



Meeting the Challenge and Improving ROI



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 2010 AGA Chief Financial Officer (CFO) survey and 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.



Grant Thornton

About Grant Thornton LLP Global Public Sector

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Executive summary

The Association of Government Accountants (AGA), the National Association of State Auditors, Comptrollers and Treasurers (NASACT) and Grant Thornton LLP worked together on the 2010 government chief financial officer (CFO) survey, the 16th since 1996. The survey reports on 135 inperson interviews with financial management and audit executives in federal and state government. Another 133 financial professionals responded to an online survey of AGA and NASACT members.

Financial reporting, risk management and predictive analytics

Many survey participants think that the current composition and content of audited annual financial statements should be changed to make them more useful to government executives, managers and the general public. Annual statements need to be more aligned with budgets, combined and streamlined wherever possible, focus more on program costs and results and be more understandable to users. CFOs should spend more time on information of value to decision makers: benchmarking studies, dashboards, and reports on costs, performance, risk, trends and other predictive analytics.

Improving financial management

Sixty-four percent of federal and 45 percent of state financial executives report increases in costs of financial operations over the past two years. Cost drivers include information technology (IT), workload increases because of general growth, reporting requirements for the American Recovery and Reinvestment Act of 2009 (ARRA)

and more management reports. Respondents say the best ways to lower costs are to simplify, standardize and automate processes.

Information technology

Governments still have many manual operations that could be automated, but only one-third of federal executives are satisfied with the ROI on their IT investments. Many executives worry about the cost of maintaining both existing legacy and new financial management systems. One reason may be that, when formulated, IT budgets did not anticipate the full life cycle costs of upgrades and maintenance.

Human capital

As a result of the general economic downturn, executives say that turnover of financial staff is lower and that it is easier to recruit certified public accountants and other skilled professionals. Nine out of ten federal executives said they would like to outsource at least one task, ranging from different types of transaction processing to preparing financial statements. Although they understand the individual components of a multisector workforce strategy (which may include a mix of local, state and federal civil servants, uniformed personnel and private contractors) and most support the multi-sector concept, few seem to have an overall strategy for that approach to human capital.

American Recovery and Reinvestment Act of 2009

Almost all state and federal executives agree ARRA reporting, with its emphasis on transparency, detail and open access to data, will become the “new normal” for government financial reporting. This will require more resources, but will also deliver better, more useful information to decision makers and to citizens.

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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 2010, for the second year the AGA has joined with the National Association of State Auditors, Comptrollers and Treasurers (NASACT) to expand the reach of the survey.

Our purpose for doing the surveys is to identify emerging issues in financial management and provide a vehicle for practitioners to share their views and experiences with colleagues and policy makers. This is one of the ways in which AGA maintains its leadership in governmental financial management issues. For the 2010 survey, our focus is on financial reporting, improving financial management, information technology, predictive analytics, risk management, human capital and reporting for the American Recovery and Reinvestment Act of 2009.

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 and NASACT guidance, Grant Thornton developed online and in-person survey instruments that included closed- and open-ended questions used to survey 268 people. We did inperson interviews with 122 U.S. federal financial leaders (CFOs, deputy CFOs, and other executives) and senior leaders of oversight groups such as the Office of Management and Budget (OMB) and with 13 state government CFOs or other financial executives. We augmented the federal inperson surveys with three breakfast meetings of CFOs and deputy CFOs whose participants discussed survey topics as a group. The online survey yielded 133 useable responses; 68 percent of respondents worked with state government, 13 percent with local and 25 percent with federal. Of the online respondents, 88 percent were active members of AGA and 22 percent of NASACT.

Copies of the in-person and online questionnaires may be found at www.grantthornton.com/publicsector.



Financial reporting

Reports are probably the most important visible product of the offices of senior financial executives. These include everything from audited annual financial statements¹, internal reports to administrative and operations executives and managers, and external reports to central budget offices, legislators, citizens, taxpayers and other interested groups. Table 1 below shows how state and federal financial executives in this survey apply their offices' resources to these types of reports (this excludes resources for transaction processing).

Table 1:
Percentage of office resources* consumed by type of report, state and federal financial executives**

Type of Report	Percentage who say that report type consumes more than one-fourth of office resources
CFO Act, FASAB, GASB or other audited annual financial reports	63%
Internal reports used for entity decision making	48%
Internal reports for operational control	45%
Citizen reports and public transparency	9%

*Excludes resources for transactions. **Excludes auditors.

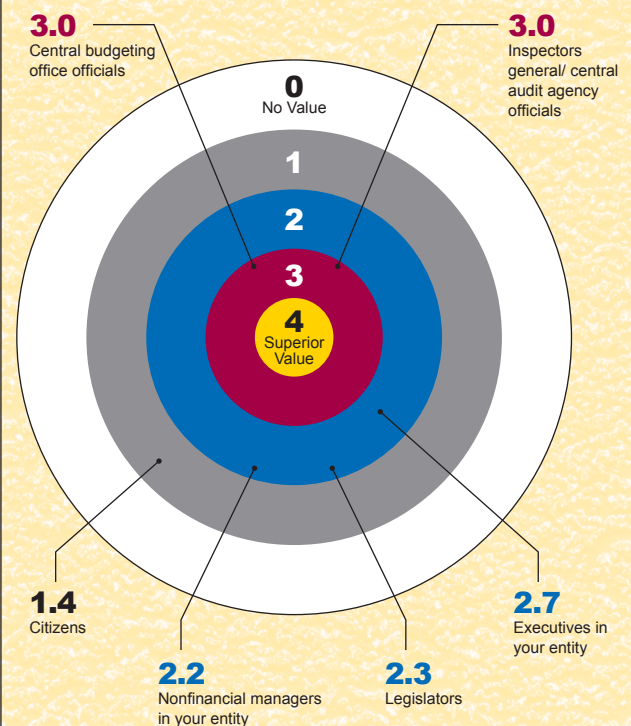
Table 1 shows that 63 percent of federal and state financial executives in our survey (excluding auditors) say that audited annual financial statements require more than one-fourth of their resources. Perhaps the most valuable reports a

¹ The four principle financial statements for federal government are: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and Statement of Budgetary Resources.

financial office can produce have information useful for entity decision making and operational control. Table 1 shows that less than half of the respondents say their office devotes the bulk of its resources to this high-value reporting. Despite the emphasis on citizen reporting and transparency over the past few years, only 9 percent say they apply more than one-fourth of their resources these areas.

How important are government financial reports to their intended audiences? We asked executives' opinions on the reports' value to different audiences on a scale of zero to 4, with zero being no value and 4 being of superior value, and show the results in Figure 1.

Figure 1:
Federal and state executives' opinion of the value that different groups place on financial reporting





According to Figure 1, on average financial reports are a good value to central budgeting office officials and inspectors general (IG), audit agencies; of moderate value to internal executives and nonfinancial managers and legislators; and of limited value to citizens. Most of the groups that place the highest value on the reports are outside an entity's actual operations: central agency budget officials, IGs and external auditors.

Combined, Table 1 and Figure 1 tell us that, across the state and federal government financial management community, a very large portion of resources go for reports that are most beneficial to external parties (except citizens). Very few resources go to citizen reporting. The question is whether this resource distribution is still acceptable to information consumers inside a government entity or to citizens.

There are technical and social reasons for the imbalance of reporting resources. Technically, imbalances arise from inefficiencies and lack of automation in the entity-level process for preparing audited annual financial reports. We discuss this later under "Fixing annual financial reports." Another reason is increased demand for reports brought about by a general move toward more transparency and disclosure, fostered in part by the ability to access and use information through the Internet. The rising demand especially affects entities that disburse or receive funding from the American Recovery and Reinvestment Act of 2009 (ARRA) or that are subject to the Federal Funding Accountability and Transparency Act of 2006 (Transparency Act). The Transparency Act led to USASpending.gov, a single searchable Web site of federal government awards and the Open Government Directive of the White House Office of Management and Government (OMB).

Nonfinancial executives inside a government entity, on the other hand, want financial information they can use to make business decisions, observe trends and shift money from one place to another. They place superior value on financial reporting when the CFO's mission is program-focused and reports are designed for decision making and not just compliance, says one federal executive. If the Office of the CFO (OCFO) is isolated from and does not understand an entity's programs, then the reports tend to have less value, says another executive. Producing after-the-fact reports is not very valuable to internal users, say several executives, nor are reports that give less than a full picture of program accomplishments. A state executive recommends surveying all users yearly to determine their information needs, and then striving to meet them. Finally, says an online survey respondent, "Reduce the number of reports that show the same information but in a different format because someone in one office likes it this way while someone down the hall wants it that way."

Fixing annual financial reports

As noted in Table 1, audited annual financial reports consume an inordinate amount of time in public sector OCFOs, yet have little use other than to outsiders. Even then, they are not useful to the largest group of potential users: taxpaying citizens. Says a federal executive, "The fact that we have special reports for citizens and for transparency should tell you something – there should be an overlap there with the annual financial reports but there is not. We have to make a special effort – set up new infrastructures, capacities and information flows – to get citizen reporting and transparency information, and that is both inefficient and very unfortunate."

We asked survey participants how to go about fixing annual financial statements in three areas: the reports' composition and content; preparation processes; and rules or processes for auditing them. The survey responses show that a moderate minority of federal executives do not think the CFO Act annual financial statements need to be changed in any way. However, a clear majority want to see new statements, preparation processes and auditing procedures.

Composition and content

Federal and state governments operate under similar standards for their annual financial statements. For federal entities, the audit guidance comes from the Generally Accepted Government Auditing Standards (GAGAS). The financial management guidance for federal entities comes from the Federal Accounting Standards Advisory Board (FASAB) and for state and city governments, the Governmental Accounting Standards Board (GASB). Both FASAB and GASB standards are promulgated specifically for their respective government entities although the genesis of financial statement reporting came from the commercial sector.

Federal response. A federal executive who seeks no changes says, "Everything that is in the current reports is there because management challenges created a need for them." On the other hand, several federal executives want to, as one says, "...re-architect annual financial statements around citizen reporting and transparency and, ultimately, the utility of the information – all with an emphasis on cost."

Federal executive suggestions in the area of composition and content of formal financial statements and financial reporting include the following.

- **Align the reports more with the budget.** Legislators and entity executives are very interested in the budget but do not care much about the financial statements, so focus the statements on what interests the leaders. (This also applies to state government, say several state executives.)
- **Reduce effort on the balance sheet.** Many online and inperson survey participants want to reduce the effort going into producing an audited annual balance sheet. A few want to eliminate the balance sheet completely, but others see its value. Of those who expressed an opinion, many would like to have it audited less often than annually, if the audited entity receives an unqualified opinion on the audit. Still, says a federal executive, "Citizens typically do not find much value in the balance sheet; they ultimately care about an agency's collections and expenses. They want to know how government resources are being spent and how this ultimately benefits the tax payer..."
- **Combine and streamline content wherever possible.** Says a federal executive, "The Statements of Net Cost are valuable to the public. OMB and the Treasury Department



should determine whether the other statements are relevant to an entity and add value in meeting transparency requirements. On the other hand, the Statement of Custodial Activity could be converted to a footnote if the information is deemed essential.”

- **Focus more on program results.**

“Ultimately, financial reporting would be more valuable if it were more focused on program results. The true value of a set of financial statements would come from the marrying of programmatic data and financial data to give a comprehensive picture encompassing program goals and financial results,” says a federal executive. “Instead of emphasizing external auditor opinions, focus on issuing reports that provide a summary of how resources were/are invested to achieve the entity’s program objectives,” says another. (Applies to state government as well.)

- **Make the statements understandable.**

Some executives think that federal financial statements are “insider baseball” incarnate, a game understood by government accountants but few others. In an era of transparency, they are opaque to all but a few. Says a federal executive, “Would a neighborhood accounting office understand the federal Statement of Net Cost? Can citizens understand the Statement of Budgetary Resource? These statements are too esoteric.”

- **Reduce the number of required footnote disclosures.**

Says a federal executive, “Footnotes are out of control – footnotes made up 20 percent of our Performance and Accountability Report (PAR) this year.” Another says, “Most financial statement footnotes are too long and of limited value to a nontechnical audience. Review the official requirements for footnotes to determine

“Instead of emphasizing external auditor opinions, focus on issuing reports that provide a summary of how resources were/are invested to achieve the entity’s program objectives.”

if some of the information required in the individual footnotes can be streamlined or eliminated. Condense the footnotes and write them in plain English, not in accounting and auditing jargon.”

- **Report costs by program activities, not by organizational units.**

This would lead to better understanding of what things cost and would improve managerial decision making.

- **Revisit the usefulness of each of the annual financial statements.**

“Given the new focus on transparency and accountability, consider determining the best audience for a financial statement’s information in today’s world. It appears that taxpayers are more interested in government spending levels as opposed to Statements of Net Costs,” says a federal executive.

- **Shrink the PAR and the audited financial statement report.**

Several executives want to reduce the size of the PAR to an executive summary-type document that would be more readily read and understood by legislators and citizens. Summarize the long financial reports, including opinions on their accuracy. Says an executive, “There is too much information included in the financial reports, which tends to bury the important things rather than clarify them.” Says another, “We should focus on the Statement of Net Cost or Statement of Net Resources, disaggregating the information where needed.”

- **Standardize the measures used in reports.** Standard measures of cost and performance would let people compare the efficiency of entities across government, say some executives.
- **Stop showing capitalization and depreciation of historical property, plant and equipment (PPE).** Survey respondents raised the perennial question, “Why put a value on the Cape Cod National Sea Shore when we are not going to sell it?” Everyone acknowledges the importance of tracking government property, but capitalization thresholds can be raised to reduce the financial accounting of these assets while having good internal controls to track them. This is especially true for entities with emergency or war-fighting readiness capacity – why depreciate assets that get blown up or destroyed during the readiness operation?

“The current financial statements are only good for those who are financially savvy. We – the financial experts – need to become better at communicating what the statements mean to the public.”

When the U.S. Congress wrote the Chief Financial Officers Act of 1990 (CFO Act), the thought was to mirror commercial sector financial standards. Today, federal and state financial executives believe it is time to develop government-specific financial statements and reports that are relevant to public sector concerns. Finally, one executive points out that “The current financial statements are only good for those who are financially savvy. We – the financial experts – need to become better at communicating what the statements mean to the public.”

State response. Many state executives consider the Comprehensive Annual Financial Report (CAFR), which contains state and local annual financial statements done according to GASB standards, to be overvalued and costly to prepare. Most say they want to eliminate the requirement to include component units (e.g., governmental entities which are not part of the primary government but because of the levels of governance and control are required to be reported as part of the government-wide entity) in the CAFR. This is because of the high cost and difficulty of getting timely data from components in relation to the relatively low utility of the information to outsiders.

Like their federal colleagues, several state CFOs want to reduce requirements regarding the number and length of footnotes and disclosures. Says one state executive, “In my opinion, the amount of disclosures required by accounting standards in financial reporting is way too much. Some of the disclosures are so complex that they lose some of their value.” Regarding the overall complexity of state-level annual financial statements, a state executive in an audit agency says, “There is so much information in the CAFR, and it is near and dear to my heart. But there is almost too much information. GASB needs to focus the core of the CAFR because all that additional noncore information dilutes everything else. If we put too much in there, it clouds the information that matters. Focus on the vital few [bits of information] and the decision makers would use them.”

Preparation processes

Among both federal and state executives, the most-mentioned suggestion for improving how entities prepare their financial statements was to enhance and then completely automate the process. At present, few federal or state entities



have integrated financial information systems that are capable of hands-off generation of the statements, which explains in part the excessive amount of time they take to prepare. We discuss information technology at length in a section with that title later in this report. Here, we discuss mostly nontechnology fixes.

- **Streamline the processes involved.** Says a state executive, “We only have so many resources, so GASB has to do the streamlining, not us. We would like to do more during the year, and minimize the amount of time spent at the end on things.” Adds another, “The auditor’s processes must be changed to enhance timing of the audit and release of the CAFR.”
- **Communication.** There needs to be better communication and full disclosure among the different parts of a government, department or agency when preparing the statements. In addition, auditors should take their queries and concerns to a single point of contact within the entity they are auditing, which does not always happen today, say some federal executives.
- **Internal controls.** Many federal executives want auditors to pay more attention to internal controls and less to a traditional audit – if controls are in place and functioning as required, there is less need for a full formal financial statement audit every year. Says a federal executive, “We are trying to shift work to internal controls analysis on the front end; if we do a good job on the internal controls, the financials will write themselves.” In addition, some executives report that financial auditors are re-auditing internal controls that have already been tested and reported on, a duplication of effort. Many agree that an audit

of some type of a cost/performance statement could be done every other year, with a formal internal controls review done annually, especially for entities with a clean opinion.

- **Make the reports more relevant to the business of government, not just to oversight entities.** In last year’s annual CFO survey, we said that a principle of government financial transparency should be to take action yourself based on the information disclosed to the public, including using it to make policy and budget decisions and to manage and improve operations. Says a federal executive in this year’s survey, “Develop a workgroup of senior management across the agency that will define what reporting is valuable to the Secretary. Having done this, the team can look at compliance with governance. In this way, reporting starts with what is needed for decisions, and there is less need to add reports later on.” Another executive said that more effort should be made to align the annual financial statement report with an entity’s strategic plan.
- **Schedules.** A few federal executives say that they would like more time to prepare their annual financial reports, but others are happy with the current 45-day period after the close of the federal fiscal year. Says one, “The 45-day schedule gets things over with quickly. If it was 180 days, we would end up taking 180 days to finish the report.” However, some attention needs to be given to the overall schedule of all fiscal reports demanded of government entities, so that they are spaced out more evenly, say other federal executives.
- **Standardize and document.** A government should work to develop and enforce standard report preparation processes for all its entities. Some federal executives said that because of staff turnover, the processes need to be mapped



and documented. The extra benefit is that standard, documented processes are easier to manage, maintain and improve.

Rules or processes for auditing

“We need to consider what an unqualified or ‘clean’ opinion provides to the public, versus a report that demonstrates a program’s correctness in using the resources provided to the government entity,” says an executive.

- **Eschew minutiae; consider risk instead.** Many federal executives want auditors to focus on high-risk areas. Says one, “The annual financial statement audits have become too detailed and costly. Much of the detail is not relevant externally and is of limited benefit compared to the cost to comply.” Says another, “Risk assessment models need to be used more to figure out what should be reviewed; then we should report on those particular areas. We tend to get too far down in the weeds and should just focus on the high-dollar/high-risk items.”
- **Fewer full annual audits.** Now that many federal agencies have started to receive unqualified audit opinions on financial statements, it may be time to move to biennial audits or at least reduce the frequency of a complete audit.

Instead, focus on a specific part of an entity every year, which would reduce the total time needed for audit preparation. Says a federal executive, “Switch to rolling audits. Come back every other year if your agency is getting the same opinion year after year. Focus audits on certain issues (i.e., material weaknesses) to see if they have been resolved. The rolling audits would give agencies more time to fix problems.” Says another, “The current process is virtually a year long, from November to February. There is not enough time to actually fix any of the issues arising from one audit before the next begins. This turns out to be very expensive with very little return. Audit is important but in the future it would be good to focus on particular areas of concern in order to really address the key issues.” Another executive says, “Some accounts just aren’t large or meaningful enough to our goals to warrant an annual audit.” (See also “Reduce effort on the balance sheet” under “Composition and content” above).

- **Reviews instead of audits.** Governments might also take a lesson from commercial entities that are not publicly held and have their auditors perform a review instead of a full

annual audit. This takes less time and money, yet still reasonably substantiates the accuracy of account balances.

- **Materiality.** This is another perennial issue in state and federal government auditing, usually having to do with setting financial thresholds too low in entities with very large budgets. A variation on the problem occurs when a government entity takes a bottoms-up approach to financial statements, with component entities preparing financial statements and having them audited, then rolling the results up to the government-wide statements. In this case, audit issues that seem material in an individual agency or fund may shrink in importance alongside a government's total budget. In the 2008 AGA CFO survey report, *Financial Management: Providing a Foundation for Transition*, we noted that the Government of Canada follows a top-down approach to its audited annual government-wide financial statements. Individual agencies submit trial balance data during and at the end of the fiscal year for the national financial statement process. The government's central auditor identifies and audits material components, taking the audit work to the entity that submitted the data. An independent public accounting firm audits the national report. After that, entities prepare their own financial statements. Audit materiality is determined on a government-wide basis, not by individual entities.

A federal executive offers another approach, calling for setting uniform levels of materiality across all federal entities. However, says another, "The thresholds should be considered advisory and not automatically trigger consequences or mandatory actions when exceeded. People need to think about particular situations and be able to make

informed decisions, not have their discretion constrained entirely by process." Adds a state executive, "Materiality needs to be reviewed by an internal team and not dictated by external auditors." In another vein, says a federal executive, "The audit plan is repetitive, focusing on the same issues but with ever lower thresholds. This is not helpful to management." Adds an online survey respondent, "Rather than dig deeper every year and become less relevant, focus on the big picture and produce summary level data."

Federal executives also wondered about how materiality is being applied to future year estimates in areas that might fluctuate widely (e.g., the Statement of Social Insurance or SOSI, which is a 75-year projection) and of audits of statements that are based on other audited statements (again SOSI, which is based on the audited Social Security Trustees Report).

- **Redundancy.** There are many different types

"Rather than dig deeper every year and become less relevant, focus on the big picture and produce summary level data."

of audits and reviews in government, ranging from internal controls to program audits to financial audits. "Coordinate and streamline the requests of internal and external auditors in order to avoid duplicate queries from different groups," says a federal executive.

None of the executives interviewed want to do away with audited financial statements per se. Indeed, says one federal executive, "Audits need to be harder, but harder in the right places."



We have too many entities receiving unqualified opinions from auditors on their financial statements that still have financial management problems. They are passing the test but not learning the material.” How to develop a meaningful set of financial statements and auditing procedures is a challenge that should be answered soon, even before considering a fully automated annual financial report process.

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Improving how people use financial information

Federal and state executives recommended several ways to improve how citizens, nonfinancial managers, executives and others use financial information:

- Provide high-level summary reports for executives and legislators
- Develop more basic and simple financial statements and reports for citizens, couched in language they understand and focused more on programs and outcomes than on funds and outputs.
- Convert reports and their data into management and research tools such as balanced scorecards, dashboards and data stores.
- Tie reports to the business of running the entity and use the language of nonfinancial and program managers. Tell nonfinancial managers what to look at in a report and what they should be doing with the

information they get, and why. Understand that personnel turnover means that some report recipients need to be educated about the business of the entity as well as its finances – a reason for financial managers to become proficient in programs, too.

- Confront the negative view of cost reporting and work to overcome it. “Too many nonfinancial executives don’t see the value in cost reporting – they see it as a ‘gotcha’ and they don’t like the full disclosure of outlining all versus partial costs,” says a federal financial executive.
- Standardizing accounting practices, rules and codes across governments would reduce the amount of training and orientation that executives and managers need to understand financial and performance reports.

New and improved financial and performance reports

We asked federal and state executives what types of new or better reports they would like to see (other than formal audited annual financial statements). A significant minority said “no more reports, please!” Table 2 lists some of the responses from the majority of executives; note that nearly all the new or improved reports mentioned are for internal use, indicating a desire to enhance financial decisions by nonfinancial executives and managers.

Several state executives would like to see more standard and ad hoc reports drawn from central databases or data marts, using Business Intelligence methods. A federal executive says that his office “...feels confident in our ability to fully handle customer reporting requests because we have heavily invested in highly qualified Business Intelligence staff and tools.”

Table 2:
Federal and state executives opinions on new financial and performance reports to consider

Type of Report	Description
Benchmarking studies	Such studies and reports would enable effective comparison of operations inside and outside government, such as cost and performance benchmarking in procurement.
Budgetary reports	Several executives say these are the only reports insiders care about and that the reports need to be more detailed. A state executive wants a better link between head count and budget, because while budgets have gone down, the number of state personnel have remained the same.
Citizen or popular reports ²	Good citizen reports "...demystify our budget and where the money goes," says a federal executive. (See also "Performance reports" in this table.)
Cost reports, managerial cost	Often, cost reports are based on estimated costs when actual costs are available and should be used. Managers need to know how much a transaction or unit of output costs as well as aggregated costs.
Dashboards	Several executives would like to see dashboards of financial and other information set up to meet the information needs of nonfinancial executives and managers.
Fixed assets and real property, cost to maintain	This would help decision makers to evaluate long-term infrastructure needs and to manage the costs more effectively.
Management reports	These include analytics, obligation pipeline reports and fund balance with treasury reconciliations, all set at the appropriate management level. (One executive thinks that this might "shame" nonfinancial managers into better fiscal performance.)
Obligations and commitments – earlier, more robust analysis	Most entities wait until the fourth quarter of the fiscal year to do this analysis, when it should be done continuously in order to avoid funding low-priority items. This includes tracking unliquidated obligations that pop up at year end.
Performance reports	Several state executives want to see more reports on outcomes or accomplishments of government services, to be used to guide management, executive and legislative decisions and to inform citizens.
Program expenditures	Reports on expenditures by program would provide better information for answering questions by oversight agencies and legislators.
Return on investment (ROI)	Showing ROI on different investments would help in evaluating effectiveness of expenditures. This includes specific investments, not just investment categories.
Risk management reports	Nonfinancial executives and managers need more analytical reports on risk.
Status of Funds report	This is not a new report per se, but federal executives would like to see it prepared in near-realtime in order to avoid violations of the Anti-Deficiency Act (31 U.S.C. § 1341).
Trend analyses	Currently, there are not enough trend analyses for government costs; reports on them would help understand future needs and potential problems.

² For more information on citizen-centric financial reporting, visit <http://www.agacgfm.org/citizen/>.

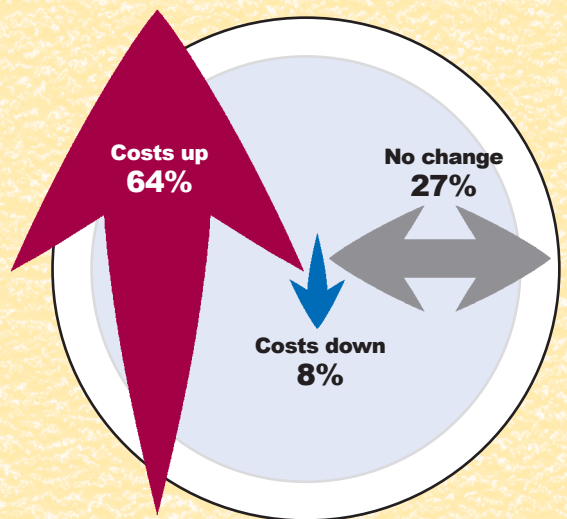
Improving financial management

In the previous section, we showed the potential products of improved financial management, which are mostly reports and information on financial stewardship, controls, costs and performance. In this section, we address how to achieve those improved products through enhancements to the financial management function. We will start with lowering the costs of financial management, then discuss how to enhance effectiveness.

Costs of financial management

Figure 2 shows federal executives' opinions on whether the costs of their financial operations have, over the past two years, gone up, down or stayed the same. About 64 percent say that costs have gone up (24 percent say that costs have gone up significantly). About 35 percent say that costs have not changed or have gone down. For state executives, the figures show 45 percent say costs are up, 36 percent costs down and 18 percent no change.

Figure 2:
Federal executives' opinions of changes in costs of financial management operations over the past two years



Asked what is driving costs up, federal executives report the following main causes, in rank order:

1. **Information technology.** IT costs are up for most who mentioned this cause, although a few federal executives attribute lower costs to better technology.

2. **ARRA and other reporting requirements.**

Receiving and using or distributing ARRA money means increased administrative costs for some entities, say executives, and this includes financial management. Some executives say that, although their overall costs have not increased, they have had to reallocate resources to new reports at the expense of other activities.

3. **Workload in general.** This includes the normal growth in administrative budgets needed to match increases in program budgets.

4. **Stronger management.** A few federal executives report increased costs because entity executives have decided to manage strenuously or in an active manner, including for stronger financial integrity.

State executives whose costs have gone down cite two main reasons. First, their budgets are frozen or have decreased (this includes salary freezes), so costs cannot go up. They either find ways to be more efficient or let lower-priority items slide. Second, those whose financial management systems have matured and stabilized report lower costs. In one case, a state executive confronted by a very large cut in financial staff took a list of reports to the legislature and asked which did they no longer want; the legislators trimmed the list.

A respondent to the online survey points out a cultural cause of the problem of rising costs: “Cost containment has never been a priority in government, so executives and managers have no incentives to control cost – make cost containment and efficiency a part of performance assessments.”

Approaches to improving financial management

Both federal and state executives list automating processes as among the top four ways to lower costs for financial management and reporting in their entity; for federal executives, automating is Number 1 (see Table 3). The other top ways of cost reduction – standardizing and simplifying processes – go hand-in-hand with implementing effective financial systems.

In the rest of this section, we discuss simplifying and standardizing financial processes; in the next section, we will review how survey participants use information technology to improve financial management.

Table 3:
Most effective ways to lower costs for financial management and reporting, federal and state executives

Activity	Ranking	
	Federal	State ³
Automate processes within your entity	1	3
Standardize financial processes across your entity	2	1
Simplify financial processes	3	4
Standardize financial processes across government	4	2

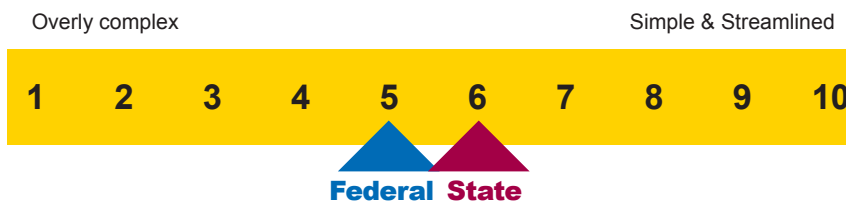
³ The higher the ranking that state executives give to standardization may be a function of their position: they are the CFOs of all state government.



Simplifying and standardizing financial processes

We asked executives in the survey to rank the degree of complexity of their financial operations on a scale of 1 to 10, with 1 being far more complex than needed to meet best practice standards of efficiency, effectiveness and sound stewardship, and 10 being simple and streamlined. Figure 3 below shows that, collectively, federal and state executives are near the middle with scores of 5 and 6, respectively. Says a federal executive, “We are way too complex. That we are still saying this in 2010 is unbelievable.”

Figure 3:
Complexity of financial processes reported by federal and state executives



Reasons given for complexity include:

- Legislation, regulations and audit requirements that make tracking and reporting financial information overly complex and inflexible
- No time to stop and improve operations by simplifying them
- Everyone wants things done or reported in their own way
- Too many information systems and manual handoffs involved in financial processes
- Requirements for case-by-case analysis of qualifying requirements in areas such as loans and grants
- The uniqueness of a certain program or set of programs makes them hard to simplify or standardize
- Having a variety of appropriations and funding periods

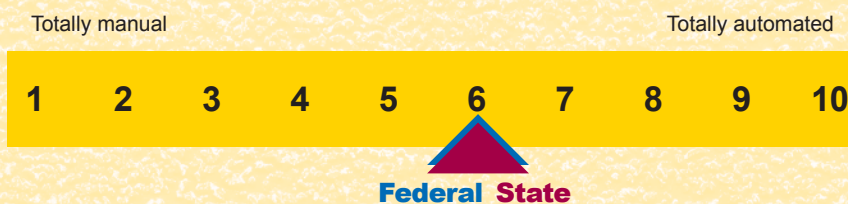
Says a state executive who rated his organization a 9, “We don’t do things fancy, but we do them well. There are no bells and whistles.” However, says a federal executive, “The underlying assumption that there is an inverse correlation between complexity and efficiency is not valid. Our workload is very complex, but because we have the right tools, we can operate efficiently.”

Information technology

In an ideal world, all routine financial transactions and many reporting and analytic functions would be automated. A not-so-extreme example would be buying products online from commercial vendors. Customers search for goods using online catalogs, then enter their order, payment and delivery information. This data automatically goes to manufacturers, retailers and carriers, including to their accountants and everyone else who needs it. Books close daily with all actions, so that creating financial reports is as easy as clicking on a screen icon.

This is not the case for most federal and state government entities. Asked to rate the degree of automation of their financial operations on a scale of 1 to 10, with 1 being totally manual activities and 10 being totally automated, both state and federal executives scored a collective 6, as shown in Figure 4.

Figure 4:
Executives' opinions on degree of automation of financial operations in state and local government



Federal and state entities still do much of their financial management work on spreadsheets and by phone, say executives. Besides taking time away from other tasks, such manual operations increase errors. Several executives report bimodal automation: more manual operations when they use older legacy systems for some



tasks and fewer when using newer systems for other work. Even in highly automated operations, there may be reconciliation and integration problems when dealing with several components in an entity (e.g., different offices in an agency or different agencies in a government). Among state executives, some say that, even with excellent automation, many manual processes will have to continue because procedures require paper trails.

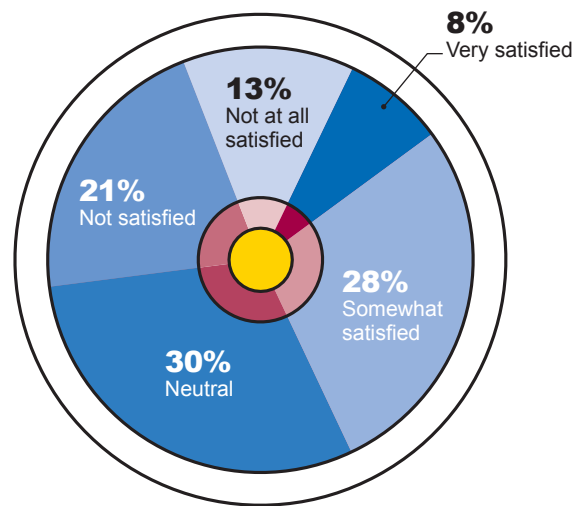
Return on IT investment

Many large federal CFO Act entities (the largest departments and independent agencies) are modernizing their financial management systems (FMS). The hope here is that enhanced IT capabilities will translate into financial operations that do more for less. Alas, that hope has been around for decades and for the most part has yet to be realized, as evidenced by continued spending of hundreds of millions of dollars on financial IT with modest – often quite modest – ROI. In an era when technology is often credited with increases in efficiency and reductions in cost, the magic seems to be missing in government financial management.



Figure 5 shows that only about one-third of federal executives are very (8 percent) or somewhat (28 percent) satisfied with their ROI on financial technology. Among state CFOs, 56 percent were either very or somewhat satisfied. Two-thirds of federal executives are either not satisfied or neutral about the payback they receive for costly IT investments.

Figure 5:
Federal executive satisfaction with ROI on financial IT investments

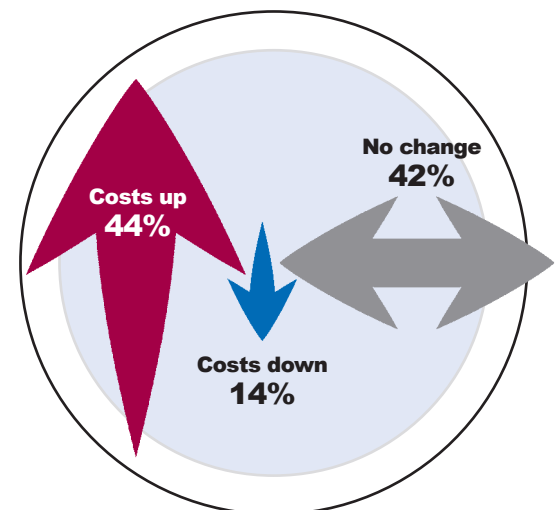


Satisfaction with ROI seems to be highest among executives with an older FMS (some as old as 37 years) and those whose new systems have been installed for a few years and are now mature and stable. This does not mean that executives are happy with legacy systems. Although current maintenance costs are low, they may rise because fewer and fewer people know how to maintain the older technology. Federal executives with new systems say that ROI will increase once more parts of their organizations start using the new technology.

Costs of sustaining financial systems

Throughout the survey and during three breakfast sessions with federal CFOs, executives told us what they think are driving costs in government financial management. First, we asked executives whether the costs of maintaining their FMS have, over the past two years, gone up, down or stayed the same. Figure 6 below shows that 44 percent of federal executives say their costs went up. Forty-two percent saw no change in costs and only 14 percent say costs went down. State executives say their net results were somewhat better, with costs up, 45 percent; costs down, 36 percent; and no change, 18 percent (does not add to 100 percent because of rounding).

Figure 6:
Changes in federal financial management system maintenance costs over the past two years



Volume is a significant cost driver for both state and federal governments, say some executives, because while the unit cost of a transaction may go down, that savings is often offset by an increased volume of workload caused by natural population growth or special circumstances such as increases in funding from the American Recovery and Revitalization Act of 2009 (ARRA). Also, labor is the primary component in systems maintenance and increases with the normal cost of living.

As many financial executives report, modern commercial-off-the-shelf (COTS) financial management software does not always reduce operations and maintenance costs. One reason is the necessity to continually refresh and upgrade COTS over its useful life in order to prevent or reduce future technological obsolescence. Unfortunately, this aspect of the COTS lifecycle and total cost of ownership appears to be unplanned and unbudgeted in government.

Legacy information systems are older and built with now-outmoded technologies, but still in service. Executives with aging legacy systems say that the old-fashioned technology is becoming harder and sometimes more costly to patch and that the systems require more workarounds and manual activities. “We have been running a COBOL, CICS and IEOL mainframe system for a quarter century and our current IT staff doesn’t hire anyone with those skills,” says a federal executive. The alternative to hiring is contracting out for such antique knowhow, even though this may cost more.

Some executives who report declining maintenance costs in newer systems say that these are becoming more stable. Says a federal executive, “We’ve had less of the crisis management and system fixes that we had in the initial years of systems operation. This allowed us to restructure contract terms, negotiate more favorable rates and bring in some of the smaller contractors.”



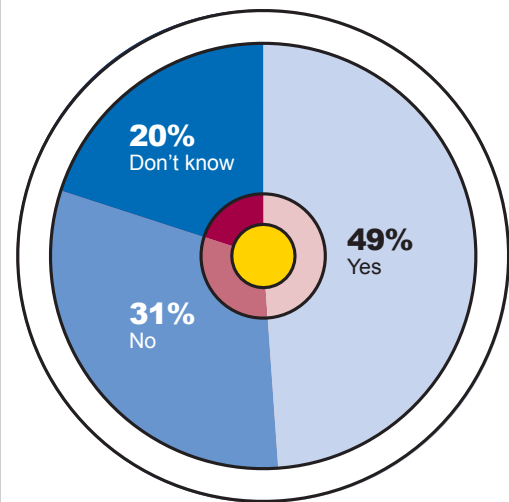
In the area of systems administration, replacing contractors with staff in a stable system appears to be a money saver. Using service centers works both ways, say executives; the rates the centers set year over year may drive costs up or down.

Figure 7 shows that half the federal executives think that their FMS maintenance costs

“We’ve had less of the crisis management and system fixes that we had in the initial years of systems operation. This allowed us to restructure contract terms, negotiate more favorable rates and bring in some of the smaller contractors.”

are sustainable, but many who say that offer caveats. Some say that reporting requirements and the associated workload are increasing and changing, and many existing systems are not set up to deliver the reports demanded. This means systems upgrades or manual workarounds, both of which are costly. Others worry about overall decreases in financial management budgets and, by extension, whether they can sustain FMS and related IT costs. This is especially true for feeder systems that provide data “grist” from the rest of an entity or government for the FMS “mill.” Others worry about charges from service centers they do not own. Federal executives who run service centers do not see a problem with sustainable costs so long as they can pass the expense to their customers. How much longer can they do this? The answer is becoming increasingly clear: not very long at all. One reason, say several executives, is that it is becoming more difficult to justify the costs of implementing and maintaining FMS technology.

Figure 7:
Federal executives’ opinions on whether FMS maintenance costs are sustainable



Federal executives who think that their FMS costs are sustainable give the following reasons:

- **Using internal staff.** Says a federal executive, “Since we develop the financial systems internally, we are able to stay within budget and thus control our costs. And because we do not have to depend on an external vendor for system upgrades and maintenance, we also are able to determine our own levels of priority and timeframe requirements.”
- **Stable systems.** If systems are stable and capable of meeting requirements, then maintenance costs appear to be lower, according to executives. However, stable older systems tend to generate other costs toward (or past) the end of their lifecycle, because they lack needed capabilities.
- **Ability to pass on costs.** Service centers and other operations that can pass along their costs to customers appear to be less concerned with sustainability. Again, this may not be the case in the future.

- **Long-term fixed-cost contracts.** Several state and federal executives have long-term contracts with vendors that help them control costs. These included fixed-fee and predetermined rate contracts at the state level. Says a federal executive, “Our organization locks in rates for a long period to limit cost [fluctuations]. Maybe we could reduce costs even more with another arrangement, but it’s not worth the risk of variable rates in a contract. That is the price that organizations pay when using firm fixed-price contracts. They are good from a long-term risk perspective, but if the total cost of ownership is actually lower than anticipated, an organization may end up having a ‘not so good’ deal.”
- **“Because they have to be.”** A few executives say that they do not worry about sustaining their FMS because this has to be done, and that their entities will find the money to do it. However, two executives say that they fear for their FMS maintenance budget in the midst of governmentwide belt tightening.

We have already mentioned several causes for cost concerns: legacy systems, implementing and stabilizing new systems and increased demands for new reports that existing systems cannot generate. These and other costs appear to have a common theme, which is that they are the results of individual decisions that force costs to rise, instead of a collective effort to drive costs out.

The cost of individual decisions

One major problem in controlling costs and developing effective FMS technology has been “individual decisions” – there have simply been too many of them, based on too many requirements set with too little attention to priorities,

Financial management systems

Says one federal executive about federal financial management system (FMS) difficulties, “There is a lot of blame to go around here. Agencies, vendors, integrators, contractors – all have part of the blame. This year, we ought to cry ‘Fire’ and start doing some serious rethinking of how the federal government is handling our financial IT.” The White House Office of Management and Budget (OMB) recently did just that, as evidenced by a May 2010 draft memo calling for immediate review of high-risk financial systems IT projects. If made a regulation, the memo will halt all new FMS modernization projects valued at least \$10 million and all existing task orders for ongoing projects costing \$500,000 or more. Agencies will have to have their financial management modernization plans approved by OMB. Entities working on an FMS will have to break projects into 90-day or shorter segments, and projects cannot last more than two years. OMB will dole out project funds quarterly instead of as a lump sum.

say several federal executives.⁴ What, then, are some options for government financial IT modernization, particularly in light of tight budgets and a poor track record for major implementations? Below, we present some options suggested by our 2010 AGA CFO survey participants.

Option: Get a long-term strategy and impose it governmentwide. This is more a procedural suggestion than a technical or organizational solution, but the success of most solutions rests upon imposing a strategy from on high is less severe than

⁴ For a good discussion of this problem in enterprise resource planning (ERP) systems in the Department of Defense, see *Managing Military Dollars: Taking Care of Business*, the 2009 American Society of Military Comptrollers’ Annual Survey of Defense and Military Department Financial Management Executives, May 2009, at www.grantthornton.com/publicsector under publications.

it sounds at first, because its proponents are not calling a halt to ongoing modernization initiatives – those trains have left the station. Instead, these advocates take a long view. For example, one federal executive who proposes centralizing the automation of selected financial transactions says, “If it was a stated, governmentwide goal that by the year 2020 we want federal entities to have the same financial processes and system, and we expect the entities to move in that direction, then that would be reasonable.” To work, this would not be a voluntary effort on the part of agencies, but instead a firmly enforced governmentwide policy.

Option: More centralization of financial technology. Over the years, the technology pendulum has swung from central solutions (e.g., the mainframes and service bureaus of the 1960s and 1970s) to dispersed solutions (minicomputers and PCs) and is now moving centrally again (ERPs and their related service centers and, more recently, Cloud Computing). Figure 8 shows advantages and disadvantages that federal and state executives point out for more centralized financial IT services. The main advantages appear to be related to cost savings and control, while the disadvantages relate to lack of control and flexibility.

Figure 8:
Federal and state executives’ opinions on advantages and disadvantages to more centralized financial IT services

Advantages

- Easier to make entity- or governmentwide changes
- Central agencies understand better the total cost requirements
- Economies of scale
- Cost savings from efficiencies
- Better budget control
- Easier to generate reports, fewer data calls, easier validation
- Better internal control
- Easier to enforce policy
- Consistency in applying accounting principles
- Easier to spot problems that may be small at entity level but collectively are significant to government as a whole
- Fewer staff needed (overall)
- Uniformity of training and guidance
- Easier to spot governmentwide spending patterns
- Breaks down compartmentalization of financial information

Disadvantages

- Difficult and expensive to change from one central system to another
- Smaller entities or offices may not receive same level of service as larger ones
- “One size fits all” is not true for everyone
- Lack of flexibility and agility in dealing with situations; may reduce innovation
- Financial management more distant from the program level
- Entity-level personnel feel less responsible for centralized functions
- Entities have less control of their financial functions
- May not work for every business model
- Lack of understanding of the core business of an entity
- “Single vendor” of financial IT makes it harder for entities to control their costs
- Worries about poor customer service

For programs, says a federal executive, the key challenge for any centralized approach is to keep money at the decision level; for entities and central agencies, it is to provide a bird's eye view of government accounts – and the bird needs to be an eagle. Finally, says another federal executive, “With centralization, whether you are doing something right or wrong, at least you are all doing it together the same way.”

Option: A common government ERP. COTS ERPs at the department or agency level have not turned out as expected, say many federal executives, and there is a real need for a true government off-the-shelf (GOTS) system. Says one, “We expected economies of scale from COTS ERPs but have not seen them. [The federal government is] dealing with only three ERP vendors, and only one has chosen to compete with a GOTS package. With so few vendors, market forces are not there anymore, and the wheels are coming apart in that market.” Says another, “The government doesn't like to choose winners and losers, but I think the time has come to select a standard GOTS package for everyone to use, governmentwide, one that provides the outputs we need. Technology-wise, let's get down to one package. We are spending far too much money doing the same things.” (Note, however, that having one ERP configuration or software application does not mean a single central FMS for all federal government entities.)

Option: Central service centers for some functions. In this solution, says a federal executive, government entities would turn over some transaction functions such as accounts payable to a limited number of government-run service centers. This is different from having

Words of wisdom about implementing new financial systems

“In the government, if you are a new CFO at the start of a financial systems planning cycle, you learn that it is going to be six years before you go live and that all the senior executives who are accountable for the system will be gone in three years. Then, once you start to implement, there are lots of delays and changes along the way. You start cutting corners and walling off things, but you don't do any process reengineering nor do you train anyone. On the other hand, you may go live with all kinds of bells and whistles – I call this getting MacBook Pro so that you can have email. The worst is when, after you go live, you have people doing things by hand so that they can enter the information in the system because they don't understand how to use it to get the data they need.”

—A federal executive

departments and agencies shift all their financial operations to service centers, such as was tried in recent years with the federal OMB Financial Management Line of Business (FMLOB) initiative. Centralizing high-volume transaction processing would bring about real savings, say some, and would reduce the workload of agency-level financial personnel. This would be a bite-by-bite strategy of centralizing government financial IT and could synchronize with federal entity modernization activities. The result would be fewer ERPs that attempt to “boil the ocean” by doing everything, and a gradual shift to central services that would aim at efficiency in routine processing. A side product of such a move, according to some executives, would be an easier way to produce consolidated governmentwide financial statements. The U.S. Department of the Treasury is one place that might host a central service center, says an executive, because it already processes government payments and gets much of the financial data already.

Predictive analytics and risk management

A common theme among government financial executives over the past decade is a desire to go beyond simple accounting and reporting and into more advanced financial analysis. In the 2010 CFO survey, we asked participants how they were progressing with two advanced areas: predictive analytics and risk management.

Predictive analytics

Predictive analytics is an area of statistical analysis that deals with extracting information from data and using it to predict future trends and behavior patterns. The core of predictive analytics relies on capturing relationships between explanatory variables and the predicted variables from past occurrences, and exploiting them to predict future outcomes. Examples: credit scoring, fraud detection.

Among the federal executives who answered our question about predictive analytics, 43 percent said their organizations used predictive analytics regularly, 19 percent used it occasionally and 46 percent seldom or never used it. No state executive reported extensive use of such analytics. Federal executives mentioned using predictive analytics for detecting, forecasting or modeling:

- credit/procurement card use and fraud
- credit scoring for loan programs
- budget formulation
- fraud in areas such as Medicare and health care claims
- spending against resources and spending patterns in general
- staffing needs and personnel trends
- investment strategies for trust funds and revolving funds
- future revenues and liabilities
- improper payments

Use of predictive analytics appears to be highest among entities with large numbers of transactions that extend credit, make loans or pay for or underwrite services.

Risk management

Federal and state executives appear to pay the most attention to risk management in areas such as fraud (e.g., in loans and employee credit card use), grants and contracts. They are less likely to consider risk in large IT projects and rarely mentioned risks related to the core results or outcomes of their entities, which would be part of a true enterprise risk management (ERM) approach.

Typically, the frameworks of ERM programs have similar features. For example, they identify organizational risks, develop a strategy to



mitigate or monitor the risks, assign responsibility and manage communications. Very few federal executives say they have formal ERM programs or that they actively participate in identifying and managing enterprise-level risks. Of those who report risk management activities, most say these relate to complying with requirements rather than stand-alone activities either in the purview of the CFO or in collaboration with other agency offices. The requirements they mentioned were principally in the White House OMB Circular A-123 (Revised December 2004), *Management's Responsibility for Internal Control*, the Federal Managers Financial Integrity Act of 1982 (FMFIA) and, more recently, the American Recovery and Reinvestment Act of 2009 (ARRA, see "Reporting for the Recovery Act" later in this report). Thus, their focus is more financial, not business or mission.

Only five federal executives say they had a formal risk management process. This included designating a chief risk officer (CRO) to facilitate ERM. One state executive reports that state departments must do internal control and risk assessment plans. Several state executives say that the internal audit (IA) function is responsible for risk management, although Institute of Internal Auditors guidance on risk management contradicts this idea.

"It is difficult for a new administration to understand that risk is both business and financial," says a federal executive, "We have to do a better job of linking the two." ARRA may be helping to promote risk management at both the federal and state levels, say several executives. Says a federal executive, "[My entity] has done risk management plans for our ARRA programs and we are going



"It is difficult for a new administration to understand that risk is both business and financial. We have to do a better job of linking the two."

to expand the plans into the rest of our programs. We also do risk management as part of our grant fiscal reviews and monitoring. We've found that they help us and the grantees to better manage risk and identify areas that need more attention." Indeed, ARRA has raised the level of risk awareness for most federal agencies that are distributing recovery funds. The downside, says one federal executive, is that states receiving ARRA funds are getting weary of multiple requests for risk management information.

Human capital

Here is a summary of the workforce situation of the federal financial management community (and many in state governments, as well). First, there is a gap in the workforce of people who today would normally be middle managers or at least seasoned staff. Hiring freezes during the administrations of Presidents Bill Clinton and George W. Bush created the gap. Thus, as the Baby Boomer generation (born between 1945 and 1965) retires, there are fewer experienced government employees to replace them. Says one federal executive, “A third of my staff is retirement-eligible and a third has been on the job less than five years. I’m concerned about the impending loss of critical experience.” Says an online survey participant, “Retirement incentive programs intended to reduce costs are exacerbating the problem of Baby Boomer retirement.”

Second, many older financial professionals lack the skills to use modern information technology. Younger employees grew up with modern IT and are better able to use it, but lack the organizational and business knowledge of older workers. As well, a large percentage of government financial workers are essentially clerks or technicians, many without college degrees. They can handle transactions but not the analytics that many executives want most in their new employees.

Third, many government entities have had to contract for financial IT and services support. Reasons include that, on the one hand, there are no longer enough employees who know how to maintain and operate aging legacy financial systems. Contractors fill this gap, sometimes with government retirees who worked on the same legacy systems while in public service. On the other hand, entities often must turn to contractors to run new systems such as ERP financial modules because no employees have the training and experience. A corollary to the latter problem is that there are not enough financial managers with appropriate training and background to supervise the contractors.

Overlaying these issues is what many executives complain is a slow, cumbersome civil service system that is not agile or flexible enough to meet demands for new personnel, even when there are billets or full-time-equivalent (FTE) positions that are fully funded and open.

There is a silver lining to this cloudy situation. The economic downturn has slowed the retirement rate of Baby Boomers whose investments went south, too. Also, for about two years the private sector shed existing (or at best did not create new) accounting, financial management and financial IT jobs. This makes government salaries more attractive to skilled financial workers, whether new college grads or experienced professionals. In addition, it has





reduced turnover – if people have a job, they best stick with it. Says a state executive, “Lower turnover rates are great! This has been one of the longest periods of workforce stability I can recall, even though we haven’t given a cost of living adjustment (COLA) in three years. Of course, we will lose some of our best people once the recession is over.”

Given the above, what do financial executives consider to be the most effective methods to meet their human capital needs in the near and long term? Table 4 shows their opinions.

Table 4:
Executives’ opinions on most the most effective ways to meet human capital needs

Methods	Effectiveness rank	
	Federal executives	State executives
Hiring new staff	1	3
Retraining existing staff	2	2
Outsourcing work to another public or private sector entity	3	4
Training nonfinancial managers in financial tasks	4	1

Hiring new staff

Several federal executives are pleased with their intern programs, which vary.⁵ One reports employing college students for up to 24 hours a week, offering up to one-fourth of the interns

⁵ Many agencies use the Federal Career Intern Program (FCIP) to recruit for positions at grade levels GS-5, 7 and 9. In general, there is a two-year internship, which if successfully completed, may make an intern eligible for permanent placement.

a permanent position after two years. Some report summer programs for interns; says an executive, “We use summer internships as a recruitment strategy and have expanded it from finance to budget, acquisition and human resources. Our agency’s leaders meet with interns twice during their summer program, and after we hire them permanently we continue to train them, including paying for graduate-level courses and program management classes that relate to their career.” Lately, some federal internships have come under fire by unions and veterans who believe the programs are not fair to current employees and job-seeking veterans. For some executives, hiring is the only option because there are not enough existing staff to retrain and outsourcing would be inappropriate, given the work.

Training and retraining existing staff

Professional development and training is critical, say many executives. “A formal professional development plan is in place for all our staff,” says one federal executive, “We also conduct frequent assessment of skills, and a leadership development plan handles anticipated attrition.” Rotating staff to different offices and areas has been very beneficial, say some executives, because it improves knowledge and communications and it is important that people in one division understand what others do in another component of an entity.

Some federal executives report that they are forced to retrain and cross-train existing staff because it is the only way to handle program cutbacks and hiring restraints. Says a state executive, “We need to cross-train existing staff to get a breadth and depth of experience so that we can withstand the hailstorm that is coming – more budget cuts and demands for reports. We have

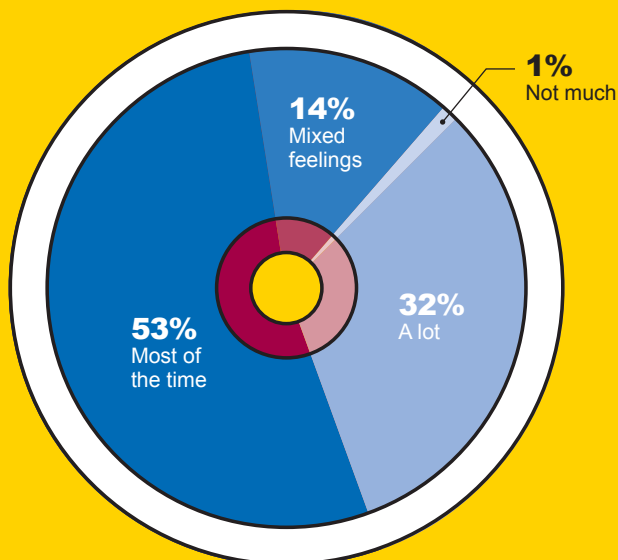
to strategically prepare for this, and you can't have single-track people in such a situation."

Others warn against over-reliance on retraining existing personnel. Says one federal executive, "It is delusional to think that we are going to solve our human capital problem completely with retraining. The idea that we can move technicians into being analysts is a bit much."

Others do no succession planning and say they have no clear idea the type of training and development they need to give their employees and managers. Finally, while some entities have a culture that encourages and supports employee training with funds and time away from the job, others provide nothing for expenses, not even for continuing professional education (CPE) credits.

Government financial managers like their jobs

As shown in the figure in this box, more than four out of five respondents to the online survey say they enjoy their job a lot or at least most of the time.



How much do you enjoy your job?

Outsourcing/staff augmentation

We mentioned earlier in this section that sometimes the only way to obtain some skills in the short term is through contracting out the work, either for specialized talents or simply to augment government staff. A state executive says, "Head count is held constant and without contractors it could be very difficult to carry out operations." Says a federal executive, "It takes so long to hire someone, so we can't hire to quickly meet a new or emerging need. With contractors, we can bring people on quickly and after they meet our needs, we have no further obligation to retain them as employees. So, we get the right skill sets in a timely manner." Says another, "Outsourcing is a way to tap into a younger, computer-savvy generation. IT appears to be second nature to our younger contractors."

"Outsourcing is an unpopular option, but it is an essential part of our operation," says a federal executive, "Some tasks are easy to outsource, such as the more repetitive functions, and this frees our employees to take on more challenging work (although some view this as threatening job security). We have had great success with outsourcing mundane tasks like three-way matches to a program with federal workers from another department, where the work is done in a city outside the Capital Region. Some people label it 'off-shoring' but it has been very effective for us."

Over half of federal executives would be willing to consider outsourcing for some of their high-volume transactions such as accounts payable and other backroom operations. Several also would like to have contractors prepare their annual financial statements and assist them with managerial costing and analytics. Some state executives like the idea outsourcing data centers and call centers; several run central service bureaus and would like to have agencies outsource more work



to them. We discuss outsourcing more later in this section under “Multisector workforce.”

Training nonfinancial managers in financial tasks

Says a federal executive, “It is unrealistic to think that people in the field are going to have financial management skills. Most nonfinancial managers just want to know if they have enough money.” In fact, many financial tasks are carried out by nonfinancial managers who are not trained for the work, say several federal executives. Some think that there is a risk to teaching nonfinancial managers to do financial management tasks. Others say the opposite, like this federal executive: “Training nonfinancial managers for financial tasks is actually easier than retraining our existing staff. At least the nonfinancial types don’t have a reference for how we ‘used to do things’ and are more apt to grasp our current processes. Also, this is another way of tapping into different demographics.”

Reducing work

We did not include reducing work in our list of ways to address human capital issues, but it bears discussion. One federal executive said that downsizing in creative ways can help to meet skill gaps: “This means doing business process reengineering, process improvement, simplifying and standardizing, which then gives you the leverage to use COTS solutions and to outsource work under conditions of greater competition. Shrinking the workforce also encompasses your contractors – you want to reduce the number of contract FTEs you need to work, as well as employees.” Simply documenting processes and desk operating procedures and keeping them up to date makes people more efficient, says another executive.

“No one is taking the time to roll all the requirements and initiatives up and look at them as a whole. So we are constantly reacting to Congress and the Administration, and there is no ‘big picture’ to show what is going on across the board.”

Reducing work is also a responsibility of legislators and central agencies, say several federal and state executives. “We are being hit with individual initiatives, and that is how the (federal) CFO Council deals with them—individually,” says a federal executive, “No one is taking the time to roll all the requirements and initiatives up and look at them as a whole. So we are constantly reacting to Congress and the Administration, and there is no ‘big picture’ to show what is going on across the board. And if you keep saying ‘Yes,’ and grit your teeth and work over the weekend—well, you are just going to do that more and more. OMB has to start doing a cost/benefit analysis on the requirements that come down the pike and the ones we have now.”

Multisector workforce⁶

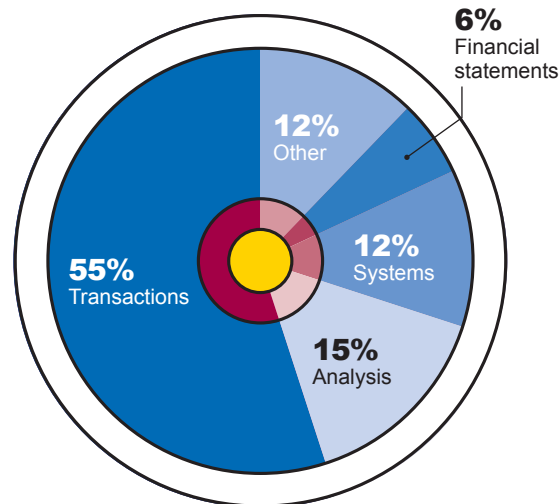
We asked federal executives what they would outsource to another public or private organization, given the opportunity. Of those who responded, 9 out of 10 said they would outsource at least one task. Of those who would not outsource anything, most said it was because all the work they might consider outsourcing was either inherently governmental or they had security concerns unique to their entities. As shown in Figure 9, of the tasks mentioned for outsourcing, 55 percent were transactions (payroll, accounts receivable/payable, etc.), 15 percent for analytic work, 12 percent

⁶ The term multisector workforce means a mixture of federal, state or local civil servants, uniformed personnel or contractor personnel.



for systems support and advanced technology, 6 percent for preparing financial statements and 12 percent for other activities (background investigations, auditing, clearing backlogs, reconciliations and writing policy for travel).

Figure 9:
Distribution of types of tasks that federal executives would like to outsource



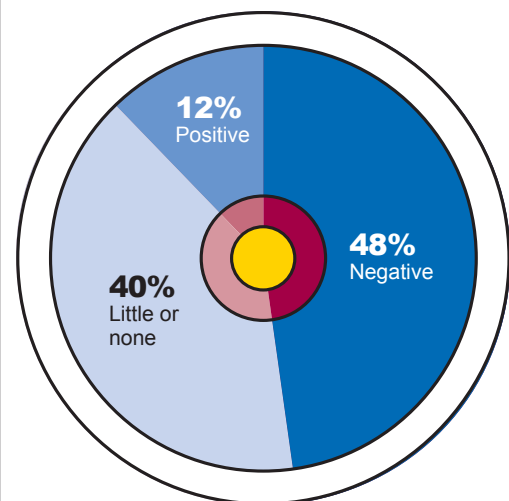
Should entities do more outsourcing? A federal OMB initiative issued in 2009 "...requires agencies to begin the process of developing and implementing policies, practices and tools for managing the multisector workforce..."⁷ The initiative requirements include:

1. Adopting frameworks for planning and managing the multisector workforce that are built on strategic human capital planning
2. Conducting pilot human capital analyses in areas where agencies have concerns about over-reliance on contractors

3. When considering insourcing, using guidelines that help managers apply statutory requirements in a consistent and sound manner.

The Obama Administration, while calling for a balanced look at the multisector workforce, also is advocating a preference for using government employees whenever it is appropriate. We asked federal executives what effect government policy to insource or hire more financial personnel will have on the financial workforce in their organization, and show the results in Figure 10. In the figure, 48 percent of federal executives who responded said that such policy would have a negative effect and 12 percent said it would be positive. About 40 percent said that the policy would have little or no effect because their entities used few or no contractors.

Figure 10:
Federal executives' opinion of effect of federal policy to reduce the use of contractors for government services



Many executives think that a call to use fewer contractors is a mistake for their organizations because they are under hiring freezes or need

⁷ OMB Memorandum M-09-26, "Managing the multi-sector workforce," July 29, 2009.

critical skills that are not available through in-house staff. This is particularly true for entities that depend on outside contractors for financial systems support. "A contractor or federal employee is no different so long as they possess the skills necessary for their position," says one executive. Others like the flexibility that the outsourcing option gives them. And, says an executive, "Insourcing is nice in theory, but doesn't make sense because after ARRA the government will have to downsize."

Says a federal executive, "This is a dicey area because sometimes we do not have the expertise needed to tackle a new or existing issue. This is where we rely on our contractors to be more in touch with the external landscape and help bring this expertise to us. Likewise, we need our federal employees to have expertise on the internal workings of the agency and our guiding policies. They have to be able to guide contractors on getting tasks done in a manner that makes sense for us internally and that gives us the most bang for our buck."



Reporting for the Recovery Act

In last year's AGA CFO survey report, we said that the \$750 million in funds from the ARRA, though welcome, was straining many state governments' and federal entities' capacity to monitor and report on funds received and disbursed. Before interviews started for the 2010 CFO survey, ARRA had actively funded two full quarters of reporting. This section of the 2010 report is based on the reported experience of financial executives for those two quarters and part of the third quarter.

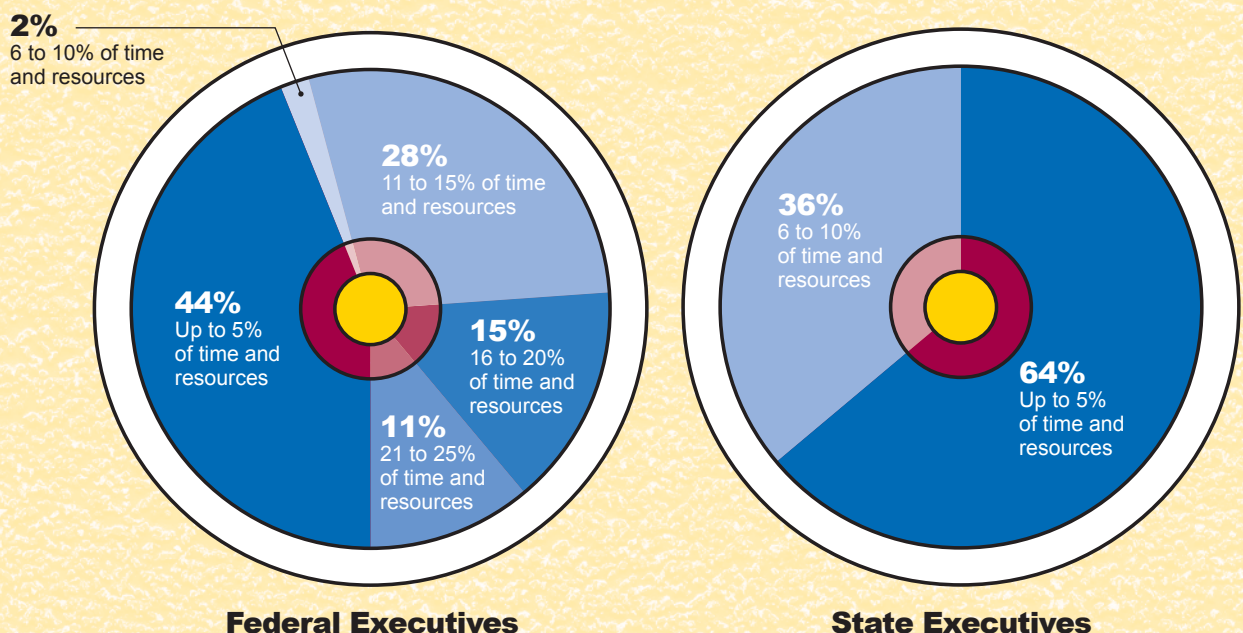
Cost of reporting on ARRA

We asked federal and state financial executives what percentage of their office's time or resources has been spent on ARRA fund distribution, tracking, reporting and related analysis. Figure 11 shows the results for executives whose entities either disbursed or received ARRA funds.

Federal executives reported spending considerable more time on ARRA activities in part because of the heavy upfront work of receiving and disbursing funds. State executives spent less time because their government's agencies did much of the reporting work; in some cases an office other than the CFO is responsible for ARRA reporting. Still, one state CFO reported putting five FTE personnel on the task of ARRA reporting, while a federal entity set up a 30-person office with a new assistant secretary for ARRA work – a larger group than the office of the CFO.

Among federal executives, those who reported the least resources needed for ARRA administration had well-established pipelines for funneling funds similar to those they disbursed already to federal, state and local entities or to individuals. Says a federal executive whose entity received billions of dollars in ARRA funds, "We don't spend

Figure 11:
Federal and state executives' estimate on percentage of their offices' time and resources spent on ARRA tasks





too much time on ARRA reporting because we built on a process and model we already had in place. The type of reporting is slightly different, but not difficult.” Those entities without such pipelines had a tougher time of it and have had to develop new processes to do the work. Many federal executives say that up to 25 percent of their staff’s time went to ARRA tasks initially, but now the work has dropped back somewhat as their reporting processes mature and stabilize. Another reason for the drop in workload has been that the job of getting the stimulus money out the door is starting to wind down.

ARRA steady state?

We asked executives whether they thought that the then-current level of detailed reporting for the ARRA had become manageable and whether this will change over the next 12 months. About three out of five federal executives who responded to the question said yes, the situation was now more manageable, as did two out of three state executives. However, many at both levels of government were concerned that requirements for reporting would change over the next 12 months in ways that will create difficulties and drains on already strained resources. Such changes include:

- Demands by Congress, OMB and others for more and different types of reports, both ad hoc and as permanent additions to requirements
- More types of data reported in greater levels of detail
- Shifts in emphasis to tracking the results or outcomes of ARRA funding, as opposed to simply showing where and how the money is spent
- Rules that change frequently, causing data scrambles and reprogramming. Says a state executive, “ARRA reporting is a moving

target. There are still changes going on. Communication is getting better, but information is still not clear. The classic tensions between state and federal governments are still an issue.”

Another issue: the reporting infrastructure, especially at the lowest level. “Many of the recipients of the funds are not equipped to deliver the type of information that ARRA requires,” says a federal executive, “but then, the funds were supposed to stimulate the economy, not require nonfinancial grant recipients to invest substantial amounts into the reporting process.” In addition, several federal executives are of the opinion that a disproportionate amount of time is being spent on tracking and reporting funds, instead of managing ARRA programs.

Of the federal CFOs interviewed who responded to this question, three out of five said that ARRA reporting had caused problems for their organizations. Specific problems include:

- Increased workload not matched by new resources
- Funds control (separating funds)
- Complexity, such as establishing separate Treasury Account Fund symbols for ARRA monies or developing new grant accrual methodologies for ARRA grants that have shorter periods than others
- Reconciliations of reported outlays and receipts because of different reporting periods (and different amounts being reported by groups involved)
- Not enough time and planning in developing ARRA-related processes and systems.

For state executives, problems include determining who is in charge of processes at all levels of government and trying to provide direction to

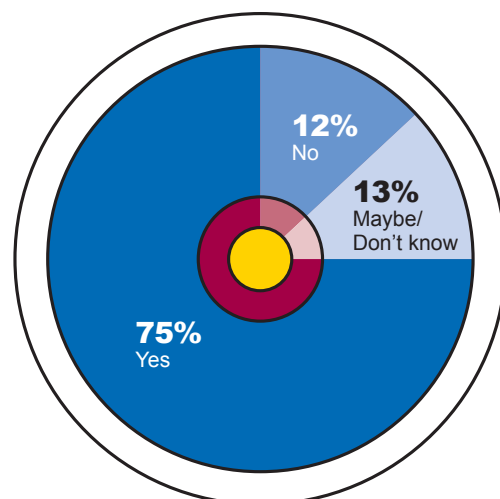
state agencies that want it. Workload applies to state systems, as well, says a state executive: “Grant reporting systems can’t sustain the speed, job count and performance information needed.”

On the plus side, ARRA is starting to reveal opportunities for improving financial reporting of the use of government funds. As well, it is forcing siloed offices within federal entities to work together more closely. Perhaps the most important administrative result for the federal financial community is being jolted out of a complacency that grew out of several years of success in meeting requirements of the CFO Act – ARRA shows there are plenty of challenges yet to be met.

ARRA as permanent new level

We asked federal and state executives whether the current level of detailed reporting for the ARRA is likely to become the norm for all future financial reporting. As shown in Figure 12, 75 percent of federal executives say yes, as do over 80 percent of state executives.

Figure 12:
Opinion of federal executives on whether current ARRA reporting level will become the norm for all financial reporting



Indeed, some executives think that ARRA reporting is the model of the future, with more detail and more ways to “slice and dice” information. Not all are happy about this. One federal executive said that, if that is going to happen, then “Shoot me now!” Her boss said, “No, shoot me first!”

One reason to worry, says another federal executive, is that “ARRA-style reporting relies on external parties to provide accurate information, but there is no enforcement mechanism to ensure compliance. Further, says a federal executive, “Many local ARRA fund recipients are not equipped to provide the detailed reporting that would effectively track the spending and honestly are not even aware whether the funds they received were ARRA or another source. Consequently, federal entities in charge of the funds will be blamed for inaccurate or inadequate information.”

Says another federal executive, “The constituents of ARRA – the states and those who received the funds – just aren’t going to stand for the detailed reporting over the long run. Things *will* become a bit more detailed, just not as much as now.” Some observations from executives about what the future detailed reporting might look like include that:

- More attention must be given to the integrity of the financial numbers, which many executives consider to be inaccurate. Additional internal controls will need to be built in lower down the information chain.
- More staff at the federal and state levels will be needed to collect, analyze and report the numbers.
- The level of detail and of materiality and the frequency of reporting has to be at reasonable levels.



- Consider using XBRL (eXtensible Business Reporting Language), an open data standard for financial reporting

Evaluate before going forward

We asked executives what was the most important way to make ARRA reporting more valuable. Perhaps the loudest plea we heard about ARRA reporting was to evaluate what has been happening during the initial year. First on the assessment list is finding out what taxpayers want to know. Over half the federal executives say “Ask citizens what they want!” Executives want to find out what information is relevant to citizens, then provide simple, streamlined reports on that information. Citizens are interested in how much money is spent, for what and the results, which means linking funding to programs and outcomes. Suggestions for improvement for citizen reporting include:

- Geospatial information that will allow citizens to zoom into regions to see where ARRA money is being spent and to what effect
- Collective data analysis, where citizens can access a variety of data in order to help the government figure out solutions
- Making all reports simple and understandable for the average person, at least at some levels of reporting — plain language is important
- Understanding that there is no single citizen perspective, and that data will have to be reported such that it can be used to answer different but related questions.

Because there is so much information that could be reported, and because it is expensive to do this, governments must carefully consider the ROI on improving their reporting infrastructure and processes, say several executives. There has to be a balance in costs and benefits, else governments will either not be giving enough information to taxpayers, or clogging the communication conduits with too much useless data.

Payoff to the CFO

Several federal executives report that top leaders are calling on them more and more for information and assistance because of ARRA oversight. This is giving some CFOs a better seat at the table of government decision making, and it makes sense. ARRA is — or at least appears to be — a more fact-driven form of public administration. “If we set our minds to it, CFOs can create a much more comprehensive story that links budget, costs and outcomes to help citizens really see how programs are performing,” says a federal executive. That is a story that all governments need to tell, and public sector CFOs have the facts for it.

Conclusions

The 2010 AGA CFO survey is really three surveys:

1) inperson interviews with federal and state CFOs and other financial executives; 2) an online poll of AGA and NASACT members and 3) discussion groups of government CFOs. Together, this research provides a comprehensive look at financial management at the federal and state level. Throughout the surveys and discussions, certain themes arose, which we address now as conclusions of the overall study.

Financial reporting

Formal financial statement reporting and auditing standards and guidelines need to be more appropriate to the public sector and not mostly variations on commercial sector requirements. The public sector really is different, and it desperately needs better financial reporting *to the right target groups*. Government CFO budgets cannot afford both to provide true transparency and continue the current audit readiness and audit cycles related to financial statements reports. Biennial, abridged and other-than-full audits would be a great resource saver. Streamlining the audit process and focusing on high value would save even more. Simply put, the government financial management community has to start producing in a cost effective manner the information that will be valued most by legislators, public sector executives and managers, and citizens.

Multisector workforce

Our interviewers report that most of the executives they met with did not fully understand the concept of a multisector workforce. True, the interviewees could discuss at length many of the components of such a workforce, but the

majority did not have a comprehensive overview of the whole area of human capital. This includes hiring, insourcing, training, contracting and retirement issues – and also strategy, succession planning, compensation, performance evaluation and all the other things that go into a holistic approach to the single most valuable asset of government: its personnel.

ARRA reporting

Government financial leaders and central financial entities will do well to pay close attention to how ARRA is changing how the public sector reports on financial and performance information. With its increased transparency, open access to data and near real-time demand for relevant information, ARRA is the wave of the future.

Hitting the target

It is imperative that CFOs and their organizations increase the ROI of their operations. This includes both sides of the ROI equation: shrinking the footprint of financial organizations and processes and producing higher value information support to non-financial executives and managers. Central financial entities need to take the lead in improvements, but not simply by issuing edicts and demanding compliance. Instead, they should consider sponsoring more pilot projects and demonstrations among government entities, become more active in developing GOTS and other public sector financial software and test different options of centralized services.

Finally, an online survey respondent says, “Communicate, communicate, communicate – both what we as financial managers are doing and why. Although financial hard times will pass, we will never return to ‘government as usual.’ Hopefully, the lessons we learn through these hard times will make us better, yet different.”

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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