Financial management and the president's management agenda
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The Journal of Government Financial Management; Summer 2002; 51, 2; ProQuest Central
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On January 20 in the year that officially began the new millennium, America inaugurated its first President with an MBA. Within several weeks, President George W. Bush quickly unveiled his Blueprint for a New Beginning—an ambitious and unprecedented agenda for improving federal government management. This document was followed six months later by the President's Management Agenda[1], which outlines specific goals and strategies to address the nation's most pressing management issues. In his agenda, President Bush outlined five governmentwide and nine agency-specific areas that need attention to better serve the American people. One of the five governmentwide targets is to improve financial performance by ensuring that federal financial management systems produce accurate, timely and useful information to support operating, budget and policy decisions and by managing and reducing the extent of erroneous payments in federal programs.

In light of September 11 and the enormous resource demands placed upon a nation at war, now more than ever it is critical that we maximize every tax dollar. This administration also believes that Americans should be able to compare performance and cost across programs. To improve our financial performance, we must be able to answer two basic questions for every federal activity: what did it cost and what benefit did we receive? Sadly, in almost all cases we cannot provide the answers.

Financial Management and the President's Management Agenda

By: Mark W. Everson

The President's Management Agenda

President Bush's vision for government reform is guided by three principles. Government should be:

- Citizen-centered, not bureaucracy-centered;
- Results-oriented; and
- Market-based, actively promoting rather than stifling innovation through competition.

The President has called for an active but limited government that focuses on priorities and executes them well. And rather than pursue an array of management initiatives, the administration has elected to identify the government's most glaring problems—and solve them. The President's Management Agenda is a starting point for real, sustainable management reform. (See *Figure 1.*)

The first governmentwide initiative, **Strategic Management of Human Capital**, focuses on attracting highly talented and imaginative people to the federal government to improve the service provided to our citizens. **Competitive Sourcing** exposes parts of government to competition so that they may better provide what customers want while controlling costs. Studies have shown that public-private competition improves business processes and reduces costs generally by 20 percent or more. As mentioned above, **Improved Financial Performance** focuses on improving how government manages its money—reducing, for instance, the billions in erroneous payments the government makes every year. **Expanded E-Government** harnesses the power of the Internet to make government more productive and accessible to our citizens. Finally, **Budget and Performance Integration** begins the process of linking resource decisions with results and providing information needed to hold government accountable.

Executive Branch Management Scorecard Will Measure Success

To ensure accountability for performance and results, the administration is using an Executive Branch Management Scorecard.[2] The scorecard tracks how well departments and agencies are executing the President's management initiatives and where they stand at a given point in time against overall standards for success.

The scorecard employs a simple "traffic light" grading system common today in well-run businesses. Scores are based on standards for success[3] defined by the President's Management Council after consultation with experts in government and academe, including individual fellows from the National Academy of Public Administration. Under each of the five sets of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria and "red" if it has even one of a number of fatal flaws. Getting to "green" on the Executive Branch Management Scorecard will require significant and sustained effort by federal agencies, but will result in unprecedented improvements in the management of the federal government.

The grades on the Management Scorecard submitted with the Fiscal Year 2003 President's Budget could be best described as a "sea of red." The administration's baseline evaluation of departments and agencies against the standards for success shows mostly poor scores with 85 percent red—and only one green rating for financial performance at the National Science Foundation. Only four of the major departments and agencies scored "yellow" in financial management. The National Aeronautics and Space Administration (NASA) graded yellow, but unfortunately now slips back to red as a result of a disclaimer on its Fiscal Year 2001 financial statements.

Figure 1: The President's Management Agenda

Governmentwide Initiatives

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded E-Government
- Budget and Performance Integration

Agency-specific Initiatives

- Faith Based and Community Initiative
- Privatization of Military Housing
- Better R&D Investment Criteria
- Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management
- HUD Management and Performance
- Broadened Health Insurance Coverage Through State Initiatives
- A "Right-Sized" Overseas Presence
- Reform of Food Aid Programs
- Coordination of Veterans Affairs and Defense Programs and Systems

Improved Financial Performance

The standards for Improved Financial Performance are ambitious. They were reviewed and approved by the Secretary of the Treasury, the Comptroller General and the Director of the U.S. Office of Management and Budget (OMB). To achieve a "green" rating, an agency must meet all of the following criteria:

- Financial management systems must meet federal financial management system requirements and incorporate applicable federal accounting and system standards as reported by the agency head;
- The agency must be able to produce accurate and timely financial information;
- It must have integrated financial and performance management systems supporting day-to-day operations; and
- The agency must be able to produce an unqualified and timely audit opinion on its annual financial statements with no material internal control weaknesses reported by the auditors.

The Fiscal Year 2001 financial statements of the 24 major departments and agencies that were received on February 27 demonstrated modest but important progress in improving financial performance. As in the Fiscal Year 2000 reports, 18 agencies received unqualified opinions, although the governmentwide statement was disclaimed. Five agencies—the U.S. Departments of Agriculture, Education, Justice and Transportation, and the U.S. Agency for International Development—showed marked improvement in the quality of their financial statements. Two agencies—NASA and the Federal Emergency Management Agency—deteriorated from last year.

Even though federal agencies are making progress toward the goal of clean financial statements, we are raising the bar. As Treasury Secretary Paul O'Neill said, "It takes the federal government five months to close our books...This is not the stuff of excellence." For financial information to be useful, we must receive it on a regular basis, not just once a year and not five months after the fact. So we are accelerating the due date for agency financial statements from February 27 in Fiscal Year 2001 to November 15 in Fiscal Year 2004. The governmentwide financial statements will then be completed by December 15, three-and-a-half months earlier than is currently the case. With these accelerated due dates, agencies will have to reinvent their business processes and improve their systems to produce more readily the financial information necessary to prepare financial statements.

Expanding E-Government and Implications for Financial Systems

Another of the five governmentwide management reform initiatives has profound implications for financial management systems. The goal of the e-government initiative is to make the government a "click and mortar" enterprise—more accessible, effective and efficient. Instead of roaming around thousands of websites, Americans should need only two or three clicks to get service online. To achieve a "green" rating, an agency's major information technology projects must meet all of the following criteria. Projects must:

- have a defensible business case;
- be within 90 percent of cost, schedule and performance targets; and
- demonstrate progress towards realizing the e-government goals through progress toward or participation in at least three delineated areas.

These e-government criteria require agencies to have well-managed information technology project portfolios that achieve defined benefits and also pursue e-government strategies and modern integrated technologies on a collaborative basis so that investment and benefits are shared across agencies. Scores on the e-government goals suggest that federal agencies are getting better at leveraging the potential of technology to serve citizens, partner productively with business and achieve greater internal efficiency. Nine agencies achieved yellow for expanding e-government. OMB's *E-Government Strategy*,[4] issued in February 2002, highlights 24 cross-cutting initiatives selected based on the greatest value to citizens, potential improvement in agency operations and the likelihood of deployment within 18 to 24 months. Several of these projects will have direct impact on the standardization of data and financial operations, while reducing costs.

The Fiscal Year 2003 budget emphasized improved information technology management and governance, stressing the importance of developing agency enterprise architectures, which are "blueprints" that systematically and completely define an organization's baseline and target environments. They identify redundant organizations, processes and projects to unify and simplify business lines, identify opportunities for cross-agency applications and identify processes and projects that could be better performed in the private sector.

To meet the President's goals for financial performance, agency financial systems must transition to business processes and internal controls that "build in" data quality at the start of the transaction. In the future, agencies will simply not have time to conduct the cumbersome, manual reconciliation processes that have produced financial statements in the past.

Major Problems in Financial Systems

The current inventory of federal financial systems is not well-positioned to meet this higher bar. Agency audit reports provide a litany of limitations: significant numbers of agencies with inadequate reconciliation procedures, lack of timely and accurate recording of transactions, poor financial system integration, noncompliance with accounting standards and weak information security.

Looking at our financial system inventory and comparing it with the private sector points to major problems in federal financial management. A 1998 analysis[5] of 11 federal organizations performed by the Hackett Group illustrates the challenges facing the federal government. The study found that although federal agencies usually spent less on financial management operations, they generally operated more systems than their private sector counterparts. The Hackett study found that federal agencies had 17.2 systems per $1 billion in revenue, while the companies it examined had an average of just 12.6. Federal systems were also older. However, the more enlightening finding included the fact that federal agencies allocated their work force to processing transactions rather than decision support—the tools, techniques and methods used to facilitate the decision-making process. Financial management in the federal government appears less expensive than the private sector because the federal government invests too little in decision support.

Research, also by the Hackett Group, published in 2001, found common practices among high performing companies.[6] These best practices, described by the Hackett Group as transcending traditional functional and organizational boundaries, include some of the following:

- Increased focus on standardization to gain cost and information benefits;
- Use of outsourcing to optimize performance, enable rapid scalability and reduce overall costs; and
- Consistent data availability, a critical component of faster, more informed decision-making and improved service levels.

These studies demonstrate that high performing organizations pay less total cost for their financial management in all dimensions—labor, systems, etc.—and receive greater dividends in terms of quality information because they do it once, faster, and use standard data and simplified business practices. This is what it will take to meet the goals not just for the Improved Financial Performance objective, but for all areas of the President's Management Agenda.

Getting to Green

Across the board, the administration is focusing on capital planning and investment control, enterprise architecture and performance management as critical disciplines essential to achieving benefits from the more than $50 billion invested annually by the government in information technology. A few examples highlight renewed agency commitment to using technology and systems to improve financial management.

- **The Department of Defense (DoD)**—Soon after his appointment, Secretary Donald Rumsfeld directed Pentagon leadership to conduct a complete overhaul of financial management practices and processes. He gave his Under Secretary of Defense (Comptroller), Dov Zakheim, the authority and resources to get it done. The reform effort now under way plans fundamental and sweeping changes to financial management practices and supporting infrastructure. A key step is imposing discipline. DoD is developing an "enterprise architecture" that will serve as the blueprint to construct its future financial management infrastructure. This architecture will include departmentwide standards and will enunciate how to modernize and link both systems and business processes that cross functional areas such as logistics, personnel, health care, accounting, finance and others. This is a huge undertaking with many steps. Overcoming service rivalries will remain a challenge, but DoD is off to a great start.

- **The Department of Health and Human Services (HHS)**—This agency currently operates five accounting systems that traditionally have failed to use up-to-date technology. On June 14, 2001, Secretary Tommy Thompson directed that the number of financial management systems be reduced from five to two and he insisted that they encompass the most modern and sophisticated practices now in use. This project is known as the Unified Financial Management system. It will allocate HHS' full costs for services and products to each program or initiative because it will be a standard, efficient system. This will enable HHS to link operating and financial information.

- The E-Payroll Initiative, led by the **U.S. Office of Personnel Management,** is designed to simplify and unify elements of the payroll process to consolidate and integrate payroll systems across government. This effort will provide several hundred million dollars in savings to organizations, significantly reduce future information technology investments and could foster direct privatization.

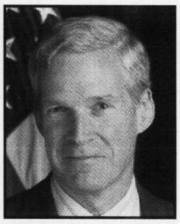
To help agencies get to green, the Chief Financial Officers Council recently established a new committee structure to mirror the initiatives of the President's Management Agenda. The committees include: best practices, budget and performance integration, systems/e-government, human capital, financial statement acceleration and reducing erroneous payments. One of these committees, the erroneous payment committee, includes a partnership between the Chief Financial Officers Council and the President's Council on Integrity and Efficiency, the council of Inspectors General.

Conclusion

The administration is taking exciting and long overdue steps to improve government management. But the President's Management Agenda has limited its focus on five initiatives to ensure that attention is concentrated on achieving management improvements in these areas. If we achieve the goals of the President's Management Agenda, we will have taken a big step toward improving the efficiency and effectiveness of federal programs and thereby increasing the trust of the American people in their federal government. ∎

End Notes

1. The President's Management Agenda, August 2001. (*www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf*)
2. The Budget of the United States Government, Fiscal Year 2003, Governing with Accountability. (*www.whitehouse.gov/omb/budget/fy2003/bud09.html*)
3. Analytical Perspectives, the Budget of the United States Government Fiscal Year 2003, at page 409. (*www.whitehouse.gov/omb/budget/fy2003/pdf/spec.pdf*)
4. U.S. Office of Management and Budget, "E-Government Strategy: Simplified Delivery of Services to Citizens," February 27, 2002. (*www.whitehouse.gov/omb/inforeg/egovstrategy.pdf*)
5. The Hackett Group, *1998 Government Finance Benchmarks Results*, Presented at the Sixth Annual Government CFO Retreat, April 20, 1999. Participating federal agencies included the U.S. Department of the Interior, the U.S. Department of the Treasury, the U.S. Department of Veterans Affairs, the General Services Administration, the Nuclear Regulatory Commission, the National Science Foundation, the Environmental Protection Agency, the Defense Finance and Accounting Service- Indianapolis, the Kansas Department of Transportation, the Bureau of Worker's Compensation and the Coast Guard Finance Center.
6. Hackett Benchmarking and Research, *2001 Book of Numbers*. (*www.hackettighway.com/findings/*)



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