BUILDING A FOUNDATION FOR CONFIDENCE IN GOVERNMENT: MOVING FROM THEORY TO ACTION IN AN ERA OF SCARCE RESOURCES

By: Daniel J. Murrin, CGFM and Mark A. Reger, CGFM, CPA

AGA's 2011 Executive Session, which was conducted in conjunction with its Professional Development Conference and Exposition in Atlanta on July 10, 2011, examined how we can instill confidence in government and meet the public's desire to know where their money is going. The session drew 150 financial management experts from all levels of government. It examined what we can do with limited resources to promote confidence in government through transparent reporting. The session examined how new developments can help government officials respond to the public's increased interest in government spending and efficiency.

other raw data. Recommendations in this article are gleaned from a spirited dialog among panel members and the audience regarding the evolution of transparency issues and the Accountability Pyramid.

SUMMARY

A number of themes emerged from the session:

» We must determine what information is needed by various stakeholders in government.

» Governments must establish common data elements and a uniform data structures or translation mechanisms.

» Data quality, especially data on the American Recovery and Accountability Act of 2009 (ARRA), is being questioned, in large part because it is unaudited or its relationship with audited summary information is not clear.

» Capturing the attention of the citizenry and meeting their needs will require that we array financial data against performance information.

» Better information is needed to:

– Determine the cost of government.

– Explain the benefits of government.

– Enhance management of government.

The Executive Session in 2010 (see AGA *Journal* Spring 2011, Vol 60. No. 1) proposed a framework for understanding how government data can be leveraged and refined as it moves up the "Accountability Pyramid." The 2011 session's goal focused on how new technology and other developments can help governments respond to the changing culture of accountability at a time when there are scarce resources to make changes.

This is the first in a series of articles that will build on the concept of the Accountability Pyramid. In addition to summarizing the general session, this article explores the vital issues regarding the bottom of the Pyramid, which deals with transaction and

Danny Werfel, Controller of the Office of Management and Budget, opened the session. He said that financial reporting must tap into the communications era. Yet, he said the "information superhighway is a dirt road yet to be built." While the federal government is leveraging interest in improving financial reporting, he said that it has not succeeded in explaining how government benefits citizens.
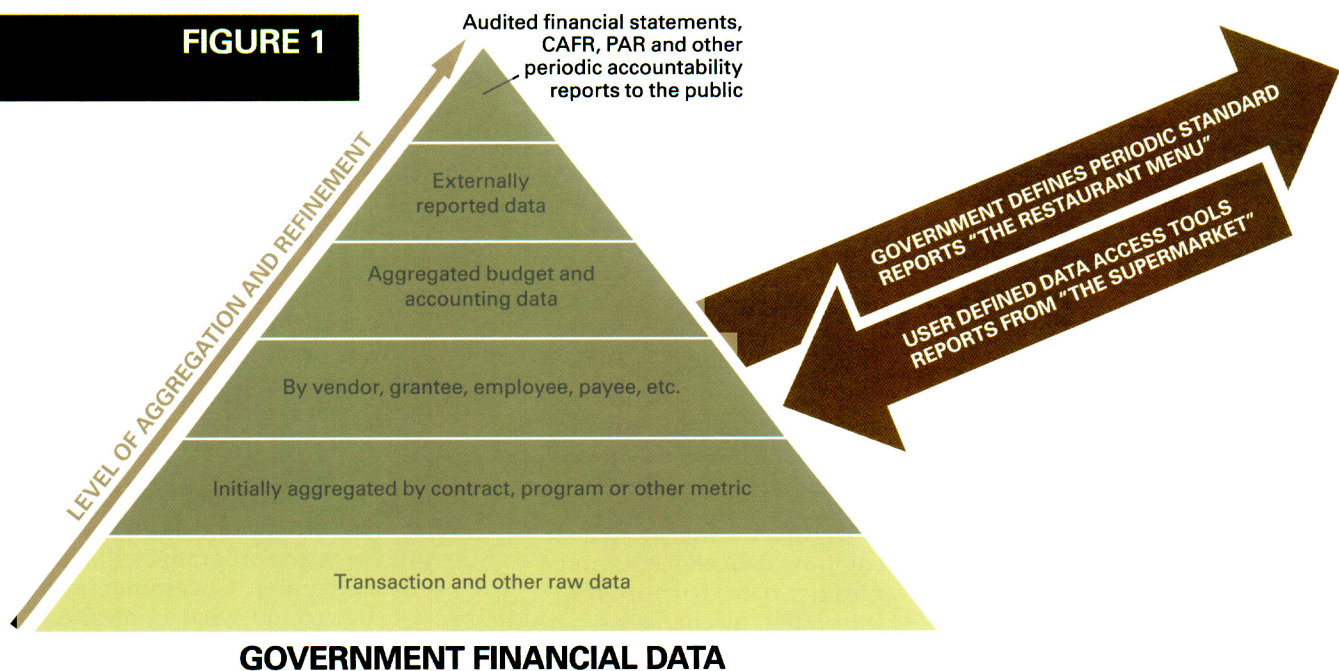
On transparency, Werfel said that ARRA put the federal government on the hook to be transparent about funding. He said that the Vice President wants to push ARRA's success with transparency, but the question is "How do you take massive organizations and make them pivot?"

ARRA implementation demonstrated the need for data standardization. While the U.S. Treasury Department has established the Treasury Appropriation Fund Symbol (TAFS), Werfel said that TAFS does not support reporting to the public in a user friendly manner.

Werfel noted that there is currently a disconnect between policy and execution. The government needs to work within strategic segments that will enable it to identify and analyze program costs, the burden on the public, what the taxpayers get for their money and the impact that funding some programs will have on other programs. Government should also determine what is meaningful and doable, what it can deliver on and what the taxpayers get for their investment. He added that government agencies need financial management systems that are less complex and less costly and determine how they can harness data analytics to better identify the waste, fraud and abuse of government funds.

During an informal panel discussion, leaders from federal and state governments examined how we can produce government information that will enhance confidence in government and enable users to fulfill their responsibilities—whether as citizens, legislators, government executives, bond raters or other stakeholders. Panelists included: Terry Bowie, Chief Deputy Chief Financial Officer, National Aeronautics and Space Administration; Robert Dacey, J.D., Chief Accountant, Government Accountability Office; Merril Oliver, Deputy Director, Maryland Governor's Grants Office; John Radford, CGFM, CIA, CFE, State Controller, State of Oregon; Mark Reger, CGFM, CPA, Deputy Assistant Secretary, Accounting Policy, U.S. Department of the Treasury; and Kim Wallin, CPA, State Controller of Nevada.

Executive Session Sponsor Dan Murrin, Americas Director, Government & Public Sector Services at Ernst & Young LLP, and Danny Werfel moderated the panel. Murrin said that enhancements in financial reporting, information technology, data accessibility and management practices have laid the groundwork for a fundamental change in the culture of govern-

FIGURE 1

Audited financial statements, CAFR, PAR and other periodic accountability reports to the public

Externally reported data

Aggregated budget and accounting data

By vendor, grantee, employee, payee, etc.

Initially aggregated by contract, program or other metric

Transaction and other raw data

LEVEL OF AGGREGATION AND REFINEMENT

GOVERNMENT DEFINES PERIODIC STANDARD REPORTS "THE RESTAURANT MENU"

USER DEFINED DATA ACCESS TOOLS REPORTS FROM "THE SUPERMARKET"

GOVERNMENT FINANCIAL DATA

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ment accountability. He provided a brief overview of the "Accountability Pyramid" that he had developed in conjunction with AGA. The pyramid places government financial data in a hierarchy depicted by a pyramid. (See Figure 1.) As information moves from the bottom to the top of the pyramid, the level of aggregation and refinement increases. The base of the pyramid is transaction and other raw data. Atop the pyramid are special reports like AGA's four-page Citizen-Centric Reports, which devote one page to each of the following topics: statement of financial stability/statement of financial position, results of operations, sustainability and performance.

Panelists agreed that additional data standardization provides a foundation for financial reporting. Mr. Bowie noted that we have an infinite number of ideas, but only a certain number of data elements. Ms. Wallin said that citizens tend to think that things are free and that government needs to educate the public about the cost of government services. She explained the advantages offered by eXtensible Business Reporting Language (XBRL) for the exchange of government data and said that XBRL could help determine the cost of running a program and that, for effective financial management, government officials must be able to determine how to collect data at the base level. "It's important to determine the cost of programs and explain it to people," Ms. Wallin said. "We need to explain not just cost, but benefits as well.

Mr. Radford stressed the importance of capturing information that is useful to managers. While we have set up an entire process for monitoring compliance, he said that we need to capture more information on the transaction level so that we can provide appropriate information to managers. Mr. Radford said that it is important to determine how to collect data at the base level. Base level data is needed to determine how much government costs and is critical to managing the cost of government. He added that sound financial reporting is fundamental to managing the cost of government. External and internal information must be merged so that we can accurately determine overhead and determine how much it costs to provide financial information and information about costs to array against particular programs and performance information. Participants noted that financial information must be related to program performance information to be meaningful for many users. Some called for the financial and program management community to work together to array financial related information in the accountability pyramid with similar pyramids of program information, or incorporate elements of program performance information in effect a multidimensional pyramid to create useful measures of program outcomes and efficiency by arraying results with related costs.

Because ARRA data was not audited before it was posted on the Internet, there is some question as to the veracity of the data. While, in theory there was support for the accountability and transparency that results from ARRA-

type reporting, some of those implementing ARRA asked "what can we do for free." Ms. Oliver said that, while Maryland's ARRA information was auditable, it is important to realize that implementing effective ARRA-type reporting in the future should only be done using a phased-in approach and that recipients should be given financial assistance in complying. Experience in implementing ARRA demonstrated that different federal agencies have different data requirements and that the various agencies differed in key decisions. Since officials in the various federal agencies "don't know what they don't know", someone at a central level needs to make hard decisions about reporting and stick with them. The federal government should work together with the community to "Pick and Stick" when it comes to establishing reporting and data elements that will be needed to achieve the vision of the enhanced accountability envisioned by the accountability pyramid and partially achieved through recent initiatives such as the ARRA reporting.

ARRA reporting requirements were developed to promote greater accountability transparency with regard to stimulus spending. Mr. Reger said that greater standardization can enhance accountability and transparency across government. Only when key pieces of data are used and recorded the same way by agencies and recipients can electronic applications help match and link data quickly and efficiently. For example, the lack of standardization in the way that awards are numbered has been a significant problem in the tracking of ARRA funds. Because of the disparate numbering schemes used by federal agencies, the ability to quickly link data from an agency's system to recipient-report data has been difficult and efforts are underway to develop a universal award identification number. [See sidebar for detail on a new initiative by the U.S. Treasury Department to develop a universal identifier for government obligations.]

THE CASE FOR STANDARDIZATION: UNIQUE IDENTIFIERS

By: John B. Hill, MS, MPA, Director, Office of Financial Innovation and Transformation, U.S. Department of the Treasury.

The challenge of data transparency is not unique to the Federal government. Other organizations must provide external visibility into an environment with huge volumes of fast moving data. They solved this challenge by combining data standards with unique identifiers.

The American securities market handles billions of financial transactions daily. These transactions come from hundreds of different organizations and affect the value of millions of security instruments. Despite this huge flux of data, the market can report on the precise value of single security instrument in almost real-time. This challenge is similar to the current one facing the Federal government: 1) transactions originating from a plethora of organizations and processes; 2) transaction systems designed for processing, not reporting; and 3) a public need for transactions to be summed into meaningful information about a single entity or instrument.

The securities industry solved this challenge with a three-pronged approach:

UNIQUE IDENTIFIER. For over 40 years, every stock or bond certificate (and all related transactions) has been identified by a unique identifier that follows the certificate through its lifecycle from original issuance to final disposition.

A SINGLE REGISTRANT AUTHORITY. To ensure uniqueness, this 9-digit identifier is only issued by a single organization. The Common Uniform Security Identification Procedures (CUSIP) Bureau ensures that every security instrument so labeled is actual and authentic.

HIGHLY STANDARDIZED DESCRIPTIVE DATA. The CUSIP Bureau maintains a database of reliable information that describes the security instrument, its terms and conditions, and important details about the issuer.

For the American securities market, the single identifier provides transparency. It allows thousands of discrete transactions affecting a security instrument to be summed and reconciled. And it links those transactions to descriptive data about an issuer in a manner that is meaningful to the public.

The Federal government has launched a number of data standardization efforts to improve the consistency and accuracy of financial reports. As one part of that broad effort, the government is learning from the CUSIP example of the securities industry. The Executive Branch has begun to use a similar concept for Federal procurements. Some agencies are reviewing their systems to identify how a universal identifier for obligations might be integrated into their existing software. Others are considering which data elements might be standardized for the registrant database. Certainly, a concerted government-wide effort is required to implement this technique fully. But many leaders from across government are beginning to see the power of this idea.

BOTTOM OF PYRAMID: THE CRITICAL FOUNDATION

The base of the Accountability Pyramid encompasses the raw financial data produced by government agencies. Ensuring that the correct information is gathered and that it is accurate and standardized so it can be aggregated and later pulled into reports and information usable by the public are the key challenges. It is critical to get the basics right in order to reach the goal of transparent, usable and understandable information for public use. In the AGA sessions, these challenges were further explored, and some paths to clarity were recommended. Mr. Reger and Ms. Oliver moderated a discussion regarding how to populate the bottom of the pyramid, what is in and what is out, data standards and assurance issues, and the pitfalls as we move forward.

WHAT INFORMATION SHOULD BE INCLUDED?

The most basic issue for forming the foundation of transparent government reports is deciding what information is to be included. Among the constituency, different groups are looking for different information. Should government solicit the public to decide on the raw information to be included or should the public be told after the decision is made? A second issue here is the level of detail and depth required of the information collected. How does government anticipate the granularity needed to meet the needs of stakeholders through a robustly populated and technology enabled Accountability Pyramid?

Session recommendation

» **Ensure robust planning.** Begin by defining a set of information that is broad, deep and granular before starting to collect the information. Develop the process for gathering data and determine exactly what information is sought. Use these plans to build a data stream and matrix, then implement technology to carve out information the way you want it.

HOW DO WE STANDARDIZE THE DATA?

In order to make real, usable information available to the public, it's essential to both standardize and integrate data. The current standards and guidance used for gathering the raw data are inconsistent, as the federal environment's complexity and rapid changes make it difficult to establish a common baseline of standards. In addition, each state has its own standards, and the many entities in the federal government generally adhere to different standards as well.

Session and participant recommendations

» **Create uniform standards.** Develop uniform, standards for data extraction, transformation and processing. Integrating federal and state information is key.

» **Use standard reporting languages.** These should be used to populate data at the base of the pyramid at the transaction level and become a reliable, consistent method of tagging data for extraction for analysis, whether through consistent coding structures or hybrid tagging mechanisms such as XBRL.

» **Leverage data standards bodies.** Leverage the work of existing data standards bodies and involve stakeholders to vet requirements and standards. Any standardization must be stable and survive challenges from stakeholders wedded to their existing systems and approaches. Tagging and conversion mechanisms will be key initial steps toward realizing the vision of the pyramid.

» **Take advantage of the AGA's convening power.** The AGA can help by convening a group to define the standards and determine whether existing standards responsive to the needs exist, whether existing standard setting bodies should be engaged to refine standards, or new approaches sought in defining standards for use in the Accountability Pyramid. The group could also explore short-term alternatives that allow governments to use their existing data structures and conversion mechanisms to minimize costs and lead times.

HOW DO WE ENSURE THAT THE DATA IS ACCURATE?

The integrity of raw data input is of paramount importance. Government — and the public — needs to be sure that data can be trusted. When an agency has been audited, it can result in a public perception that an organization's financial management system should also be able to support providing further visibility into meaningful raw data through data warehouse and similar tools. However, experience shows this is often not the case without further efforts to ensure data quality. Top-level adjustments not pushed down to the transaction level and materiality considerations that may facilitate making assertions at an aggregate level challenge the ability of entities to make assertions about data quality at disaggregated levels. While reports at the top of the pyramid may be audited, the extent to which that audit effort validates the raw data at the bottom of the pyramid is at best unclear — a prescription for inappropriate reliance on such higher pyramid level audits.

Session and participant recommendations

» **Use technology and standards to facilitate correct data.** The proper tools and processes can ensure that the initial input of an entry is appropriately edited and vetted. All data points should be captured up front (i.e., collected only once) and can later be sliced and diced as needed.

» **Further assess the role of internal and external assurance activities.** Explore the extent to which the design and self-assessments of internal controls, testing of the functioning of internal controls and external audit efforts can leverage, while at the same time buttressing, a need for high-quality raw data to execute the government's business and support existing reporting needs. Consider efforts that could provide more clarity around the extent to which such efforts shed light on the quality of the data made available at the base of the pyramid, or how efforts should be enhanced to help ensure the data is useful for the myriad purposes users may make of it in the future. Issues related to data quality touched in sessions related to other perspectives on the Accountability Pyramid included a desire to reconcile aggregation of data at the base of the pyramid with audited financial statements.

SUMMARY

From the opening session, panel discussion, breakouts and participant input after the session, a consistent theme emerged: populating and providing external access to the pyramid of data is inevitable and getting in front of data transparency issues, by anticipating and overcoming challenges, is a key role for AGA members. Whether the issue is reducing the work associated with Freedom of Information Act requests by creating redacted and accessible copies of contract-related documents, or anticipating the need to purge personally identifiable information from electronic information or thinking through how user needs will evolve as more information becomes available, a thoughtful and robust dialog in the community is needed to prepare for the future. Efforts that expose raw data to scrutiny without context or data verification activities run the risk of reducing confidence in government information. Withholding such data raises questions regarding what is being hidden and why. While the fully realized vision of the pyramid may be somewhat farther off, benefit realization can begin now through a well thought-out transition processes, and planning must certainly begin to aid in ensuring that current system development and other efforts converge with the vision of a transparent government, linking what is spent with what is achieved. ∎

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