CFOs: SURVIVING IN THE NEW ERA
About the Association of Government Accountants
The Association of Government Accountants (AGA), founded in 1950, is the educational organization dedicated to the enhancement of public financial management. The AGA serves the professional interests of state, local and federal financial managers who are responsible for effectively using billions of dollars and other monetary resources every day. The association has more than 15,000 members, including professionals in accounting, administration, auditing, budgeting, consulting, grants, fraud investigation and information technology. The AGA has been instrumental in developing accounting and auditing standards and in generating new concepts for the effective organization and administration of financial management functions. The association conducts independent research and analysis of all aspects of government financial management. These studies, including the 2011 AGA Chief Financial Officer (CFO) survey and more than 20 independent studies supported by the Corporate Partner Advisory Group, make AGA a leading advocate for improving the quality and effectiveness of government fiscal administration and program performance and accountability. For more information, please visit our Web site at www.agacgfm.org.

About the National Association of State Auditors, Comptrollers and Treasurers
The National Association of State Auditors, Comptrollers and Treasurers (NASACT) is an organization for state officials who deal with the financial management of state government. NASACT’s membership comprises officials who have been elected or appointed to the office of state auditor, state comptroller or state treasurer in the 50 states, the District of Columbia and U.S. territories. Visit www.NASACT.org.

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Grant Thornton’s Global Public Sector, based in Alexandria, Va., is a global management consulting business with the mission of providing responsive and innovative financial, performance management, and systems solutions to governments and international organizations. The people in the independent firms of Grant Thornton International Ltd provide personalized attention and the highest-quality service to public and private clients in more than 100 countries. Grant Thornton LLP is the U.S. member firm of Grant Thornton International Ltd, one of the six global audit, tax and advisory organizations. Visit www.grantthornton.com/publicsector.
Executive summary

The Association of Government Accountants (AGA) and Grant Thornton LLP have surveyed government chief financial officers (CFO) since 1996. The National Association of State Auditors, Comptrollers and Treasurers (NASACT) and the Government of Canada joined us in 2008. The 2011 survey reports on 1,385 online and in-person interviews with federal and state financial professionals, including 38 Canadian officials. AGA, NASACT and Grant Thornton will publish a second report on state government in August 2011.

Risk management needs attention
In times of tight budgets and shrinking staffs, effective management becomes critical. Small mistakes can multiply and have global implications. Governments need new solutions to survive and thrive – and CFOs have at their fingertips the right concepts and processes for the challenge. One way is through effective risk management. When focused on core missions, risk management helps governments set priorities, avoid unneeded costs and deliver better services to citizens. Unfortunately, U.S. federal and state financial executives and managers give a C to a B- grade on how well their entities integrate internal controls with risk management. Financial executives say that many non-financial leaders and managers do not understand risk, either ignoring it or becoming so risk-averse as to paralyze operations.

Predictive and statistical analytics can deliver more value
Predictive or statistical analytics or modeling uses data mining, statistical analysis, game theory and geospatial analysis to extract information from data, and then applies it to predicting trends and patterns and to identifying
emerging phenomena. Governments use such analytics for a wide range of activities, from identifying and mitigating risk, fraud, waste and abuse to setting priorities for resource allocations. Among U.S. federal executives surveyed, only 28% are satisfied with the use of analytics in financial areas and 32% with its use in nonfinancial areas. These executives say their financial staffs are good at compiling data but give them an average grade of C- in analyzing it. Shrinking budgets offer opportunities to CFOs to step up with analytic skills that will help manage risk, save money and allocate resources for maximum return on investment (ROI) in operations and mission-critical areas. CFOs should put predictive and statistical analytics high on their staff training schedules and recruiting needs and, as with risk management, work hard to sell these skills to top leaders.

**Budget cuts need better management**

Financial executives say the current environment of government budget reductions will cut into public sector innovation and could have a multiplier effect on fund loss. There will be little or no extra money available for new information technology (IT) or upgrades, just at a time when IT should be taking up the slack caused by shrinking staffs. Less money could lower compliance and reporting that states must do to receive federal funds.

Ways that survey respondents recommend to deal with financial management budget cuts include setting priorities and working only on the top-ranked tasks, especially those that promise to save more money. Because the primary cost of financial management is labor, CFOs need to find ways to reduce the amount of work needed for high-priority tasks and strive to automate them wherever possible. Keeping assets visible and communicating with all functions and operations also will save money and increase efficiency. Consolidating financial operations can be a money saver as long as a sound business case confirms the ROI. Finally, CFOs must strive to provide more financial and performance information to top leaders and program managers.

**Federal financial reporting model needs major update**

In our 2009 survey, 34% of federal financial executives said they would like changes in the current federal financial report model that would save money and increase its value. In 2011, this increased to 89%. Some suggested changes: focus on spending and costs, break information down by projects and programs, add more risk management information and integrate performance results with financial data in a single statement. Also, in 2011 most federal executives would like to change the annual financial statement audit cycle from 1 year to every 2 or more years if an entity has a history of unqualified opinions and no major changes to its financial systems or processes or its structure. This would save time and money, freeing financial professionals for tasks with higher value to their entities’ missions. Government entities should do an objective risk/cost benefit analysis before making any changes to annual financial reporting.

There has never been a time in recent history when government CFOs have had such an opportunity to bring the full force of their financial acumen to bear on public sector problems of performance, priorities and stewardship. How CFOs integrate their resources and themselves into government administration over the next few years will determine their status for decades to come — and will be the solution to a solvent and more effective public sector.
About the survey

The Association of Government Accountants (AGA), in partnership with Grant Thornton LLP, has sponsored an annual government chief financial officer (CFO) survey since 1996. In 2011, for the 3rd year, the AGA has joined with the National Association of State Auditors, Comptrollers and Treasurers (NASACT) to expand the reach of the survey. We also appreciate the contributions of the Government of Canada.

We plan a second report in August 2011 to look at state issues in more depth, including debt issuance and management, retirement systems and health insurance.

Our purpose for doing the surveys is to identify emerging issues in financial management and provide a vehicle practitioners can use to share their views and experiences with colleagues and policy makers. This is one way that AGA and NASACT maintain their leadership in governmental financial management issues. For this 2011 survey report, our focus is on predictive or statistical analytics, risk management, dealing with budget reductions, assisting nonfinancial operations and the reporting model for annual financial statements.

Anonymity

To preserve anonymity and encourage respondents to speak freely, the annual surveys of the financial community do not attribute thoughts and quotations to individual financial executives who were interviewed, and they do not identify online respondents.

Survey methodology

With AGA, NASACT and Canadian guidance, Grant Thornton developed online and in-person survey instruments that included closed- and open-ended questions used to survey people. We did nonrandom in-person interviews with 152 U.S. federal financial leaders (CFOs, deputy CFOs, Inspectors General and other executives) and senior leaders of oversight groups such as the Office of Management and Budget (OMB). We did nonrandom online interviews with 1,157 AGA members, of whom 38 were also NASACT members; all but 5 of worked for a government or government-funded institution such as a school district or public institution of higher learning, as shown in Figure 1. We also did a separate survey of 38 U.S. state government CFOs, comptrollers, treasurers and other state financial executives, many of whom were NASACT members; we will prepare a separate survey report on the findings in August 2011. We took some information on risk management from a Grant Thornton-supported survey of 38 Government of Canada ministry CFOs and deputy CFOs or their equivalents.

Figure 1:
Government affiliation, AGA members responding to 2011 survey

We augmented the U.S. federal in-person surveys with 3 breakfast meetings of CFOs and deputy CFOs who discussed survey topics as a group. Copies of the in-person and online questionnaires may be found at www.grantthornton.com/publicsector.
Risk management

Governments, industries, economies, societies and whole ecosystems exist in a dynamic environment. That dynamism means that the future is, to some extent, uncertain. It is growing even more uncertain for financial management, according to a 2009 survey of more than 700 private sector financial executives.¹

About 62% of them believe that the volume and complexity of risks have changed extensively or a great deal over the last 5 years and a third say they were caught off guard by an operational “surprise” during the same period.

Defining risk and risk management

Risk: The effect of uncertainty on objectives
Risk management: Coordinated activities to direct and control an organization with regard to risk

—International Organization for Standardization (ISO)
Standard 31000: 2009, Risk management — principles and guidelines (November 2009)

Fortunately, much of government exists to detect, assess and mitigate risk in areas such as defense, public safety, food supplies, health, disasters, the environment and, in the broad sense of the word, the welfare of the people. Despite this, many government entities have not yet incorporated effective risk management in their organizations. This first section of our survey report discusses the reasons that public sector financial executives give for this paradox and what governments can do about it. We also show that, in a world full of uncertainty and growing interdependence, financial executives and managers must be leaders in using risk management tools.

Governments and risk management

Whether a government entity makes benefit payments, issues bonds, manages reserves or fights wars, it faces and must manage risk. Financial management leaders are intimately involved in managing many financial risks, but are usually absent from the operations or mission risk arenas. This is unfortunate because operations risks tend to cause financial problems and vice versa. In addition, some financial professionals have risk assessment and management skills that operations professionals need. For this reason, we are going to start this section with a broad discussion of financial and nonfinancial risk using the concepts in the box “Defining risk and risk management.” The definitions are from the International Organization for Standardization (ISO), the world’s largest developer and publisher of international standards for almost every sector of business, industry and technology.

Everyone understands that risks include how natural disasters affect citizens and communities. Governments can reduce the effects of unpreventable disasters by issuing building codes in earthquake-prone regions. In the financial community, reserves can balance their portfolios; working capital funds or internal service funds can set fees at a level that will likely maintain cash flow and be affordable to customers; and financial officers can install internal controls just about anywhere in a government entity to mitigate waste, fraud and abuse of taxpayer money.

Yet, there are threats that tend to fly under the risk management radar, either missed or ignored by top leaders. One of them is project

¹ Beasley, Mark et al., Report on the current state of enterprise risk oversight: management accounting research conducted on behalf of the American Institute of CPAs,” North Carolina State University College of Management. ERM Initiative, March 2009.
or program management itself, says a U.S. federal CFO in one of our 152 in-person interviews: “There are not enough skilled project managers in my department, so it is an everyday struggle to effectively and efficiently manage projects. This is true in my department and likely to be a government-wide issue as well.” Poor project management increases the chances of project failure, which is an operational risk. Poor management also increases cost overruns and inefficient use of public funds, which is one reason that operational risk is also a CFO’s concern.

For example, says a federal CFO, “Many of the so-called improper payments we make to beneficiaries would not have happened if agency operations in the field had done a better job upfront in discovering that some recipients were ineligible.” In turn, risk management can cause operational problems such as inadequate resources or reputation loss. For the perceptive CFO, there are no solid borders between financial, operational, mission and reputation risk, nor should there be! As shown in Figure 2, there is only risk. Further, the effects of risk in one objective can spread to the goals of an enterprise such as a whole government, a department or ministry and its agencies, or an agency and its offices and programs, along with outside suppliers and customers. Indeed, today’s borderless international economy means that the whole world may feel the effects of risk in one country or even a single industry. This calls for enterprise risk management (ERM).²

² “Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.” Committee of Sponsoring Organizations of the Treadway Commission (COSO), Enterprise Risk Management — Integrated Framework, Executive Summary, September 2004, page 2.
In addition, as shown in Figure 2, a single event in one part of an entity can affect many or all of the other parts. One federal executive gives the example of a nuclear power plant catastrophe’s cascading effect on all parts on a department or government and even across the globe. When this happens, resources flow out of other components’ budgets to programs in the lead component. Other departments and their components experience workload increases because of the primary, secondary and tertiary effects of the catastrophe’s demand for their services, such as for health, security, housing and emergency assistance to citizens in the catastrophe’s region. Supplies of products and services made in that region may become scarce, disrupting private and public sector supply chains in a nation or the global economy. In short, risk has no borders.

Budget reductions and risk
It does not take a single catastrophic event to cause problems across governments, as is evident by the economic meltdowns of financial and manufacturing institutions starting in 2007. In the United States and most of the rest of the world, the recession and slow recovery have increased the risk that government entities at all levels will not be able to achieve their missions in full, because of increased demand for some services coupled with decreased revenues to pay for all services.

We asked U.S. and federal financial executives about the risks that budget reductions might cause to their operations and to government in general. We found that most of the risks fell into 3 categories: risks to achieving mission, to financial management and to effective risk management.

Risks to mission
“Resource constraints end up meaning you do less with less, not more with less,” says a federal financial executive. “You have to scale back, but sometimes without an understanding of how a particular cut will increase risk in other areas.” Says another, “Projects will not be able to meet their schedules and will be less safe, and fewer vendors will want to do business with the government, which may increase costs.” Leaders may make short-term decisions about budgets without understanding long-term risks that may result, say others. “Certainly, it will be harder to get ahead of the curve and mitigate risk instead of just reacting to it,” says a financial executive in charge of risk management.

“Resource constraints end up meaning you do less with less, not more with less. You have to scale back, but sometimes without an understanding of how a particular cut will increase risk in other areas.”
—A federal financial executive

Targets for budget cuts always seem to start with training, conferences and travel, which are needed to a certain extent to gain and sustain skills and foster collaboration — and which in some cases are basic to mission activities. On the other hand, say some financial executives, such cuts may increase the use of computer-based training and Web-based conferencing (if governments can find the funds for the needed new technology and formats). Likewise, say executives, information system development,
integration and upgrades will slow down just when new IT investment could increase the amount and quality of services while reducing costs. Pay freezes and attrition will get in the way of hiring and retaining the best and most experienced people with the technical skills and knowledge to operate and manage mission-critical activities.

**Risks to financial management**

Canadian CFOs interviewed say there are risks associated with implementing results of their government’s ongoing administrative reviews aimed at balancing the national budget by at least 2015–16. The ensuing restraints on spending will most likely affect their ability to meet increasing demands for accountability and transparency. In the U.S., cuts in IT investments and personnel may hit the financial function harder than other types of cuts. Financial management for the huge volumes of transactions in some government activities mandates either large staffs or advanced systems, but many agencies still lack such IT and may not receive funding for new systems anytime soon. Regarding personnel, financial professionals who shifted from the private sector to government during the recession may want to return to industry as the economy picks back up. Combine that with an aging but well-informed workforce that is about to retire and one realizes that there will be fewer people with less experience in the financial function. CFOs who fail to mitigate such risks, for example through training and succession planning, may see oversight and controls deteriorate.

**Risks to risk management**

In later sections of this report, it will become clear that most government executives want and need to improve their entities’ ability to manage both financial and operations risks. Entities cannot do this for free, so they will need to invest in new risk management skills and tools. Further, top leaders will need to be persuaded of the importance of risk management activities and to use the information they provide to make decisions about priorities and maximize return on investment (ROI).

“First comes an urgency to complete daily tasks, instead of managing risk,” says an executive. Very soon, risk management takes a back seat to other activities. Less visible risk management activities will receive less attention, such as internal controls that become an issue only once something goes wrong, say several federal executives. Adds another, “As financial staffs get smaller, oversight will decline and more things will slip through the cracks.” Forget about improvements in risk management. Entities may put low-priority material weaknesses on the back burner and give annual financial audit preparation fewer resources (although it has always been a high priority of government CFOs).
The CFO of a U.S. federal department says, “Now is the worst time for me to want to start a new risk management capability in my organization, because there is no budget for it.” In our opinion, building a risk management program around existing risk elements is a partial solution and a foundation for a more comprehensive approach later. Also, risk management is more an organizational attitude than a set of tools. In any case, CFOs must become sales agents with solutions that appeal to top leaders and legislators, if they expect to get the tools and inspire the attitude that ultimately will save public treasure.

**Budget cut benefits to risk management**

Several executives think that budget reductions are going to force governments to more risk-based operations decision making. Good risk management requires good data and the right analytics to apply the data to setting priorities, modeling operations options, making and monitoring decisions and in general increasing fact-based government. Financial executives and managers will gain status and influence if they have the right tools and the ability to sell risk management to elected and appointed officials and to the public. All these pluses are predicated on CFOs’ abilities to persuade top leaders to, as one federal CFO says, “mitigate the risks of running out of money and spending too much on areas that promise little return and too little in those that we should be addressing more aggressively.”

**Executives’ satisfaction with risk management activities**

With this larger definition of risk in mind, we asked CFOs, deputy CFOs, other financial executives, auditors and central agency executives in the U.S. federal and state governments and Canadian ministries whether they think that their entity has adequate risk management for its top 3 or 4 goals. Table 1 shows the results. About half of U.S. federal and about three-quarters of U.S. state and Canadian executives say yes, although there were substantial percentages of “no” answers in all 3 categories of respondents.

**Table 1:**

**Executives’ opinions on adequacy of enterprise risk management in their entities**

<table>
<thead>
<tr>
<th>Response</th>
<th>U.S. federal</th>
<th>U.S. state</th>
<th>Canadian ministries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50%</td>
<td>71%</td>
<td>78%</td>
</tr>
<tr>
<td>Mixed</td>
<td>16%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>No</td>
<td>28%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>6%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Government is not doing all that badly with ERM compared to industry. In the private sector survey on risk management mentioned at the start of this section, 62% of financial executives said that their entities do not have any enterprise-wide risk management processes.

Representative comments from the financial executives polled for Table 1 include:

- **Yes:** “Our deputy departmental CFO takes risk management seriously and works hard to make it happen.” — CFO of a treasury controller office
- **Yes:** “We have risk management committees of senior executives and subject matter experts aligned with each portion of our financial statement balance sheet. They recommend actions to a national risk committee to evaluate the risks.” — a federal guaranty agency CFO
• **Mixed:** “The CFO provides limited risk analysis, but it not a structured, concrete approach. We need to change that.” — CFO of a department

• **Mixed:** “We have a lot of risk metrics, which is nice, but they aren’t effective unless leadership enacts changes because of them.” — chief of staff of a major headquarters office

• **No:** “We are more reactive, fixing problems only after they arise. We are not proactive and do not do much risk analysis.” — CFO of a bureau

• **No:** “The department does not take risk management seriously. There is little interest in internal controls.” — financial executive in a bureau

These and other comments in the survey show that the most important ERM ingredient is support from top leaders, followed by a structured approach to risk management. Also, executives tended to be more positive about the adequacy of risk management in components of departments or ministries than they are about ERM. In the U.S. federal government, this may reflect the diversity of missions in some large departments. Among those who were positive about ERM, some cited an active, living strategic plan with goals and objectives that they monitored for risk.

One problem with leaders is that they may not understand the nature of risk and risk management. For example, says a state financial executive, “We have career development programs for executives and managers, but these do not include risk management, nor is it considered a core competency for leadership positions.” This can cause leaders to act at one or the other extremes of risk management: ignore risks entirely or become so risk-averse that risk management either consumes too much time and resources or even paralyzes some operations.

Finally, a comprehensive approach to risk management helps address many risk areas throughout a service or product lifecycle. Says a financial executive of a large federal entity that makes grants, “We take a bottom-up approach, look at initial applications and assess grantees’ ability to execute funds. Risk monitoring and assessment are part of the systems we use to track progress. We weave risk into training and development of our federal project managers and grantees. We talk about how to manage risk, what needs to happen and help them become aware of the fact that there may be big headlines if grantees are not using funds the right way. We do an assessment of risk elements before awards are given to grantees. We then work with the grantees on how to start up programs and ensure they understand process and procedures and have the correct infrastructure.”

**Structure of risk management**

There are several different risk management structures within government. Operating much like their private sector counterparts in banking and insurance, most chief risk officers (CRO) in government are responsible for risk management in loan, grant and investment programs, but not necessarily for ERM policy and activities across an entity.
There are also risk management offices (RMOs) that provide comprehensive coordination to ERM while at the same time assisting individual components and programs with specific risk issues. The U.S. Department of Homeland Security (DHS) Office of Risk Management described in the box on this page is a good example. However, as shown in Figure 3, when we asked if their entity has an RMO, about two-thirds of federal financial executives said no.

**Figure 3:** Is there a designated risk management office or operation in your federal entity?

Regarding ERM, a CFO of a large federal department with diverse missions says that risk management must happen at all levels of management, horizontally and vertically across a whole government. Sometimes individual entities or their components or programs will identify specific risks and try to mitigate them, but there may be no central group to align mitigation activities, mandates and regulations. Differences in the approaches and rules may cause confusion, redundancy and cross-purpose.

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**Example of a risk management office at the U.S. Department of Homeland Security**

The DHS Office of Risk Management and Analysis (RMA) provides risk analysis, enhancing risk management capabilities of partners and integrating homeland security risk management approaches. The office offers DHS components and partners:

- **Technical assistance:** Tailored analysis, methodological review, guidance and other technical assistance to support the ability of homeland security partners to analyze and manage risk in a consistent and defensible manner

- **Risk management training:** A comprehensive learning and development plan designed to advance and integrate risk management training at the department

- **Establishment and fostering of partnerships:** Professional relationships with organizations and agencies across the homeland security enterprise, including international bodies, to promote collaboration and integration

- **Risk Knowledge Management System:** A centralized information-sharing service to support risk analysis and risk management activities across the homeland security enterprise by archiving, curating and sharing risk-related information, data and models

—Adapted from DHS RMA home page at: www.dhs.gov/xabout/structure/gc_1287674114373.shtm
None of those surveyed argue strongly against the idea of a central RMO, and several saw the value of funneling risk assessments, findings and recommendations to a higher level. Respondents mentioned potential or current barriers to a successful RMO in their organizations.

- That risk management may become the RMO’s “job,” when it should be everyone’s job.
- Dividing financial and operations risk management into a CFO’s office and another nonfinancial office, when the two are intertwined.
- That an RMO serves either the top strategic interests of an entity or first-line frontline programs; instead, says a central agency executive, it is important for an RMO or some other central risk management function to operate at all levels of an entity.
- Opposition to the idea of a central RMO, which one executive pointed out as the biggest risk of all to this approach.

Simply having an RMO or CRO is likely not enough, though. One executive pointed out that many of the U.S. federal agencies and offices that have CROs got into trouble with their loans, grants and guaranties anyway during the economic problems that started in 2007. However, having a full-service risk management office for technical support, along with top management attention to ERM (or risk management in general), might have prevented some problems, says another CFO of a large, diverse federal department.

### How financial management contributes to risk management

An entity’s internal control activities should be integrated in its ERM activities, but this is not always the case. Risk mitigation strategies on the program or operations side of an entity are rarely informed by the internal control work done on the financial side. This may reflect the siloed nature of many public sector organizations or simply a lack of understanding that financial and nonfinancial risks go together.

For example, of executives who commented on the topic, most said their primary contribution to ERM is through internal controls over financial transactions. We asked U.S. federal and state executives and managers how well satisfied they were with how their entity integrates risk management in general with its internal controls and show the results in Table 2. On a scale of 1 to 5, with 1 being very dissatisfied and 5 very satisfied, federal and state executives scored an average of 3.1 and 3.5, respectively, while managers at the federal, state and local/regional level scored 3.5, 3.6 and 3.5. Passing grades, but nothing stellar.

### Table 2: Executives’ satisfaction with integration of risk management with internal controls

<table>
<thead>
<tr>
<th>U.S. Government</th>
<th>Mean satisfaction score on 1 to 5 scale*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal executives</td>
<td>3.1</td>
</tr>
<tr>
<td>State executives</td>
<td>3.5</td>
</tr>
<tr>
<td>Federal managers</td>
<td>3.5</td>
</tr>
<tr>
<td>State managers</td>
<td>3.6</td>
</tr>
<tr>
<td>Local/regional managers</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*1 = very dissatisfied, 5 = very satisfied

### Risk management in the financial function

We also asked U.S. federal executives what were the most important 3 or 4 financial activities they were monitoring for risk management purposes...
Table 3: Federal executives’ top 5 financial function activities monitored for risk

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<thead>
<tr>
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<tbody>
<tr>
<td>1.</td>
<td>Preparing annual audited financial statement reports and undergoing audits of them</td>
</tr>
<tr>
<td>2.</td>
<td>Budgetary issues (formulating and tracking)</td>
</tr>
<tr>
<td>3.</td>
<td>Financial process improvements (including their efficiency and performance)</td>
</tr>
<tr>
<td>4.</td>
<td>Providing information for decision making, including financial reports other than annual financial statements</td>
</tr>
<tr>
<td>5.</td>
<td>Risks and internal controls</td>
</tr>
</tbody>
</table>

Table 4: Risk management tools and methods used by U.S. federal executives for their financial functions

<p>| | |</p>
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Internal controls, such as those required by White House Office of Management and Budget Circular A-123, <em>Managements' Responsibility for Internal Controls</em></td>
</tr>
<tr>
<td>2.</td>
<td>None (i.e., respondents say their financial organizations use no such tools)</td>
</tr>
<tr>
<td>3.</td>
<td>Statistical analysis (sampling; flux, trend and root cause analysis)</td>
</tr>
<tr>
<td>4.</td>
<td>Audits (including internal and external audits)</td>
</tr>
<tr>
<td>5.</td>
<td>Financial reporting (not necessarily for annual financial statements)</td>
</tr>
</tbody>
</table>

and show the top 5 responses in Table 3 above. We excluded mission-specific activities such as monitoring grants and loans and concentrated instead on the basic tasks of financial management.

Table 4 shows the risk management tools and methods that U.S. federal executives apply to financial functions, listed in the order of frequency with which they were mentioned by respondents.

**How CFOs can play a greater role in enterprise risk management**

Many CFOs say that their office would be a good home for a centralized RMO, and a few say they already have that function both for operations and for financial managers. Says one, “Government is pushed to take care of today and neglect tomorrow. That risk is hard to measure. The role of the CFO is keeping such risks at the forefront of discussions on annual administrative, information technology, capital investment, human capital and other related issue. To me, CFOs do not have to be CROs, too. They just have to be the speaker of truth about the value you are getting for the money.”

For a CFO, perhaps the best place to start or get on board a balanced ERM initiative is with the office of the CFO (OCFO). Says a central agency executive, “The first circle has to be close to
An initial step might be to assess the risk management skills of financial staff against the financial and nonfinancial goals of an entity. On average, federal executives give their financial staffs a low score on having the skills needed to apply risk management methods, while state financial executives give their staffs a relatively high score (Table 5).³

Table 5: Executives’ satisfaction with their financial staff’s risk management skills

<table>
<thead>
<tr>
<th>U.S. Government</th>
<th>Mean satisfaction score on 1 to 5 scale*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal executives</td>
<td>2.7</td>
</tr>
<tr>
<td>State executives</td>
<td>4.0</td>
</tr>
</tbody>
</table>

*1 = very dissatisfied, 5 = very satisfied

³ State financial executives’ scores may be somewhat higher than those of federal executives because of a higher percentage of auditors among the state survey respondents.
Several federal CFOs say they are on executive-level risk management committees and do not confine themselves to financial risk. Others provide financial risk comments on strategic risk management plans or on component or program plans.

Unfortunately, many federal and state financial executives in the survey report have little or no interaction with risk management activities outside of fiscal areas. Some say they simply do not have the time or resources to play a role wider than the areas of accounting and internal controls. Several state CFOs say that risk assessment and management outside of the financial arena lies with the budget office or specific programs. Entities that structure risk management leave themselves vulnerable to operations problems because they lack a financial management perspective on risk — and as we said earlier, there are no borders when it comes to risk.

A word of caution: pointing out risks is a risk in itself, according to some executives. Says a state CFO: “Nonfinancial managers routinely elect to ignore risks until they are unavoidable. In addition, they perceive the controller function as ‘causing’ the resulting problem because we speak out about and attempt to address risks.” Besides training and skill building, nonfinancial managers need to be rewarded for mitigating risk, instead of being punished for identifying them. A federal executive says that some of his entity’s nonfinancial managers are reluctant to “get on the risk list” because no one seems to get off it, so that extra works can continue for years.

One thing is for sure: governments are going to be paying much more attention to risk management in the future. This is an opportunity for the CFO who takes an active role in ERM, especially in helping integrate internal controls and other risk management activities. Such a financial professional will be able to rise in the ranks of leadership because the world is not getting any less risky.
Predictive and statistical analytics

Quantitative analytics are hardwired into the operations cultures of many government entities; indeed, some offices and even whole agencies like the U.S. Census Bureau exist simply to apply predictive and statistical analytics in ways that produce useful information for planners, marketers, citizens and decision makers. Yet, predictive and statistical analytics have yet to permeate the administrative decision making of many government entities, including their financial functions. This is changing, but very gradually.

Predictive or statistical analytics or modeling uses data mining, statistical analysis, game theory and geospatial analysis to extract information from data, and then applies it to predicting trends and patterns and to identifying emerging phenomena. This is useful for risk management, helping to prevent bad things from happening and to ensure that good things happen as intended. The core of predictive analytics relies on capturing relationships among explanatory variables and the predicted variables from past occurrences, then exploiting knowledge of the relationships to predict future outcomes. Government entities in our survey use these tools and methods for:

• Collecting revenues or fees
• Credit scoring for loans
• Detecting erroneous and improper payments
• Detecting fraud
• Forecasting environmental trends and behaviors
• Identifying risk profiles
• Optimizing resource allocations
• Predicting program portfolio or economy levels
• Setting priorities for resource allocations
• Underwriting
• Validating budget processes and assumptions.

Analytic tools in financial management

We asked federal executives what types of predictive and statistical analytic tools they use as part of financial management for their entities. The most frequent responses were:

• Sampling techniques used for testing internal controls, audits and other related purposes
• Dashboards and balanced scorecards, often manual but sometimes linked to sophisticated data-mining systems
• Predictive modeling, based primarily on historical internal data but sometimes incorporating outside factors and data for “what-if”-type analysis
• Trend analysis using historical data
• “Homegrown” applications, typically based on spreadsheets or PC database software, often searching for anomalies
• Business Intelligence (BI) software, including for data mining and data warehouses (typically, this is commercial off-the-shelf software (COTS) for enterprise resource planning (ERP) with a BI module)
• Cost tracking and analysis
• Geospatial analysis to track claims and predict potential overpayments or fraudulent payments
• More sophisticated analyses: Uncertainty (Monte Carlo), regression
• Monitoring problem report logs

Although a few federal entities are well advanced in the use of predictive and statistical analysis in the financial and nonfinancial arenas, for the most part departments and their components are in the very early stages of using these tools. Quite a few do not use them at all, according to our respondents.

**Table 6:**
Federal executives’ level of satisfaction with use of predictive and statistical analytics in financial and nonfinancial areas

<table>
<thead>
<tr>
<th>Level of satisfaction</th>
<th>Financial areas</th>
<th>Non-financial areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfied</td>
<td>28%</td>
<td>32%</td>
</tr>
<tr>
<td>Mixed feelings</td>
<td>36%</td>
<td>19%</td>
</tr>
<tr>
<td>Not satisfied</td>
<td>35%</td>
<td>49%</td>
</tr>
</tbody>
</table>

As noted in Table 6, about the same percentage of federal respondents have mixed or negative feelings about the use of predictive or statistical analysis in both financial and nonfinancial areas.

A very few say their financial functions do not need such analytic prowess, but most would like to see more.

Some respondents who use little or no predictive or statistical analytics say they are waiting to automate their analysis with COTS tools (if they can find the money for this) or say they do not have the needed data. However, as indicated in the list earlier in this section, other respondents are using homegrown, PC-based solutions. Regarding data available in machine-usable form, an executive says, “I visited an office that had separate clearinghouses with hard-to-analyze paper files. Still, the office used the paper files for data to create a heat map⁴ that showed counties and cities with

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**Example of Business Intelligence application for waste, fraud and abuse**

The Recovery Operations Center at the federal Recovery Accountability and Transparency Board (RATB) oversees funds from the American Recovery and Reinvestment Act of 2009 (ARRA). The Center uses advanced BI software and methods to detect fraud, waste and abuse related to stimulus funds, and then applies predictive and statistical analytics to reveal trends and hotspots for follow-up actions by the CFOs and inspectors general of federal entities issuing recovery funds, who take the needed corrective actions. Processes like those of the Recovery Operations Center have helped manage the overall risk issues involved in ARRA stimulus funding.

⁴ A geographic map of data where the values of a two-dimensional table are represented shades of color (e.g., green for no problems in an area, yellow for some problems and red for many).
high frequencies of a problem. They did that map without digitizing the data. So maybe we do not need to digitize everything. There are tradeoffs, of course, but we have to be practical about it.”

Federal executive survey respondents believe that the financial personnel inside CFO organizations will need to improve their skills in applying or using predictive analysis for the benefit of their entire entities. Asked to rate these skills on a 1 to 5 scale with 1 = not at all skilled and 5 = highly skilled, respondents gave their personnel a 2.7 mean score (see Figure 4). Some executives think they may need to recruit new professionals with financial and statistical training in order to deliver data models that predict and analyze fiscal and other information. Says a federal executive, “The government as a whole is not staffed to use predictive and statistical analytics. It employs people who are good at compliance and compiling data, but not in analyzing data.” Barriers to re-staffing for skills that are more analytic include personnel cutbacks and hiring freezes.

**Figure 4:**
Federal executives’ rating of their financial staff’s skills in predictive and statistical analytics

<table>
<thead>
<tr>
<th>Not at all skilled</th>
<th>Highly skilled</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

**How CFOs can help nonfinancial operations with analytics**

More serious is the problem of lack of demand for predictive and statistical information by non-financial executives and managers. Says a federal executive, “CFOs need to gear up to tell their bosses, ‘I’m not just throwing reports to you anymore. My job is to get you to change around the things that I am reporting.’ Analytics just makes that happen quicker.”

We asked federal executives what they would recommend to top leaders concerning the use of predictive and statistical analytics, and how CFOs could help nonfinancial operations with such analysis. Many of the answers to both questions started with pointing out shrinking budgets. Outside of entities whose mission is mostly monetary (e.g., making grants, loans or guaranties), financial risk alone may not be enough to galvanize elected and appointed leaders. Says a financial executive involved in risk management in a research and development entity, “We need to help nonfinancial operations use predictive and statistical analytics to set priorities for programs and entity needs. That means helping them understand priorities, the financial cycle of a project and how to reduce program entitlements — in other words, how to make hard choices.”

Recommendations for how financial functions can help nonfinancial operations include:

- Strive to integrate financial and nonfinancial analytics, such as associating costs with business process options or combining budget and performance data. Says a financial executive, “You can use financial indicators to detect nonfinancial issues, such as improving the accounts receivable or payable entry processes...
to increase transparency in order to reveal potential areas of fraud.”

- Start getting involved in nonfinancial analytics, for example by offering financial skills and testing data for accuracy.
- Join improvement teams such as for Lean, Six Sigma and business process reengineering (such teams make heavy use of analytic approaches and tools).
- Build financial staff analytic skills to complement operations analytic needs as well.
- Make analytics easy to use and understand, and above all else, practical for nonfinancial managers.
- Help nonfinancial leaders obtain answers demanded by legislators, such as unit costs and budget trends.
- Establish disciplined processes to capture and integrate more timely and realistic project cost estimating and monitoring.
- Assist nonfinancial managers in explaining their requirements in both fiscal and operations terms.

The list above shows improvements in analytic services by the financial function. Yet, simply being able to improve operations is not enough to win support for predictive and statistical analytics in a government entity. Says a CFO in a large federal department, “Such analytics require a culture change. Yet, there is no push among people in my department for an innovative revamp of the process, much less a culture change.”

What will be required is to sell the change to leaders and staff alike, in all parts of an organization. According to some executives, the sales points may center on some potentially headline-making political issues that are within the CFO’s “sweet spot,” such as improper payments and detecting waste, fraud and abuse. Such issues require good analysis, data accuracy and executive action, so helping to identify, quantify, isolate and solve such problems is a plus for selling analytics. Applying analytics to other risks also shows the value of analytical tools and methods — and the value of the CFO to nonfinancial leaders. When this happens, a government CFO bogged down in compliance and financial reports starts the metamorphosis to a full business partner with the entity CEO, much like a private sector CFO.

In terms of skill-building targets, CFOs should put predictive and statistical analytics high on their staff training schedules and recruiting needs. The good thing about such analytics is that, done right, they can deliver quantifiable results in a world that is increasingly interested in the ROI of taxpayer money. This will require a culture change among financial and nonfinancial leaders and functions, so CFOs need to be the lead sales representatives for a new way of doing government business.
Budget cuts

In an earlier section on risk management, we discussed the potential effects of budget constraints on various risk-related activities. Here, we look at other areas where survey respondents say that recent and future budget cuts will degrade performance in financial management. At the same time, tight budgets can increase the influence of the savvy CFO who can help hammer the most value out of every dollar of revenue.

Innovation
Low-cost innovations have mostly been tapped out, say some executives. These include business process improvements that do not depend on IT, such as streamlining and reengineering. That leaves innovations that require heavy capital investment. They will likely be put on hold unless there are compelling reasons that involve either saving large amounts of money or (more likely) losing large amounts for lack of compliance with funding sources. Staff cuts not accompanied by workload cuts often leave IT as the only realistic solution, and IT innovation is expensive.

Loss of funds
State financial executives say that they could end up losing federal funds if they cannot comply with federal reporting and others requirements that accompany the money. According to a state financial executive, “The most significant areas where financial management budget reductions would have adverse impacts are loss of budgetary control, failed financial reporting that results in credit rating reduction, inaccurate payments to vendors and employees and loss of federal grants and U.S. Internal Revenue Service (IRS) debt service subsidies because of poor grant reporting and compliance with Securities and Exchange Commission and IRS reporting.” Says another state executive, “If we provide fewer financial services and other support services to operational divisions, then nonfinancial personnel will either need to do work for which they lack the training and skills or they will simply not do it at all. This increases financial management risk and ultimately services to citizens.”
Audits and auditors

Auditors may be hard hit, too, says a state executive: “In tight times there are more audits and more attention to auditing and accounting standards. That means that reductions in audit staff would present great challenges for us to meet required audit procedures and deadlines, which means less accuracy. Also, federal rules and regulations with which we have to comply create exponential challenges for us to meet deadlines with fewer resources.”

As for when budget reductions will begin to affect financial management, a state financial manager says, “There will be little impact in the short term, and maybe midterm degradation in accuracy, timeliness and service will be acceptable. But we cannot keep the dam from bursting forever.”

The silver lining

“I see budget reduction as a benefit,” says a federal executive, “We have become complacent, and this forces the government to examine our operations. It shakes things up.” Says another, “There will be efficiencies if we do the budget cutting properly. If leaders are willing to eliminate things that do not add value to the mission, to reduce the number of pet projects and break up fiefdoms, then some reductions will make things better.” Finally, a federal executive involved in innovation says, “Any time there is a cut in the financial management budget, agencies respond well by finding new solutions.” The thing is to find those solutions, says another executive, “We have 275 financial staff and if we cut 25 of them and do their work more effectively, then we save money. But without better effectiveness, we will just introduce inefficiencies and increase risk.”

Certainly, governments will have to manage their money better. Says a federal executive, “We have wasted a lot of money on systems, and I think – I hope – that budget reductions will cause federal leaders, especially chief information officers and implementers to do a better job of managing projects and to make better decisions on where to spend financial management dollars. Over the years, there have not been many penalties for running a poor project.”

How to deal with reduced financial management budgets

We asked executives we interviewed how they have dealt with or plan to deal with reductions to financial budgets.

Set priorities

Perhaps the best suggestion from all survey respondents is to reduce the amount of work you do according to a set of priorities based on management decision making, risk or the public’s need to know about government fiscal issues. “You need not do fiscal reviews by traveling to all grantee sites,” says a federal executive, “You can just visit the medium- or high-risk ones.” Says another, “Focus on the big savings opportunities.”

For example, like the sea captain who said, “The floggings will continue until morale improves,” elected and appointed officials tend to ask for more reports when times get tough. Some CFOs have been successful in persuading elected and appointed officials and central offices to rank...
the importance of the information they want, which helps them and financial executives reduce the number and frequency of compliance requirements and reports. Other CFOs have managed to avoid a good deal of reporting and audits other than those required by statute. A federal financial executive says CFOs must do this because “Reporting requirements are always growing, which offsets any small savings we’ve been able to find elsewhere.”

“My entity’s senior leaders are doing a better job this year at being selective of special projects they assign to my financial branch,” says a financial executive, “But the real savings will come when central agencies take the lead in consolidating duplicate and similar activities across government. This goes for financial and nonfinancial activities.”

Many executives say that financial functions need to determine the relevance of all their activities through independent performance audits, management studies, Lean, Six Sigma, reengineering projects and business analytics. Some say they need outside technical assistance and advice for these activities, followed by training in-house staff in how to use them.

**Transactions and reporting**

Transaction activities are going to have to continue at whatever volume is required.

Reengineering or automating transaction processes could be a major money saver (but see Innovation above — some financial offices are bare bones already). Using IT to push transaction work steps to customers such as nonfinancial managers could save money for the financial function but is not advisable unless there is a net savings to the government or net gain in value to customers.

- Expand use of government charge cards for travel, fleet fuel and other small or medium purchases — it saves money on transaction processing, reduces late payments and garners rebates.
- Introduce fast pay procedures to avoid interest.
- Produce electronic reports only — no more printing.
- Get rid of redundant reports, such as fourth-quarter analyses on spending or improper payments, along with studies for programs that are unlikely to be funded.
- Eliminate internal reviews of required reports that are never used in-house.
- Simply communicating with other functions and with line operations can save money.
- Keep assets visible to everyone in an entity; this leverages savings in the entire inventory, whether the assets are repair parts or information.

Good communications is important when it comes to saving money on reports. “People do not always ask the right questions. We do not always understand what they are asking. We need to pick up the phone and clarify what they’re looking for versus running around.”

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“Real savings will come when central agencies take the lead in consolidating duplicate and similar activities across government. This goes for financial and nonfinancial activities.”

— a financial executive

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5 In 2011, a U.S. Bureau of Prisons employee won an award for a simple idea that saves an estimated $16 million a year: send the Federal Register to federal workers online instead of by mail.
Consolidating and sourcing
Several CFOs report savings through consolidating financial, budget and other offices, information systems and data centers. They say to look for opportunities to do this where it will not require a large upfront capital investment. Some also say that insourcing work now done by contractors will save money, while others say this is problematic for many financial functions right now because of hiring freezes and staff reductions. Either way, indicate a few executives, it is more important to have a business case that shows the savings of a proposed consolidation or change in sourcing, than to have a general policy for or against such choices.

Standardizing
Many executives say that standardizing financial processes and data across their governments would go a long way toward achieving overall savings. They think that standardizing leads to consolidation, effective shared services centers, economies of scale and true government off-the-shelf (GOTS) financial software. An executive thinks that it may be easier to learn how to use nonstandard data — meta-data solutions can help with this.

Helping to rationalize government budgets
This is a tough topic for many financial executives we interviewed. Many say that governments need to kill irrelevant programs and reduce entitlements. However, CFOs know that money is not the main matter when appropriators discuss a program’s budget or its future. CFOs have the hard, cold facts about funding. Top leaders ask for it routinely, but they are often unhappy with what they hear, say several CFOs.
Yet, as government resources remain constrained, improving transparency and availability of useful financial data becomes more important. “Fact-based decision making is critical to improving government spending and reducing government deficits,” says the CFO of a large federal agency. “Merging financial and performance data is important to this.” Equally important is “… selling appropriators the story the facts reveal,” says a financial executive, and to do this “… you need good relations with them and they need to trust you.”

Evolving toward evaluation
What we are talking about here is evaluation, and in times of fiscal constraint a look at the financial value of an activity or program – ROI and “bang for the buck” are critical. “CFOs need to spend more of their time focusing on programmatic activities,” says another financial executive, “They must be able to provide information on program activities so that program managers are able and encouraged to perform more efficiently.”

Of course, to do this financial executives must understand their entities’ missions and programs. Says an executive, “It is a dangerous idea for CFOs who do not understand the ramifications of financial decisions on mission to get involved in those decisions.”

Basic blocking and tackling
Even as they expand their roles in management, government CFOs cannot forget that some of the basic accounting work of financial functions can give an important boost to how entities spend their money. These basics include tracking and reprogramming unobligated funds, helping avoid improper payments, good accounting and sound financial stewardship. “Do everything possible to build confidence in your numbers,” says a financial executive.
Federal financial reporting model

Ever since the federal Chief Financial Officers Act of 1990 (CFO Act), most federal Executive Branch entities have been required to submit or at least contribute information to audited financial reports with financial statements⁶ that are now part of an annual Performance and Accountability Report (PAR). Like the annual statements of state and local government, the federal statements are based on the financial reporting model⁷ used by publicly held corporations. Unlike state and local governments, the federal government does not depend on unqualified opinions on its statements by auditors in order to issue bonds.

For the past several years, this annual CFO survey has reported discontent among the ranks of federal financial executives concerning the current model of annual financial reporting. Typically, a complaint by a survey respondent starts by saying the model produces information that few consider relevant or useful, so that the current form and content of the statements have little value. Next, the respondent says that preparing the reports consumes an inordinate

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⁷ A financial reporting model consists of GAAP-compliant financial statements and accompanying notes, along with the process of preparing the financial statements, auditing them and using the information for the next budget cycle.
amount of a CFO’s time and attention. Indeed, CFOs’ main concern has been to achieve an unqualified or clean audit opinion on their annual financial statements ever since our survey started asking about priorities. This is not because of the reward for a clean opinion, but instead because not getting one can be a career breaker.

Most audit and financial executives understand that the value of financial statements is that they show that an organization’s financial information is accurate. Most would agree that the process of preparing the statements and having them audited has improved federal financial management. Indeed, no one objects to being audited. But is the cost doing these things the way that they have always been done still worth it? A financial executive in the 2011 survey sums up the dilemma this way: “You know that the government wants the money to be accounted for and the annual financial statement report to get a clean opinion, but no one is looking at maximizing returns on investment.”

We asked federal executives whether they would change the current model and show their opinions in Table 7. Nearly 9 out of 10 executives would change the reporting in ways that run from major to minor. Of interest is that we asked this same question in the 2009 CFO survey and only 34% of respondents called for such changes. Just over half of respondents say that instead of conducting a full audit on financial statements every year, they would have it done every 2 or more years if an entity has a history of unqualified audit opinions. There were some exceptions to this longer period, such as when an entity implements a new financial system or processes or restructures its organization.

Table 7: Federal executives’ opinions on changing the current financial reporting model and associated financial statement audit

<table>
<thead>
<tr>
<th>Change</th>
<th>Yes</th>
<th>No</th>
<th>Maybe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change the current financial report model to save money and increase its value</td>
<td>89%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>Do a full financial statement audit every 2 or more years if entity has history of unqualified opinions and no major changes to its financial systems or processes or its structure</td>
<td>55%</td>
<td>43%</td>
<td>2%</td>
</tr>
</tbody>
</table>
How to move forward on federal financial statement reports
Several executives advocate a reasoned and cautious approach to changing the financial reporting model and audit cycle. Says a CFO, “I would favor a risk/cost benefit analysis of the annual report and audit process. We learn things every year from the audit, such as where there are weaknesses, but it is unclear at what cost.” Says another, “If the idea of doing other-than-annual audits moves forward, it should be piloted very carefully first. As an alternative, we could consider doing a smaller-scale audit in off years for agencies receiving clean opinions. That approach would keep management on their toes, but potentially use fewer resources.”

Changing the financial reporting model
Suggestions concerning the current model range from tweaks to teardowns, but most respondents simply want better information for making decisions and reporting to legislators and the public. One executive says that whatever the model is, its focus determines where a CFO is going to invest considerable time and resources, so right now that focus should be on adding value to and lowering the cost of financial management.

Suggestions for changing the model
- Create a new statement associated with spending money.
- Change the Statement of Net Costs to be about costs, not just expenses as it is now.
- Break information down by projects and programs, which would produce information of more value to program managers and citizens.
- Integrate performance results with financial information in a single report.
- Eliminate statements no one uses, then take away all other unnecessary requirements and hold requirements stable.
- Report the information that stakeholders say they want.
- Make the model risk-based.
- Add predictive information to the statements.
- Focus on both financial and nonfinancial performance metrics.
- Use plain English in the reports.
- Simplify the reports; there are now too many overlaps and layers.
- Move toward the Government of Canada model, so that the auditors’ opinion is on the consolidated financial statements of the United States government instead of on its components, and only on components and other factors that are material to the consolidated report.
- Focus on speeding up the sharing of information, which means simplifying and setting priorities on what is to be reported.

Against changing the model
- In some cases, banks and the investment industry look specifically at the audit opinion, revenue and expenses in the current model.
- Unqualified financial statements provide legitimacy and trust.
Changing the annual audit cycle
Note that although many respondents would like to have full audits every other year or every 3 years, the majority think it important to do at least some review annually, such as of internal controls. Also, says an executive who is for extending audits period to every other year, “A lot of things fall through the cracks, so the interim period would have to be managed well and you’d need to make sure everyone is on top of their work.”

**For changing the annual audit cycle**
- The costs for financial preparation, reporting and auditing process are lowered.
- Some of the time now spent on preparing annual audits could be devoted to other things, such as addressing material weaknesses or providing higher-value service.

**Against changing the annual audit cycle**
- Yearly audits provide discipline (“In any large bureaucracy, things can get sloppy fast,” says an executive).
- Catastrophes can build and yet be overlooked in a multi-year period.
- The dollar amounts involved in many department and agency budgets are so large that severe problems can develop in a short period.
- The federal government should follow the same reporting period requirements it puts on publicly held companies.
- Annual reports encourage quick fixes of material weaknesses, instead of long-term fixes.
- Skipping a year would be a good reward for having one’s financial management in order.

What applies to audited annual financial statements should also be applied to other reports, say some executives. “I would reduce every financial report, not just the financial statements that we submit for public review, to its bare bones and if Joe Citizen couldn’t understand it, I’d ask if it really had any value. There is a movement to do just that and I hope it continues. Put every report on the table and ask what data element or elements could we do without? Which ones do not really tell the story? Which ones do people not really look at? Also, the closer to real-time you can make a report, the greater its value. People do not read massive, complicated and obsolete reports — they do not tell you anything. Take a different approach.”
Conclusions

Politicians guide appropriations to areas they believe are in the best interest of their constituents, and often do not consider how best to administer the money after that. Especially during times of constrained spending, that is where the CFO can play a leadership role. CFOs can introduce new ways to focus on funding and expenses that go beyond old-style compliance and give new meaning to stewardship.

Risk management
Today, risk is global, not just local, so governments worldwide need to pay more attention to risk management. This new focus starts with top leadership committing to an approach that sets priorities, balances and mitigates risks to mission and merges financial and non-financial risk management. It is a cross-organizational activity, not just the job of a single chief risk officer or risk management office (although they can supply technical leadership and support). All executives have to be involved, and each should help cascade risk management downward through an entity and among other governments at all levels. Risk management must be integral to an entity’s strategic plans, tracked for effectiveness and evaluated for what works and what does not.

Predictive and statistical analytics
Governments are awash with data, yet often have much less real information than leaders and program managers need to plan, execute and evaluate strategies and programs and manage risk. It is about time that financial professionals start using analytics to spin more data into decision-making gold. CFOs must take the lead in selling analytics to elected and appointed officials in order to help advance government management and stewardship. The first step: start using more predictive and statistical analytics in financial functions.

Budget cuts
Doing more with less is out; doing less with less is in. Governments must whittle down the reports and activities they demand of financial functions to those that produce the highest ROI. Otherwise, financial professionals will waste their talents on documents that few read or use. In the same vein, budget cuts give governments permission to focus on top priorities, using risk management and analytic methods to identify “must do” activities versus “nice to do” work in all levels of departments and programs.

Federal financial reporting model
In the Federal Government, annual financial reports consume a good deal of a CFO’s time and resources, but 9 out of 10 federal executives think the reporting model must be changed in order make it more worthy of the effort. The Federal Government can no longer ignore such an overwhelming call for change, nor is the solution just a few tweaks. Needed is a new model better suited for federal missions and public administration.

This is a serious time for governments everywhere, yet it is an opportunity for CFOs and financial professionals to show their true potential for public sector management. The government financial community can and will help lead us to a new era when all other sectors of the economy admire and want to emulate public administration.
Additional Information

If you would like more copies of this survey or an opportunity to hear more about its content and the challenges facing the federal CFO community, please contact the Association of Government Accountants at the address below:

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