Restoring Trust in Government

through Transparency by Using Accounting and Enforcing Accountability

By Dave Mader; Cynthia Vitters; and Justin Obbagy

Let's start with an assumption: trust in government *is* important.

But why?

Government touches almost every aspect of our lives. It provides direct services like disaster response, healthcare, research and regulation as well as indirect services through different types of financial assistance. Without this trust, agencies find it increasingly difficult to convince taxpayers and lawmakers of the value of government services, jeopardizing their ability to obtain the funding needed to operate effectively or even to continue to exist.

This is particularly challenging because taxpayers do not have time to validate government performance on their own. To determine whether these services operate safely, effectively and efficiently, the public relies on information provided by the government. And that is often overshadowed by media stories of mismanagement, fraud and failures, which tend to receive greater attention than success stories.

Accountability relies on good accounting

Trust in government is built on transparency, which promotes accountability. When citizens can see the results of a government program quickly and easily, government program leaders become motivated to be more accountable and diligent in driving results. But for that equation to work, the information being shared must be accurate. Accountability relies on good accounting.

Regulation Timeline

1990 — Chief Financial Officers (CFO) Act required federal agencies to produce audited financial statements, in part to build trust among taxpayers the same way publicly traded companies built trust with investors.

1993 — Government Performance and Results Act (GPRA) focused on results that the funding on federal balance sheets was designed to produce, requiring agencies to develop strategic plans and report on metrics to quantify how they were achieving their goals. This act was later updated by the GPRA Modernization Act of 2010 (GPRMA).

2004 — The Office of Management and Budget (OMB) revised Circular A-123 (A-123) to complement the CFO Act to ensure agencies had robust internal controls over financial reporting so the public could trust the information in the audited financial statements.

2009 — The American Recovery and Reinvestment Act (ARRA) demonstrated what transparency in the digital age looks like. The public could quickly see how much stimulus money went into each Congressional district through a quick search on Recovery.gov. After 70% of the funds were outlayed and delivered by the start of FY 2010, there were active fraud investigations on less than 0.2% of the reported awards — far below the normal rate of 5–7%.

2014 — Digital Accountability and Transparency Act (DATA Act) made ARRA requirements a permanent feature of Federal financial management. The DATA Act increased transparency into federal expenditures by following spending from congressional appropriations to the disbursements of funds linked to receipts and financing.

2016 — The recent revision to A-123 "Management's Responsibility for Enterprise Risk Management and Internal Control" helps federal agencies focus on the risks that could get in the way of the results and benefits described in strategic plans and GPRA metrics.

Although the push for transparency is not new, the digital age and growth of open data have increased the public's expectations. People expect to be able to track government spending on a dollar-for-dollar basis. Tools such as Data.gov and DataUSA.io are designed to make it increasingly easy for the average person to see how tax dollars are being used, to "account" for those dollars without a certified public accountant. Laws and regulations in the past 30 years (depicted in the Regulation Timeline) have created a framework to build, maintain and grow public trust in government through transparency, accountability and accounting for both financial and program performance results.

Unfortunately, the public may not be noticing these improvements. Trust in the federal government is near historic lows. Only 18 percent of Americans trust the federal government to do what is right "just about always" or "most of the time."[1] Meanwhile, the federal improper payment rate increased every fiscal year from 2013 to 2016, when improper federal spending reached 4.67 cents of every dollar, for a total of $144 billion in improper payments across government programs.[2]

Confidence in the federal government began to wane in the late 1960s. While the mid-1980s and early 2000s saw relatively high trust levels, trust in government has declined since 2006.[3] This trend has held through Democratic and Republican administrations and across age groups. In fact, although younger adults historically have been more likely to trust in government than those from older generations, the gap in trust between generations has narrowed. In a 2017 survey, only 15 percent of Millennials, 17 percent of Generation X, 14 percent of Baby Boomers, and 18 percent of the Silent Generation said they trust the federal government at least "most of the time."[4]

Trust relies on transparent communication

A potential reason trust in government continues to deteriorate is perceived mismanagement. A recent survey showed that a majority of Americans believe the federal government should play a major role in areas ranging from health care to workplace standards; however, far fewer believe it is doing a good job in handling those issues.[5] Major crises stemming from mismanagement have further contributed to the loss of trust in government.

Erosion of trust in government is not limited to major "capital C crises." Smaller scenarios unfold daily, such as poor customer service and improper payments. These "small c crises" reaffirm perceptions of poor government performance. For example, improper payments may not grab national headlines, but they can contribute to compromised trust in government, as they affect citizens more directly and on a personal level.

Negative events feed our natural negativity bias, where we subconsciously give greater weight to negative events than positive ones.[6] What if we looked on the bright side instead? The following steps begin to outline what it might take for government to reverse the tide and increase the levels of trust.

The road ahead

Restoring trust in government is achievable, and the government chief financial officer (CFO) community can begin the journey by harnessing the power of transparency. Today, leaders can establish the foundation of restored trust by helping Americans see the positive impact of the government's work, elevating government accounting through analytics, and working together to manage increasingly complex risks. As outcomes improve and avoidable crises, both large and small, decrease, the careers of trust-restoring financial managers, accountants, clerks, and risk analysts will advance — and, hopefully, the gap in public trust will decrease as well.

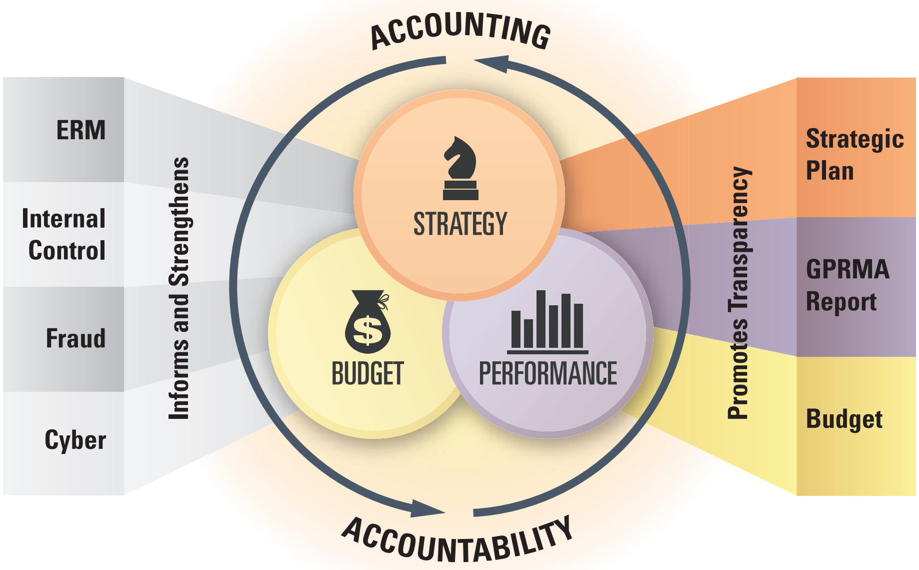
How to regain trust

Step 1: Show how government works

Restoring trust begins with government leaders helping citizens better understand how government works. That affordable day care center down the street that everyone loves? Thank the Administration for Children and Families (ACF) Child Care Development Fund (CCDF), which provides over $5 billion in federal monies to states, territories, and tribes. Low-income families receive financial assistance to access child care, and child care providers receive technical assistance to help improve their quality of care. As funding moves from Congressional appropriators to ACF to state-led child care agencies that subsidize child care programs to individual providers and low-income families, the program looks more like something run by a community non-profit than a large federal agency.

At each stage of CCDF program delivery, leaders are accountable for being good stewards of the funds while producing desired results. Yet the program's impact is often invisible. Summary-level statistics are catalogued in the annual Department of Health and Human Services (HHS) Agency Financial Report, but those without sophisticated knowledge of federal reporting could easily overlook the success story that is CCDF. Connecting population-level statistics with individual stories — of parents who advanced their careers with the benefit of affordable child care; of children who grew up to be successful because of quality learning opportunities — can give meaning to the numbers and become part of the solution to restore government trust.

Figure 1. How agencies can inform and strengthen core management activities



Step 2: Elevate accounting

The government CFO community — from large federal agencies to tiny municipalities — is present at each stage of the funding and program delivery process. By combining financial data, program performance metrics, and stories of the lives each program affects, the CFO community can produce tangible evidence that tax dollars are being used to improve Americans' lives. Similarly, by highlighting investments that are not performing due to poorly managed risks and inefficiencies, government financial managers can drive operational improvements and resource allocation decisions that can make programs more sustainable.

Step 3: Manage risk

Risk management is a natural evolution of transparency, accounting and accountability. It makes the causes of crises (both the "capital C" and "small c" ones) and sub-optimal performance more visible (transparent) so that leaders can evaluate solutions (accounting). It drives decisions that can lead to measurable improvements and oversight to realize those improvements (accountability).

Today's risk landscape is diverse and complex, changing more rapidly than ever. Disciplines such as cybersecurity, enterprise risk management (ERM) and forensic accounting are evolving to address the shifting nature of today's risks. In many cases, the risks that impact program performance and erode public trust are not one-dimensional; as a result, they demand integrated responses that cut across functional silos. Teams from the offices of the CFO, chief information officer, chief risk officer and programs must work together routinely to prepare for uncertainty and address gaps where issues start to materialize.

In a world where risks multiply, morph and build on one another at an accelerating rate, governments require an integrated approach to risk management that connects the dots and works across silos to address trade-offs inherent in managing programs. This means better coordinating risk management disciplines, such as ERM, internal control, fraud management and cybersecurity, to support and strengthen strategic planning, budget formulation and execution, and performance management.

An integrated approach to an agency's core management processes, depicted in Figure 1, equips government leaders with quality (and well-accounted for) data they are proud to share transparently, pointing out both big and small steps being taken to restore trust in government.

Each discipline on the left of the diagram specializes in assessing and then addressing different types and levels of risk through a distinct lens. When they work together, these distinct disciplines provide the coverage that agencies need to address the myriad ways risk emerges and erodes public trust.

For example, ERM focuses on the big-picture, cross-cutting risks that impact an agency's mission and, if not managed well, could lead to "capital C crises." Internal control and fraud management activities focus more on identifying gaps or weaknesses within individual business processes and transactions that, if unaddressed, could lead to "small c crises" that could metastasize into "capital C" ones. For risks related to information security, new cyber defenses have become the logical mitigation strategy.

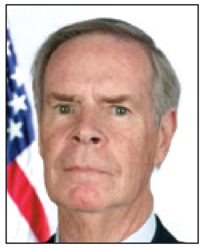
A more integrated, holistic approach to risk management is only effective if the resulting information is used to drive actions that can restore public trust. Greater transparency and sharing of risk data helps agencies to develop strategic plans that are more resilient in the face of emerging risks, to build budgets with sufficient resources to mitigate performance-inhibiting enterprise risks, and to operate performance management systems that can publicly showcase success stories from programs that work or major risks that were overcome.

As an agency develops its strategic plan, leaders should consider risks that may impact its implementation, plus risks that may be generated *from* implementing the strategic plan, so that resulting initiatives are more likely to succeed, and the agency is more likely to achieve its goals. As agencies are asked to do more with less, incorporating risk information into budget decisions will better equip leaders to understand the trade-offs in funding each activity. Additionally, traditional performance indicators tend to be lagging in nature.

Agencies that develop leading performance and risk indicators are better positioned to receive an early warning when a risk may affect performance. This, in turn, allows them to take proactive measures to avert adverse impacts. J

Endnotes

1. "Government Gets Lower Ratings for Handling Health Care, Environment, Disaster Response," *Pew Research Center*, Dec.14, 2017. http://www.people-press.org/2017/12/14/government-gets-lower-ratings-for-handling-health-care-environment-disaster-response/
2. "Improper Payment Rates Across the Federal Government" *Payment Accuracy.gov.* https://paymentaccuracy.gov/improper-payment-rates-across-the-federal-government/
3. See Endnote 1.
4. "The Generation Gap in American Politics," *Pew Research Center*, March 1, 2018. http://www.people-press.org/2018/03/01/2-views-of-scope-of-government-trust-in-government-economic-inequality/
5. See Endnote 1.
6. "The Science Behind the Joy of Sharing," *The Center for Compassion and Altruism Research and Education at Stanford Medicine*, April 12, 2013. http://ccare.stanford.edu/psychology-today/the-science-behind-the-joy-of-sharing/



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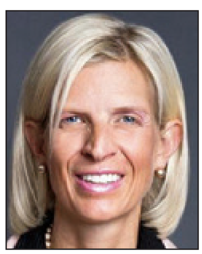

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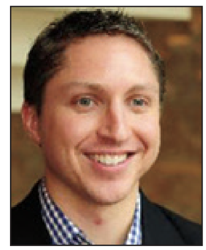

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