1990–2010: CFO Act 20 Years Later

PERSPECTIVES FROM THE FIRST CONTROLLER

By Edward J. Mazur, MBA, CPA
The passage of the CFO Act in 1990 marked a noble beginning for what was to become the greatest advance in modernizing and making more effective federal government financial management. It also marked the successful completion of years and years of efforts in which serious concerns about federal financial management were aired, heard, responded to and eventually crafted into binding public policy through the unique mechanisms of America’s legislative processes.

In this article, I hope to take you on a tour of this milestone legislation, with particular attention to:

- the factors that led to its drafting,
- the hopes that were expressed during its passage,
- what the first years were like,
- what has been accomplished under its mandates and
- how it can continue to be used to both evolve and advance the performance of federal departments and agencies and return this great nation to a position of fiscal strength and sustainability.

Factors Leading to the Passage of the CFO Act

Intergovernmental Programs Eventually Bind the Three Levels of Government

Two significant early events helped to generate interest in reforming the financial management practices of the federal government. The first was the federal government’s entry into social and economic problems of state and local governments. Under the Great Society programs of President Lyndon Johnson, federal funds began to flow in support of community development and organization, job training and improved housing.

Whereas the three levels of government—federal, state and local—had, prior to the mid-1960s, tended their own gardens, the onset and expansion of intergovernmental funding brought these three levels into close and intimate contact. As financial managers sought to respond to these new relationships, they began to increasingly seek more rational, efficient and transparent ways of managing public funds.

Inadequate Governmental Financial Management Finally Hits the Bond Market

The second action-forcing event was the financial failure of some of our major cities and counties in the 1970s, most notably New York City. In the wake of the New York City crisis, bond-rating agencies began to pressure states and large municipalities to adopt and adhere to comprehensive reporting standards. New York City’s financial reporting at the time (as it was across America’s cities, counties and towns) proved generally inconsistent, not comparable, incomplete and therefore, not very reliable.

At the 1980 annual conference of the National Association of State Auditors, Comptrollers and Treasurers, a senior officer at Standard & Poor’s, Hy Grossman, gave his famous “Can You Hear the Bells Ringing?” speech in which he warned the states to get their financial houses in order and to begin complying with GAAP. Subsequently, the financial management and reporting practices of state and local governments were strengthened significantly over time.

Federal Leadership Encouraged Financial Management Reform

Those operating either within or in relationship to the federal government voiced some of the strongest early calls for financial management reform. Significant influence on debate, both by Congress and the financial management community, resulted from:

- The outstanding leadership of Comptrollers General Elmer Staats and Chuck Bowsher in pushing for reform, in part through establishing a codification of Government Auditing Standards beginning in the 1970s, known as the “Yellow Book.”
- The establishment in 1983 of a controllership task force by AGA, then under the leadership of President Susumu Uyeda. This AGA task force went on to prepare, publish and distribute a series of almost annual monographs, analyses and other communications in support of reform, which eventually resulted in the submission of draft legislative proposals to President Reagan and members of Congress.
- The publication in 1986 of observations concerning the U.S. government’s financial reporting practices by Arthur Andersen, including findings that the U.S. government failed to follow the financial reforms it imposed on New York City during its crisis; the fragmentation of financial management hindered the development of a government-wide financial reporting system; and the laws and regulations requiring the adoption of accrual accounting, as recommended by both Hoover Commissions, were largely ignored.
- The issuance of the series of reports by the Grace Commission, which called for a range of management reforms. The Senate Government Affairs Committee, which had the lead for follow-up on the Grace Commission recommendations,
sought GAO's assistance. At the suggestion of Past AGA National President Art Schoenhaut, GAO detailed Jeffrey Steinhoff, CGFM, CPA, CFE, to work directly with the committee full time to help craft legislation. The centerpiece of the resulting management reform bills introduced by the committee was S.2230, The Federal Financial Management Reorganization and Control Act of 1986. That bill, which leveraged the foundational work that went before, served as the platform for what eventually became the CFO Act.

Congressional Intent Regarding Financial Management Reform

Congress listened and sorted through the various alternatives for reforming federal financial management practices. Much of the leadership during this period was ably provided by Sens. John Glenn and William Roth, both of whom chaired or served as the ranking member of the Senate Governmental Affairs Committee in its consideration of the various proposals.

Upon his retirement, Sen. Glenn expressed that his achievements in bringing about reform to the federal financial management practices were among the most notable and meaningful of his entire career—quite a statement from the first American to circle the earth in space.

On the House side, effective and supportive leadership came from U.S. Reps. John Conyers, chairman, and Frank Horton, ranking member, of the House Committee on Government Operations.

The culminating actions to pass the act, after all of the efforts important to, and required by, our democratic process, came very quickly and without controversy. On November 15, 1990, President George H.W. Bush signed the CFO Act into law.

And Then the Work Began—Implementing the CFO Act

I had the honor of serving as the first controller of the Office of Federal Financial Management (OFFM). The appointment resulted from my service as state comptroller for Virginia and as co-chair of the State/Federal Cash Management Reform Task Force, which worked to gain passage of the Cash Management Improvement Act of 1990.

After several months of vetting and clearance, I was formally presented to the Senate for confirmation. In the last sentence of my prepared testimony before Sen. Glenn's Committee, I said: “I hope that my efforts as controller will help ensure that my children and their children inherit a country that can be proud of the way its government manages its fiscal affairs.”

I have many stories about my time as controller and many fond recollections of the extraordinary men and women who served with such distinction in the U.S. Office of Management and Budget. On my very first day as controller, OMB Director Richard Darman welcomed me at the beginning of his weekly staff meeting. I responded by saying that I was pleased to be at OMB, to which, almost en masse, those in attendance replied, “You won’t be for long.” I learned what they meant in the months to come—working at OMB is like experiencing intellectual strip mining.

As my work got under way in December 1991, I quickly found that some members of the inspector general community thought (and perhaps hoped) that the CFO Act might fail. Also, some of those designated as agency CFOs were less than enthusiastic about the act. Nevertheless, efforts at implementation went forward.

Accomplishments Under the CFO Act

For all of the doomsday predictions and for all of the policies and practices that had to be restructured, the CFO Act succeeded. If you “tick and tie” the individual requirements within the act, you would find each has been substantively addressed over the past 20 years. It might even be viewed as an unqualified success, were it not for a couple of nagging problems that I will address later on.

OFFM prepared the first required Federal Financial Management Status Report and 5-Year Plan in April of 1992. In re-reading this report one is struck by three things—the clarity with which what needed to be accomplished was stated, the description of already completed short-term accomplishments, and the positive and confident outlook for future achievements.

When you fast forward from 1992 to OFFM’s 2009 Federal Financial Management Report, you can only be impressed by how far federal financial management has come in 20 years. Everything that is needed to further perfect federal financial management is now in place—the policies; performance measures; systems and technologies; personnel trained in current practices and eager to apply them; and substantive communications and teamwork among agency CFOs and IGs.

The most transformational outcome from the act was reducing the allotted time for issuing audited Performance and Accountability Reports or Agency Financial Reports to just 45 days after the close of the federal fiscal year. When considering that publicly traded corporations have 75 days to produce comparable reports and that state and local governments take up to six months, it is truly laudable that federal agencies—some of the
The largest, most complex entities in the world—are now meeting the nation’s highest standard for financial reporting timeliness.

The reported elimination of auditor-identified material weaknesses among the 24 major CFO Act agencies also demands recognition. Weaknesses have declined for five consecutive years to only 32 now remaining, a 50 percent reduction since 2001. I contend that this reduction is largely the result of two activities:

- The increased attention to compliance with OMB Circular A-123, Management’s Responsibility for Internal Control, and;
- Adherence to the Federal Financial Management Improvement Act of 1996.

When reading the 2009 Federal Financial Management Report, what also catches my eye is the absence of unmet needs that were previously reported in the 1992 report, such as:

- The need to develop a comprehensive set of accounting standards;
- The need to eliminate duplicative systems and foster cross-servicing arrangements;
- Reference to the OMB’s High Risk List and the use of joint OMB and agency SWAT teams to attack agency deficiencies, and;
- The need to implement the reporting and transaction requirements of credit reform.

Heroes Abound in the Battle for Reform

How were such amazing strides made in reforming the financial management of the federal government before this 20th anniversary year? The answer lies in the dedicated men and women who serve throughout the federal government as selfless public servants. Their knowledge, exemplary work and willingness to learn, change and take on challenges has brought about the progress and achievements that we celebrate throughout this anniversary year.

I would be remiss if I did not single out for special recognition the small band of individuals within OFFM. During my time at OMB, and since, these exceptional public servants have exercised extraordinary leadership, exhibited amazing creativity and pursued—often through sacrificial efforts—the changes and improvements mandated by the CFO Act.

The Years Ahead—What to Build Upon and What Challenges to Address

The CFO Act of 1990 is a firm, relevant and powerful foundation upon which the federal government can continue to evolve, advance and further strengthen its financial management practices. The commitments for the next five years as articulated in the 2009 Federal Financial Management Report of OMB are each worthy—from the continued elimination of material weaknesses to the promise that all federal departments will produce annual financial statements in accordance with established standards. Their eventual fulfillment will
mark what history may judge as the final attainment of President Thomas Jefferson’s charge to his Treasury Secretary Albert Gallatin in 1802:

“We might hope to see the finances of the Union as clear and intelligible as a merchant’s books, so that every member of Congress and every man of any mind in the Union should be able to comprehend them, to investigate abuses and consequently to control them.”

I could conclude with only this voiced praise for progress under the act and with encouragement for the future. However, my long dedication to the full disclosure of impending fiscal threats and to communicating difficult truths to those in high elective office, lead me to express the following concerns and recommendations, which I offer in ascending order of priority.

My fourth priority concern is that department and agency CFOs simply must exert more leadership in building up the readership of their Performance and Accountability Reports or their Agency Financial Reports, Annual Performance Reports and Highlights documents. I assert that it is not difficult to generate a list of the significant stakeholders—beyond Congress and legislative staff—for each federal department and agency.

This extends to the secretary of the Treasury, who I recommend should formally transmit the annual audited “Financial Report of the United States Government” to the governor of every state, the elected head of every major city and the CEO of every corporation in the Fortune 500. A briefing by a treasury official to every governor should be offered on the contents and implications of the Financial Report. I recommend that the Federal Accounting Standards Advisory Board (FASAB) create an advisory committee of current and potential users of the government-wide and agency-based financial reports.

In short, why should we stand by when some members of our society condemn the federal government without doing all we can to communicate facts about the productivity, services and federal protections provided daily in their name?

My third priority concern is that the continued application of the CFO Act must be vigorously defended. For the first time in our history, our national government uses a comprehensive, balanced, systematic and objective mechanism under which the true complexity of the federal government may be accounted for and reported upon. The continuing need for departments and agencies to prepare auditable annual financial statements recognizes the significant weight of public trust, and the accompanying need for senior officials to readily demonstrate accountability for the often complex and functionally diverse activities of the departments and agencies they lead.

Further, the preparation of such statements represents full acknowledgment that for each dollar received, for each dollar expended, for each asset held for future benefit and for each liability owed there is an American stakeholder—a person with expectations—who has placed reliance upon the federal government.

Engaging the American public in assessing the accountability, productivity and performance of federal departments and agencies takes something more than annual financial statements. For example, facilitating a citizen’s ability, through means of electronic inquiry, to determine exactly how much a federal agency expends and how it performs stimulates citizen involvement, informs community dialogue and aids in citizen communications with elected representatives.

Although these new mechanisms for promoting transparency cannot adequately serve as a substitute for the sophisticated accounting and reporting requirements now in place under the CFO Act, they can become an important component in communicating to our citizenship.

My second priority concern is the need to maintain and further evolve the financial management reforms that have been attained over the past 20 years, and that are now under real threat due to the financial crisis impacting our nation. There is a point past which the slow bleeding of accounting, reporting, budgeting and auditing organizations through staff and other budget cuts cannot continue without inflicting great harm to the progress made over the last 20 years. Financial management leaders at all levels of government must find effective ways of communicating to their elected representatives that budgetary pressures must not impede our ability to ensure the accuracy of benefit payments, the timely collection of revenues, the reliability of financial information and the safeguarding of our nation’s public assets.

Finally, let me cite my highest priority concern. One of the key suppositions of the CFO Act was that the federal government not only needed to strengthen its accountability, but that our citizens and their elected leaders required improved information with which to make important decisions bearing on the future of our country. The federal financial management community has delivered on that promise through, in large measure, the following:

- The highly professional efforts of the U.S. Department of the Treasury to annually prepare and publish the “Financial Report of the United States Government.”

Some key published documents required by the CFO Act
States Government,” a consolidated financial report characterized by its candor and completeness of disclosure and reporting.

- The supportive involvement of OMB and FASAB in creating the essential underpinning of reporting standards and policies.
- The care, diligence and independence of the U.S. Government Accountability Office (GAO) in auditing the federal government’s consolidated financial report (CFR) and the efforts of the CFO and IG communities in assuring the proper preparation and audit of department and agency financial reports that underlie the CFR.

Despite this most professional and well-executed effort, and despite the clear presentation of facts and evidence that the federal government’s financial condition cannot be sustained, this reported information and associated warnings have not produced a change in direction. As a result of this inaction, the federal government has now amassed reported debt and other financial obligations to citizens and foreign interests amounting, at the end of the 2009 federal fiscal year, to more than $63 trillion. This is more, I am certain, than the net asset value of every man, woman and child in America. Without the fiscal resources to repay these debts and fulfill these obligations, and without a significant reduction in federal commitments and expenditures, the federal government cannot possibly sustain its present course.

With more than half of publicly held Treasury debt in the hands of foreign governments and other foreign interests, our national security is at stake, and the future quality of life and quality of opportunity for our citizens—especially our children and their children—is under severe threat.

We need to explore, beginning today, how the federal CFO and IG communities, operating under the spirit and expectations of the CFO Act, can work with financial officials at all levels of government and the citizens to assist our senior elected officials to objectively face and soberly address this most serious crisis.

Edward J. Mazur, MBA, CPA, serves as senior advisor for Public Sector Services with Clifton Gunderson LLP. He also serves as chair of the Audit and Financial Management Advisory Committee of the U.S. Small Business Administration, as a member of AGA’s Financial Management Standards Board and as member of FASAB’s Federal Reporting Task Force. He has served on both the Governmental Accounting Standards Board and FASAB. Mazur was the first controller appointed by the president under the Chief Financial Officers Act of 1990, through which he headed the OMB’s Office of Federal Financial Management.