GOVERNMENT ACCOUNTABILITY

From Back Room to Board Room: Federal CFO Role in Managing the Cost of Government

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The landmark CFO Act of 1990 chartered a course for leaders to create high-performing, financial management practices. Challenges lie ahead as the CFO Act comes of age and moves to the next stage of maturity.

November 15, 2010, marked a red-letter day for federal financial management as the Chief Financial Officers Act of 1990 (CFO Act) celebrated its 20th anniversary. Widely heralded as the most comprehensive financial management improvement legislation in 40 years, the CFO Act has more than lived up to its hype. Since it was signed into law by President George H.W. Bush, the federal CFO community has moved far beyond basic accounting responsibilities (the "back room") to a leadership role (the "board room") that provides support across agency programs and operations at the enterprise level. The journey continues today as federal CFOs further expand their capabilities to create value.

As the nation continues to dig out of the worst economic downturn since the Great Depression, there is growing recognition for the importance of dealing with large federal budget deficits and a daunting estimated $89 trillion long-term fiscal gap. Also, government has entered a new era in accountability and transparency through online reporting of federal spending under President Obama's Open Government Initiative.

Currently, we see greater acknowledgement for the important role finance organizations play in helping manage the cost of government. As our nation's leaders consider difficult spending and revenue options and agency leadership and program managers face what promises to be a long period of doing more with less, high-performing federal finance organizations will increasingly become more significant.

The KPMG Government Institute performed extensive research into what constitutes a high-performing federal finance organization. Information gleaned through the research can help chart the course for federal CFOs moving forward.

The End Game: Managing the Cost of Government

The CFO Act is often talked about first in terms of an agency's financial statements, and second in ways to improve operations and reduce fraud, waste, and abuse. But its context is much broader. At the heart of the CFO Act are three provisions that call for

1| systematic measurement of performance
2| development of cost information
3| integration of systems: budget, program, and financial.

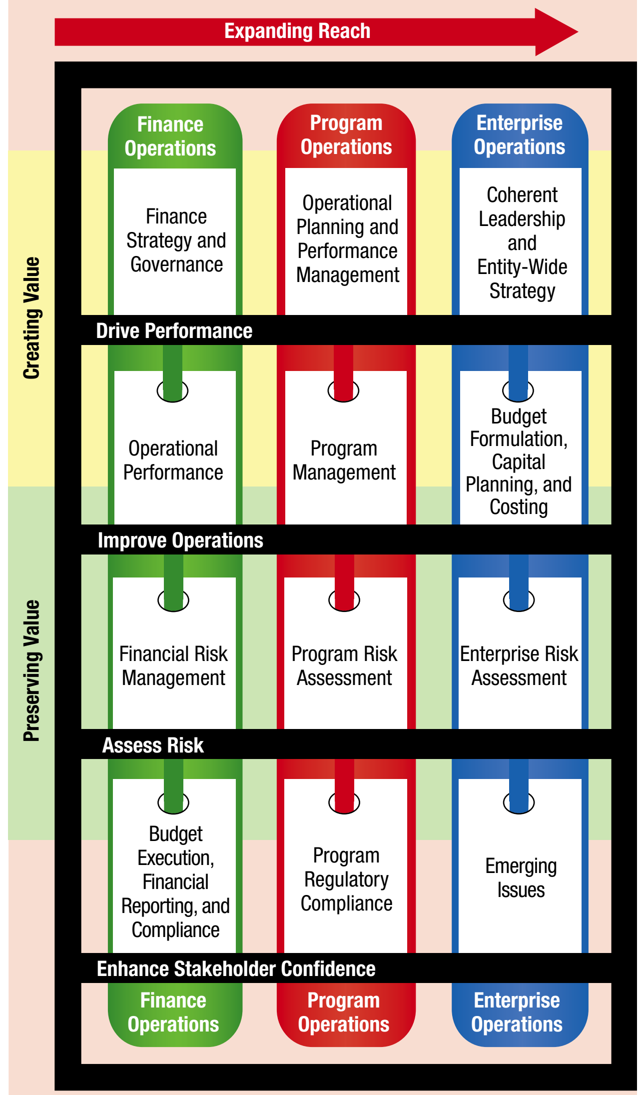
The end game of the CFO Act is to help manage the cost of government through reliable, relevant, and timely financial information that is integrated with program and budget information, so managers can systematically measure performance and related costs. Doing so can lead to smarter spending, better results, and greater accountability and transparency.

The need to manage the cost of government is paramount. One point of agreement in our nation's capital is that the federal government's current fiscal path is not sustainable and will necessitate dramatic reductions in spending and increases in revenue.

High-Performing Federal CFOs Operate in Three Dimensions

The current fiscal environment of large annual deficits and an unsustainable long-term fiscal gap call for an even higher level of performance by the federal CFO community. Here is a framework for considering the role of a high-performing federal finance organization based on extensive research that draws on data from organizations such as the U.S. Office of Management and Budget (OMB), the U.S. Department of the Treasury, and the U.S. Government Accountability Office (GAO).

Figure 1 | Three Dimensions of High-Performing Federal CFOs



Source: KPMG Government Institute

Think of a CFO's performance in terms of three dimensions of responsibility:

- Dimension 1| Finance operations; performs basic finance functions with a high degree of effectiveness and efficiency
- Dimension 2| Program operations; supports the achievement of the agency's programs with reliable, relevant, and timely financial information and analysis, as well as effective and efficient internal controls
- Dimension 3| Enterprise operations; demonstrates leadership as a key member of the agency's senior leadership.

> High-performing finance organizations have the right people, effective and efficient processes, and well-designed financial systems that are integrated with related program and enterprise-level information systems.

In essence, these organizations preserve value by assessing risk and enhancing stakeholder confidence, and they create value by helping improve operations and drive performance. Activities associated with preserving value, such as transaction processing and financial reporting, are key to carrying out the CFO's mission and complying with a range of federal laws and regulations. These activities are traditional finance functions and have dominated day-to-day activities of federal CFOs and how people typically think about the role of finance.

Specifically, high-performing federal finance organizations

- drive performance by setting strategy and measuring performance
- improve operations by increasing productivity by advancing the skill sets and knowledge of finance personnel
- assess risk by instituting risk management programs across the agency
- enhance stakeholder confidence by producing reliable budget, forecast, managerial, and financial information.

High-performing finance organizations allocate more of their resources to value-creation activities, such as operational performance and program management. As they work across the three dimensions, they enhance their sphere of influence and contribute to the agency's mission by moving from the "back room" to the "board room."

Dimension 1| Finance Operations

This dimension represents the basics: budget execution, appropriation accounting, bill payment, payroll, internal control, financial risk management, and statutory financial reporting. High-performing finance organizations simplify processes, employ cost-effective internal controls, integrate systems that tie together financial and performance information, and use shared-service providers and standard business rules. They adopt leading practices and shift the focus from transaction-processing activities to high-end decision support and strategic-planning activities.

Drive performance through a strong strategy and sound governance.

The CFO mission is far reaching. There is a shared vision across the agency of the role of finance as a strategic partner. The finance organization stays abreast of program changes and financial management practices. Its governance framework is designed to be responsive to mission needs, avoid stovepipes, and empower finance personnel to do their jobs.

Expectations and lines of authority are clear and enforceable, and the organizational structure is adaptable to change. A governance framework anchored by core values that define the culture guides the organization's activities and behavior. CFOs use meaningful performance metrics in strategic planning and accountability for results.

Continually improve financial operations based on recognized leading practices.

High-performing finance organizations have the right people, effective and efficient processes, and well-designed financial systems that are integrated with related program and enterprise-level information systems. They optimize smart use of technology to support business needs, and successfully upgrade or replace financial management systems on time and within budget.

They also keep pace with management needs and technology advances, improve data quality, and reduce operating costs. Financial management processes have the right balance of internal controls, and finance is properly staffed and personnel are well-qualified, trained, properly motivated, and rewarded for results.

Assess and cost-effectively manage risk across the finance function.

There is a thorough understanding of risk management that goes beyond continually managing the finance organization's risks to supporting the program and enterprise risk management. Leading finance organizations understand the cost-benefit equation and accept certain risks rather than employ costly systems that try to avoid risks. They continually consider changes to their environment that may introduce new or increased risk and have relevant and reliable information on which to base trade-off decisions involving risk, benefit, and cost.

Enhance stakeholder confidence through effective budget execution and forecasting, financial and managerial reporting, and effective and efficient regulatory compliance.

Given the critical importance of the budget and the range of legislative and regulatory requirements related to uses of funds and accountability for appropriations, high-performing finance organizations have mastered this part of their job. In addition, they are able to prepare financial statements that pass the audit test and the annual Performance and Accountability Report as byproducts of normal accounting operations.

All required reports to Treasury and budget execution reports to OMB flow from the financial management system. Reports are reliable, timely, and prepared without extensive manual intervention and additional data collection. The finance organization is able to ensure effective internal controls, perform reliable and useful financial analysis, and support decision making because it is not bogged down trying to meet routine financial reporting requirements. Also, stakeholders, such as the U.S. Congress, gain confidence that reports they receive are reliable and complete.

Dimension 2| Program Operations

As we move to the program operations dimension, the CFO's role shifts appreciably. High-performing finance organizations have transitioned from routine finance operations and transaction processing to being trusted business advisors to program managers, who make decisions on the use of resources.

Program managers are responsible for internal controls and the range of activities needed to effectively and efficiently manage programs. They are the two words of defense against program fraud, waste, and abuse. Leading finance organizations are valued for the help they bring to program managers in carrying out these roles and become an integral part of program management.

They build on the natural relationship between program and financial management by providing quality information, analyses, and advice. They play an important role in performance measurement and risk management and—through knowledge of programs—are able to see the big picture.

Help drive performance through strategic and operational planning and performance measurement.

The finance organization plays a key role in assisting with the development of the program strategic and operational plans. It views its role as facilitating program results through quality information, analyses, and insight. It supports the development of performance metrics that are based on appropriate analyses and relevant, reliable financial and related program information, so that a clear link is made between financial and program results.

Continually support the improvement of program management.

This encompasses managing for results through the statutory framework for performance-based management, such as the Government Performance and Results Act (GPRA), by providing training and tools; helping to ensure development of effective and efficient program internal controls; supporting contract, grant, and asset management; providing quality managerial cost information; and assisting in establishing and monitoring user fees.

> What separates high-performing finance organizations from those that are simply good is the influence their CFOs have at the enterprise level, and their ability to provide quality financial information and analyses that can be used to manage the agency.

Support the assessment and cost-effective mitigation of program risk.

The concepts for assessing and managing risk in the finance operation dimension apply equally to program operations. After all, programs are where the money is spent and public services are provided. High-performing financial organizations bring needed expertise to the table to help program managers manage risk to an acceptable level. The finance organization is also able to help integrate the risk assessment process with strategic and operational planning, so it becomes even more relevant to program managers.

Enhance stakeholder confidence through compliance with laws and regulations.

Support functions program managers would perform include:

- reducing and recovering improper payments by implementing the Improper Payments Elimination and Recovery Act of 2010 and the Presidential Executive Order: Reducing Improper Payments and Eliminating Waste in Federal Programs
- collecting debts by implementing the Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996
- managing federal credit programs by implementing of the Federal Credit Reform Act of 1990
- providing accountability and transparency by implementing the Federal Funding Accountability and Transparency Act of 2006, the American Recovery and Reinvestment Act of 2009, and the President's Open Government Initiative.

Dimension 3| Enterprise Operations

Activities in this final dimension are strategic and involve assisting management at the highest levels of the agency—in the "board room." This is where the term "trusted business advisor" must really resonate. A leading CFO is "at the table" and is looked to not only for numbers, but for strategic advice.

Financial analyses take on an even more important role, as does the ability to perform sophisticated forecasts and alternatives analyses. A high-performing finance organization is at the center of strategic decision making, short- and long-term investment decisions, identification of emerging issues, stakeholder engagement involving financial performance, and enterprise risk management.

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Help drive performance through leadership and entity-wide strategy.

The CFO is a member of the agency's top leadership team and a key player in enterprise strategic planning and deployment. The finance team analyzes financial trends and provides forward-looking information. It has responsibility for both budget preparation and execution, placing it in the center of resource allocation and spending decisions. The CFO is also an influential leader in the broader federal CFO community.

Continually improve budget formulation, capital planning, and cost estimation.

The budget is the primary financial policy document in the federal government. It is where the president and the Congress set program and spending priorities. High-performing finance organizations:

- help ensure the budget ties to the agency's strategic plan
- determine the reasonableness of supporting cost estimates and provide analyses to support fact-based capital investment decisions
- provide an independent set of eyes to look at business cases and cost analyses developed by others in the agency

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- forecast the financial impact of new programs and changes to existing programs.

Assess and cost-effectively address enterprise risk.

Risk assessment is most effective when it is considered both from a top-down and a bottom-up perspective at all levels of the agency. High-performing finance organizations integrate enterprise risk into strategic and operational planning in a way that cost-effectively focuses attention on the most important risks and identifies solutions that may cut across organizations.

Enhance stakeholder confidence through identification of emerging issues.

Finance keeps abreast of changes in the financial landscape, such as economic and demographic trends, the financial implications of technology innovation, proposed legislation, and changing customer and stakeholder expectations. Foresight positions the finance organization to adapt its priorities, services, and operations to bring greater value.

Final Thought

As the CFO community celebrates its achievements over the past two decades under the CFO Act, it faces a future of tighter spending and tough revenue decisions asking them to do more with less. This promises to place an even greater premium on high-performing finance organizations.

Success in all three dimensions of the framework, working in tandem, is required. Embrace the challenge to journey to the board room by further expanding your capabilities to create greater value in managing the cost of government.

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