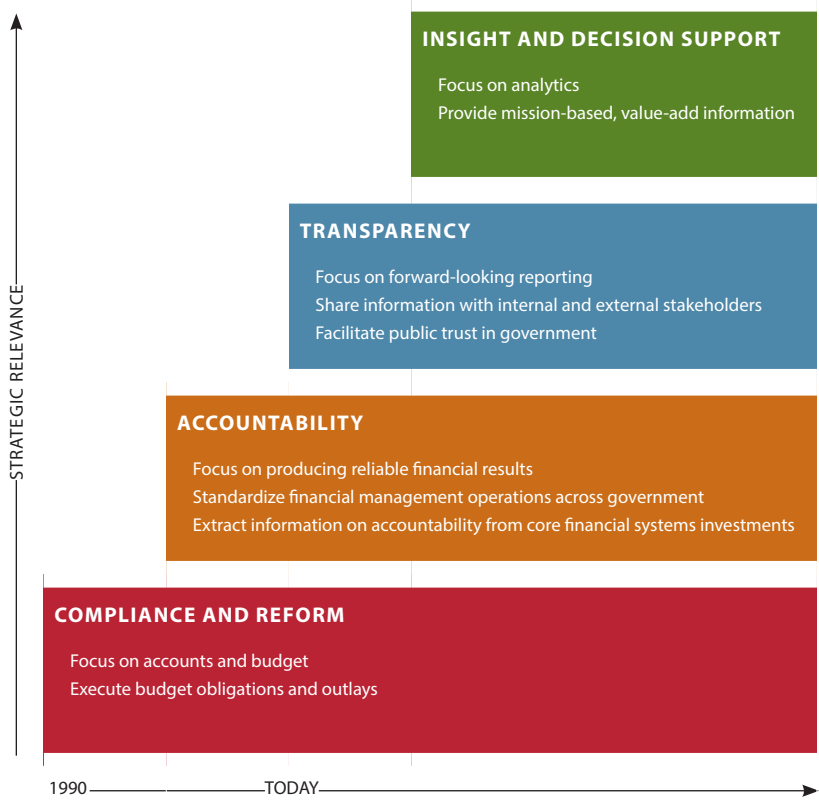
Since the passage of the CFO Act, federal CFOs have made significant progress in achieving the goals of improved federal financial management, particularly in improving accountability, developing performance metrics and strengthening internal controls. They are laying a foundation of financial accountability by obtaining clean audit opinions, modernizing financial systems, improving financial and performance integration, and instituting stronger internal controls. That said, federal CFOs are also shifting their focus to support their agency's mission by providing reliable and timely financial and program performance information to agency staff, overseers and stakeholders. Achieving these goals is made more challenging by continued budget cuts and personnel shortages.

Federal CFOs perform a delicate balancing act. They juggle an increasing array of mandates, initiatives and goals from Congress and the Office of Management and Budget (OMB) while driving their own agenda for financial transformation and improvement. While focusing on obtaining clean financial statement audit opinions and implementing complex financial management systems has yielded initial results, CFOs are challenged with translating these improvements into benefits at the program and operating levels—where they can provide real value and insight for their organization.

Forward-looking CFOs are building on these mandates to reach new levels of accountability, transparency and insight. In a 2005 report,¹ the Government Accountability Office (GAO) noted five key areas of improvement to achieve the world-class financial management anticipated by the CFO Act:

1. Modernize and integrate financial systems to provide the complete range of financial and cost information needed for accountability, performance reporting and decision making.
2. Build a more analytical financial management workforce to support program managers and decision makers.
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.
5. Ensure that financial management reform is sustained without regard to leadership changes and longer implementation times of reform initiatives.

CFO ACT AND BEYOND: EVOLUTION OF FINANCIAL MANAGEMENT



¹ CFO Act of 1990: *Driving the Transformation of Federal Financial Management*, U.S. Government Accountability Office, November 2005, GAO-06-242T.

REQUIRED DUTIES OF THE FEDERAL CFO

This roadmap provides a common starting point for all federal CFOs. It is important to note that agencies will have financial information requirements specific to their mission, congressional interests, the agency head's needs, existing organizational structures and strengths and interests of the CFO, among other factors.

A federal CFO's **required duties** include the following, per the CFO Act of 1990 and later related legislation:²

- Developing and maintaining integrated accounting and financial management systems.
- Developing budgets that support all agency missions.
- Integrating agency budgets and financial information with program objectives.
- Overseeing the recruitment, selection and training of personnel to carry out agency financial management functions, as well as managing, training and providing policy guidance and oversight of these personnel and their activities.
- Implementing agency asset management systems, including systems for cash management, credit management, debt collection and property and inventory management and control.
- Managing the financial execution of the agency budget and actual expenditures.
- Providing financial and performance reports to staff, overseers and stakeholders.

Strategic planning: CFOs help ensure that strategic and program planning encompasses the collaboration, resources and processes necessary to support strategy implementation. CFOs participate in developing program and project strategies and plans and communicate these strategies to OMB and Congress through agency budgets with measurable performance metrics that are aligned with the agency's mission and goals. CFOs also assess the mix of financial workforce skills along with employee performance and development plans so that they align with agency performance goals and stay within budget. CFOs also provide agency leaders with actionable data to balance initiatives competing for resources.

Budget and performance: CFOs prepare annual budgets and reports for OMB and Congress. These consist of formal budget submissions through OMB to Congress as well as financial and performance data on programs. The ability to provide reliable historical and current financial and program performance information supports a more informed process for planning future requirements and performance. CFOs also are responsible for providing a strong control environment that minimizes program and financial risks.

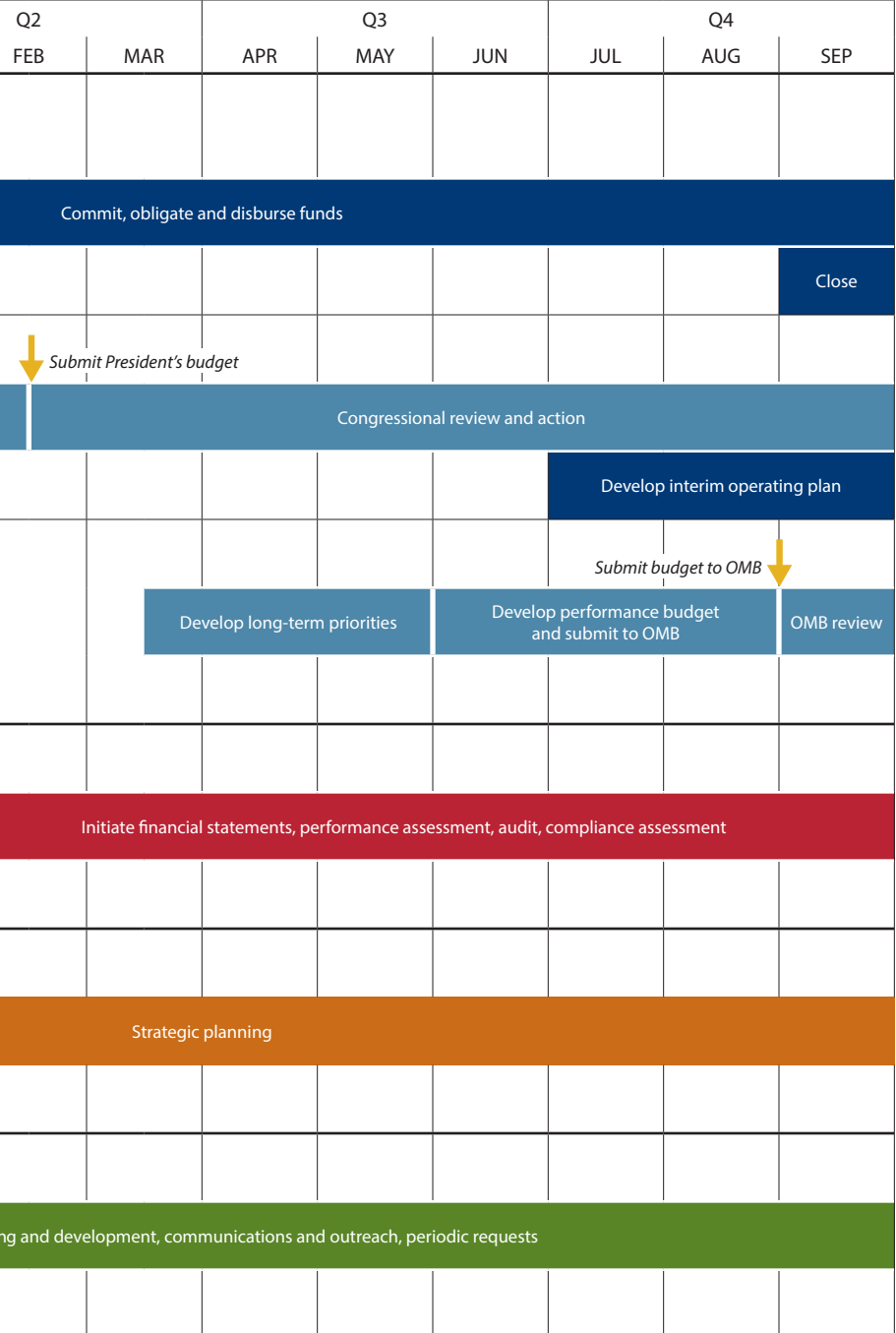
² *The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform*, U.S. Government Accountability Office, September 1991, GAO/AFMD-12.19.4.

KEY MILESTONES AND ACTIVITIES FOR FEDERAL CFOS

This roadmap provides a common starting point, but some agencies will have different financial information needs, congressional interests, the agency head’s needs, the strengths and interests of the CFO, among other

FUNCTIONAL AREA	Q1			
	OCT	NOV	DEC	JAN
BUDGET AND PERFORMANCE CURRENT FISCAL YEAR	↓ <i>Receive appropriation or continuing resolution</i>			
BUDGET YEAR (NEXT FISCAL YEAR)	OMB review	↓ <i>Receive OMB passback</i>		
BUDGET YEAR +1 (TWO YEARS OUT)				
RISK AND COMPLIANCE	Complete financial statement audit	↓ <i>Issue prior year PAR</i>		
STRATEGIC PLANNING	[Orange bar]			
ONGOING ACTIVITIES	Workforce planning [Green bar]			

...t for all federal CFOs. It is important to note that ...mation requirements specific to their mission, ...s, existing organizational structures and the ...r factors.



■ Budget execution ■ Budget formulation ↓ External milestone

Business systems and processes: CFOs oversee all aspects of financial management operations related to operating agency programs, including establishing and implementing effective financial management policies, fiscal controls consistent with appropriations, internal controls and financial management systems. These financial management systems must comply with all applicable accounting principles, standards and requirements; internal control standards; and requirements of OMB, Congress, the Department of the Treasury and others. Agency financial management systems must provide complete, reliable, consistent and timely information. An agency's core financial systems processes must be continually updated to comply with ongoing changes in federal financial management guidelines and regulations. Financial data are to be prepared on a uniform basis and be responsive to the financial information needs of agency management. CFOs should be full participants in agency information resources management decisions.

CFOs help ensure that strategic and program goals, project milestones and outcomes are linked to each other through budget planning, formulation and execution. An integrated performance and budget planning process helps performance goals and metrics, so that CFOs can produce more reliable information on program results and costs. By facilitating collaboration between the budget formulation and program management processes, CFOs help ensure that the agency executes its budget for programs and personnel critical to an agency's strategic vision and goals. Such budget and financial integration facilitates reporting of reliable and relevant budget execution information. CFOs can provide information and help set evaluation criteria so program managers can develop performance-based budgets that link strategic and annual performance plans with the costs of achieving target levels of performance.

Financial workforce management: On an ongoing basis, CFOs must handle critical workforce planning and development issues, including day-to-day management of personnel and ensuring a pipeline of skilled CFO staff.

Risk and compliance: There is a growing reliance on developing a strong control environment to help agencies minimize risk and improve program results. With an increasing reliance on technology and a shortage of skilled workers, agencies must ensure that their business processes and systems are as cost-effective as possible and support mission needs. A robust control environment, with periodic monitoring, assessment and remediation, where necessary, is critical to creating a high-performing agency.

The Federal Managers Financial Improvement Act (FMFIA) and OMB Circular A-123 are the foundation for internal controls in the federal government. FMFIA and A-123 require federal managers to design, implement, monitor and report on the internal control frameworks put in place to mitigate risks that might prevent the agency from meeting its vital goals and objectives.

OMB Circular A-123, Appendix A: Sarbanes-Oxley for the federal government
 These requirements closely parallel the requirements of the Sarbanes-Oxley Act of 2002. A-123 requires agencies to improve the accountability and effectiveness of federal programs and operations by documenting, assessing, testing and reporting on the effectiveness of internal controls over financial reporting.

Communications and reporting: Communications and outreach are other critical roles of the CFO, including internal communications with agency leaders and staff as well as responding to statutory and periodic information requests from OMB, Congress and GAO and from agency inspectors general. CFOs must provide reliable and timely information on the financial and program performance of the agency to a vast number of agency staff, overseers and stakeholders. The CFO communicates agency strategies through budget requests to Congress and reports annually on program and financial performance against congressionally approved budgets.

EVOLVING ROLE OF THE FEDERAL CFO: ACHIEVING MISSION-BASED INSIGHT

Federal financial management is more than clean audits and compliance. It's about providing mission-based, value-added information to guide agency decision making and providing transparency to Congress and the public. Agencies are relying more on federal CFOs as their role evolves. To this end, the CFO must be a strategic player and align with other agency leaders. One of the most marked changes in federal financial management, since the passage of the CFO Act of 1990, is the federal CFO's migration from the "back office" to the "front office."

Today, CFOs are taking the lead more frequently on major management initiatives and challenges confronting federal agencies and government as a whole. As discretionary budgets decrease, CFOs are looking across functions, programs and disciplines to find ways to deliver better service to U.S. citizens while using limited resources more effectively.

And here lies the biggest challenge for federal CFOs. It is no secret that federal agencies are fiscally constrained and will continue to be in the near future. Agencies are constrained by administrative budget cuts, increasingly complex compliance requirements that add work without commensurate value for organizations, skilled workforce shortages and a pending wave of retiring financial experts. Attracting, developing and retaining the right people will be a critical factor in helping federal CFOs continue driving their initiatives forward today and beyond. Another critical success factor will be improving business processes and practices to fully realize the benefits from investments in financial system modernization.

A strong federal CFO will step into this highly complex environment—marked by short-fused deadlines and limited organizational capacity—to help drive the office of the CFO to continue its slow, yet deliberate, progress toward transparency and insight. Federal CFOs will strive to achieve this original promise of the CFO Act by:

- Shifting from a backward- to a forward-looking approach through financial, performance and risk information analysis to better project future program performance
- Adopting a more integrated approach to enterprisewide risk management to link strategic planning and performance budgeting tightly

- Moving the CFO organization from a reactive, compliance focus to a tactically and strategically collaborative position with agency and department leaders
- Enhancing the alignment and agility of the office of the CFO resources to support agency and program missions most effectively
- Integrating financial and performance measurements to more tightly link planning, budget formulation and execution activities
- Evolving the CFO perspective on producing auditable financial statements to also include improving managerial cost accounting and integrating performance metrics with budgetary resources and meaningful, program-enhancing performance data
- Providing agency executives and program managers with the financial and performance information they need to make sound decisions and support the mission

KEY LEGISLATION

Federal Managers' Financial Integrity Act of 1982 (FMFIA): Required ongoing evaluations of and reports on the adequacy of internal accounting systems and administrative controls of each executive agency, not just controls over financial reporting but also controls over program areas.

Chief Financial Officers Act of 1990 (CFO Act): Mandated a financial management leadership structure; required the preparation and audit of annual financial statements only by pilot agencies; called for modernized financial management systems; strengthened internal controls; and required the systematic measurement of performance, the development of cost information, and the integration of program, budget and financial systems. Public Law 101-576 (Nov. 15, 1990).

Government Performance and Results Act of 1993 (GPRA): Required agencies to develop strategic plans, set performance goals and report annually on actual performance compared to goals.

Government Management Reform Act of 1994 (GMRA): Made permanent the pilot program in the CFO Act for annual audited agency-level financial statements, expanded this requirement to all CFO Act agencies, and established a requirement for the preparation and audit of governmentwide consolidated financial statements.

Federal Financial Management Improvement Act of 1996 (FFMIA): Built on the foundation laid by the CFO Act by reflecting the need for CFO Act agencies to have integrated systems that can generate reliable, useful and timely information with which to make fully informed decisions and to ensure accountability on an ongoing basis.

Clinger-Cohen Act of 1996: Also known as the Information Technology Management Reform Act of 1996, set forth a variety of initiatives to support better decision making for capital investments in IT, which has

led to the development of the Federal Enterprise Architecture and better-informed capital investment and control processes within agencies and across government.

Federal Financial Assistance Management Improvement Act of 1999 (PL 106-107): The genesis of the increasing focus on improving the effectiveness and performance of federal grant programs, simplifying the process and reporting, improving coordination between grant-making organizations, and improving the delivery of public service.

Reports Consolidation Act of 2000: Required that agencies prepare a combined Performance and Accountability Report (PAR) each year.

Accountability of Tax Dollars Act of 2002 (ATDA): Required most executive agencies that are not otherwise required, or are exempted by OMB, to prepare annual audited financial statements and to submit such statements to the director of OMB and Congress.

Improper Payments Information Act of 2002 (IPIA): Required agencies to enhance the accuracy and integrity of federal payments.

Department of Homeland Security Financial Accountability Act of 2004: Added the Department of Homeland Security to the list of CFO Act agencies.

Federal Funding Accountability and Transparency Act of 2006 (FFATA): Required most executive agencies that are not otherwise required, or are exempted by OMB, to prepare annual audited financial statements and to submit such statements to Congress and the director of OMB.

RESOURCES

Office of Management and Budget
Office of Federal Financial Management (OFFM)
whitehouse.gov/omb/financial

Federal Chief Financial Officers Council (CFO Council)
cfoc.gov

Association of Government Accountants (AGA)
agacgfm.org

American Society of Military Comptrollers (ASMC)
asmconline.org

Partnership for Public Service (Partnership)
ourpublicservice.org

Federal Accounting Standards Advisory Board (FASAB)
fasab.gov

National Academy of Public Administration (NAPA)
napawash.org



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