



Highlights of a
FORUM

Convened by the
**Comptroller General of
the United States**

**IMPROVING
THE FEDERAL
GOVERNMENT'S
FINANCIAL
MANAGEMENT
SYSTEMS**

April 2008

GAO-08-447SP



Highlights of a forum, [GAO-08-447SP](#)

Why GAO Convened This Forum

Since the enactment of key financial management reforms, such as the Chief Financial Officers (CFO) Act of 1990 and the Federal Financial Management Improvement Act of 1996 (FFMIA), the federal government has devoted significant resources to improving financial management activities and practices. At the same time, continuing attention is needed to address persistent, long-standing accountability problems and to redefine success for federal financial management. Successfully implementing financial management systems has been a particular challenge to the federal government. Many agency financial management systems do not routinely produce the accurate, timely, and meaningful information needed for management decision making.

This forum brought together knowledgeable and recognized financial management leaders from the federal government, including the CFO, Chief Information Officer, and Inspector General communities, and selected other officials with extensive experience in financial management from both the public and private sectors. The forum addressed (1) the future of federal financial management, (2) applying lessons learned from federal financial management system implementations, and (3) strategies for transforming federal financial management culture. These highlights do not necessarily represent the views of the organizations that the participants represent, including GAO.

To view the full product, click on [GAO-08-447SP](#). For more information, contact Kay Daly at (202) 512-9095 or dalykl@gao.gov.

HIGHLIGHTS OF A FORUM

Improving the Federal Government's Financial Management Systems

What Participants Said

Forum participants expressed a wide range of views on key topics related to improving the federal government's financial management capabilities and better integrating the role of financial managers to achieve 21st-century goals. An overarching theme from the forum was that financial management systems are a critical factor in agencies' ability to achieve the systematic measurement of performance; the development of cost information; and the integration of program, budget, and financial information for management reporting.

Shaping the Future of Federal Financial Management

Many participants emphasized the need for financial management organizations to play a broader role as a strategic partner in meeting overall agency and program objectives. One of the themes emerging from the forum was that federal financial leaders should focus more of their efforts on comprehending and meeting program managers' financial information requirements and not simply on financial reporting compliance. According to participants, current obstacles to future success include limited resources, competing initiatives, and varying levels of commitment among some federal officials to address long-standing financial management issues.

Lessons Learned from Financial Management System Implementations

The forum participants generally agreed that there has been a growing body of knowledge based on lessons learned from past federal financial management system implementation efforts. Consequently, managers possess a greater knowledge of the system design and implementation challenges they face, as well as possible solutions to these challenges. Experience related to financial management, human capital management, systems ownership, customization of commercial off-the-shelf software, and the purchase of shared services has provided useful insights that should help financial managers avoid some of the obstacles that impeded past projects. Financial managers also reported identifying various useful system implementation practices, including conducting independent verification and validation, and periodically reevaluating system implementation projects.

Strategies for Transforming Federal Financial Management Culture

Participants stated that in order to remain relevant, the financial management community must be willing to proactively embrace change and focus on ways of proving value to the entire organization. Forum participants discussed the need to continually reexamine the roles of the CFO and other federal financial organizations. Participants suggested working toward a better integration of people, processes, and data. According to some participants, the key for CFOs in creating value for their organization is delivering information that makes a difference, including developing appropriate business metrics. To facilitate such a transformation, federal financial management human capital strategies could be better focused on attracting and retaining a new technology-savvy generation of financial professionals with 21st-century skill sets.

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Abbreviations

CFO	chief financial officer
CIO	chief information officer
COTS	commercial off-the-shelf
DHS	Department of Homeland Security
E-gov	electronic government
ERP	enterprise resource planning
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FMLOB	financial management line of business
FSIO	Financial Systems Integration Office
GPRA	Government Performance and Results Act
IG	inspector general
IT	information technology
IV&V	independent verification and validation
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
PA/PAS	Presidential Appointee/Presidential Appointee Senate Confirmed
PMA	President's Management Agenda

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United States Government Accountability Office
Washington, DC 20548

Introduction

Since the enactment of key financial management reforms such as the Chief Financial Officers (CFO) Act of 1990 and the Federal Financial Management Improvement Act of 1996 (FFMIA), the federal government has devoted significant resources to improving financial management activities and practices. There has been a recognition of the value and need for good financial management throughout government. At the same time, continuing attention is needed to address persistent, long-standing accountability problems and to redefine success for federal financial management. Effectively seizing these opportunities will be important to the federal government in transforming its operations to a world-class level.

GAO previously identified the following success factors as instrumental in achieving the vision of becoming a world-class finance organization: culture, customer, leadership, organization, people, process, and technology. Improving the federal government's financial management technology is one of the key success factors that has been a particular challenge. Financial management systems are a critical factor in agencies' ability to achieve accountability and transparency in federal finances.¹ Modernized systems can help agencies minimize errors, systematically measure performance, develop cost information, and integrate program, budget, and financial information for management reporting. This will be important as the federal government faces difficult fiscal challenges that will require reliable cost and performance information to support timely decisions on spending, and, at the same time, address potential fraud, waste, and abuse.

Many agency financial management systems do not routinely produce accurate, timely, and meaningful information needed for management decision making. For example, auditors reported that 13 of the 24 CFO Act agencies were not compliant with FFMIA for fiscal year 2007. The inability of more than half of the 24 CFO Act agencies to comply with the requirements of FFMIA demonstrates that many agencies continue to

¹Financial management systems encompass more than an agency's automated information systems and include both the automated and manual processes, procedures, controls, and personnel needed to support agency financial management.

struggle to implement modern financial management systems that effectively support program management.

Recognizing that decision makers can benefit from a better understanding of the challenges and opportunities associated with the implementation of modern, effective federal financial management systems, GAO convened a forum on December 11, 2007. The forum provided a venue for bringing together 36 knowledgeable and recognized senior-level leaders from the federal financial management community to share insights on the critical challenges and opportunities for improving federal financial management system implementation efforts. Participants included individuals from the CFO, Chief Information Officer (CIO), and Inspector General (IG) communities. In addition, executive-level officials and experts with extensive experience in federal financial management from federal oversight agencies and a variety of private sector organizations that specialize in assessing and improving federal financial systems and internal controls also participated in the conference. (See app. I for a list of forum participants.)

The forum addressed (1) the future of federal financial management, (2) applying the lessons learned from federal financial management system implementations, and (3) strategies for transforming federal financial management culture to capitalize on financial management system modernization opportunities. (See app. II for the forum's agenda.) This forum was designed to engage in a rich and substantive discussion, on a nonattribution basis, and to obtain a range of views on key issues affecting the role, organization, and focus of federal financial management and the related financial management systems. (See app. III for discussion questions provided in advance to participants that were used to help facilitate forum discussion.)

This summary captures the ideas and themes that emerged at the forum, the collective discussion of forum participants, the responses to electronic survey questions (see app. IV for the electronic survey results), and comments received from participants based on a draft of this summary. The forum comments summarized do not necessarily represent the views of any of the organizations that these participants represent, including GAO.

I would like to thank all the forum participants for taking the time to share their knowledge, insights, and perspectives. We at GAO will benefit from these insights as we carry out our work to improve federal financial management for Congress and the nation. The Joint Financial Management

Improvement Program (JFMIP) Principals² also have great interest in the points raised during this forum and plan to monitor progress on these issues. We look forward to working with the entire federal financial management community and the forum's participants on this and other important issues of mutual interest and concern in the future.

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is written in a cursive style with a large, prominent "D" and a long horizontal stroke at the end.

Gene L. Dodaro
Acting Comptroller General of the United States
April 16, 2008

²The four JFMIP Principals are the Comptroller General of the United States, the Secretary of the Treasury, and the Directors of the Office of Management and Budget (OMB), and Office of Personnel Management.

Background

The role of financial management in the federal government is evolving. Many agencies have made great strides toward generating more accurate and reliable annual financial statements. However, the process of preparing financial statements and subjecting them to independent audit is only the first step toward satisfying the mandate for a world-class financial management organization. To reap the full benefits of well-intended reforms, federal financial management organizations and operations must go beyond an audit opinion toward (1) establishing seamless systems and processes, (2) routinely generating reliable cost and performance information and analysis, (3) undertaking other value-added activities that support strategic decision making and mission performance, and (4) building a finance team that supports the agency's mission and goals.

Billions of dollars have been spent on developing and implementing financial management systems throughout the federal government. These systems are intended to support the interrelationships and interdependencies between budget, cost, and management functions. Financial management systems are not only critical for meeting federal financial management requirements, but more importantly for producing complete, reliable, timely, and consistent financial information for use by the executive branch of the federal government and Congress in the financing, management, and evaluation of federal programs. Many efforts are under way to implement new core financial systems³ and supporting financial management systems such as logistics, acquisition, and human resources. However, recent efforts to modernize financial management systems have often exceeded budgeted cost, resulted in delays in delivery dates, and did not provide the anticipated system functionality and performance. To help reduce those risks associated with acquiring and implementing financial management systems, the Office of Management and Budget (OMB) has undertaken a number of initiatives intended to address long-standing financial management problems.

³According to systems requirements issued by OMB, core financial systems are the backbone of an agency's integrated financial management system. Core financial systems provide specific functional capabilities necessary for managing a general ledger, controlling spending, making payments, managing receivables, measuring costs, funds management, and reporting in the federal environment.

Federal Financial Management Legislative Framework

Efforts to improve financial management and associated systems can be traced back to a series of management reform laws passed by Congress over the past three decades. This series started with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), which Congress passed to strengthen internal controls and accounting systems throughout the federal government, among other purposes.⁴ While agencies had achieved some early success in identifying and correcting material internal control and accounting system weaknesses, their efforts to implement FMFIA did not produce the results Congress intended.

Therefore, beginning in the 1990s, Congress passed additional management reform legislation to improve the general and financial management of the federal government. The CFO Act was the beginning of such legislation, and laid the foundation for other key legislative reforms that followed a common thread of increased accountability and better management practices. The CFO Act established a leadership structure, provided for long-range planning, required audited financial statements, sought improvement in systems of accounting, financial management, and internal controls, and strengthened accountability reporting. The first related legislation that followed the CFO Act was the Government Performance and Results Act of 1993 (GPR), which requires agencies to develop strategic plans, set performance goals, and report annually on actual performance compared to goals. GPR was followed by the Government Management Reform Act of 1994, which made permanent the pilot program in the CFO Act for annual audited agency-level financial statements, expanded this requirement to all CFO Act agencies, and established a requirement for the preparation and audit of governmentwide consolidated financial statements.

The Federal Financial Management Improvement Act of 1996 (FFMIA) built on the foundation laid by the CFO Act by reflecting the need for CFO Act agencies to have systems that can generate reliable, useful, and timely information with which to make fully informed decisions and to ensure accountability on an ongoing basis. FFMIA requires the departments and agencies covered by the CFO Act to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting

⁴The Budget and Accounting Procedures Act of 1950 has required heads of executive agencies to establish and maintain systems of accounting and internal control that met certain criteria and standards. See Act of Sept. 12, 1950, §113, 64 Stat. 835, 836 (*codified, as revised, at 31 U.S.C. §3512 (b)*).

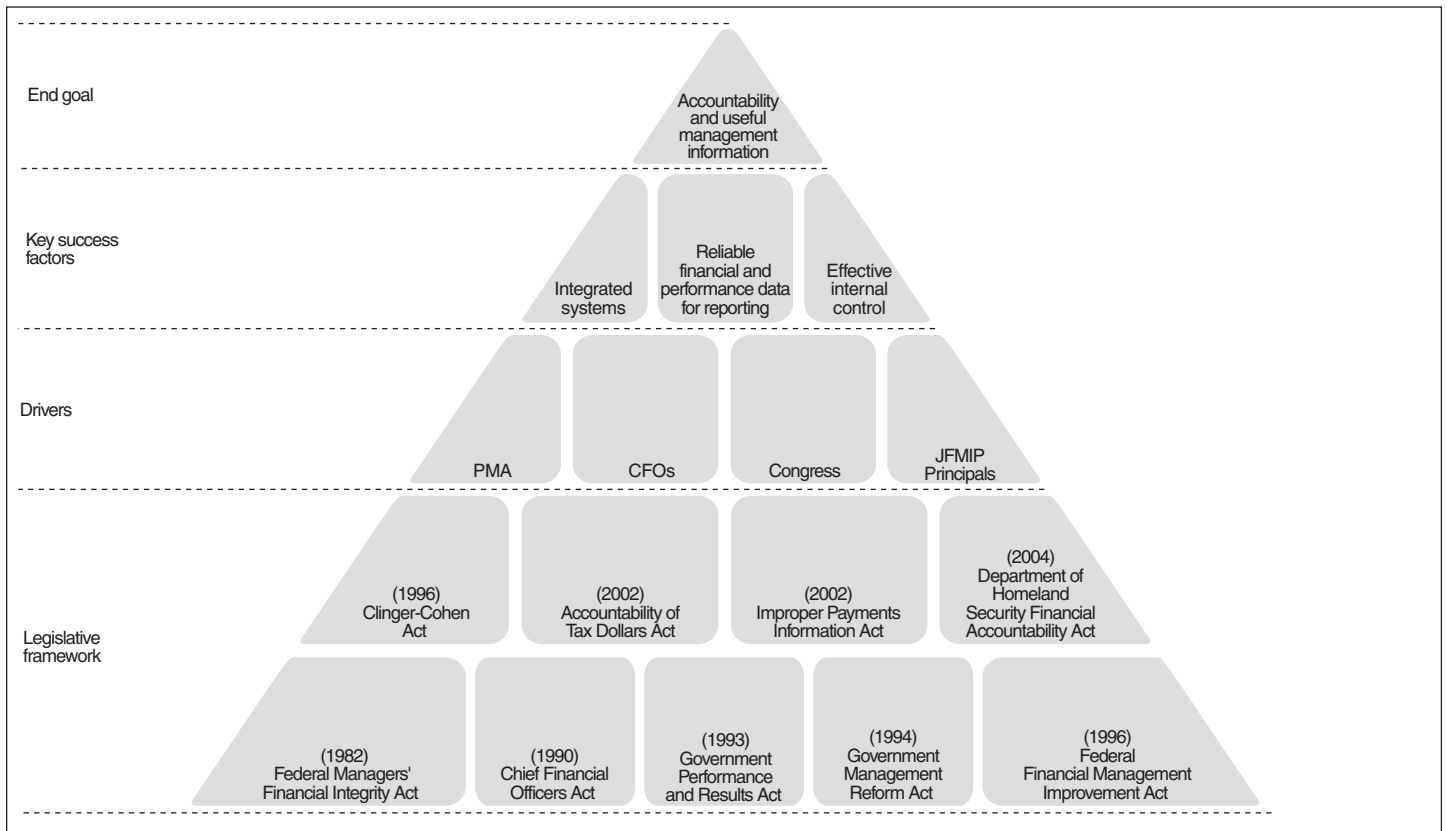
standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level. FFMIA also requires auditors to state in their CFO Act financial statement audit reports whether the agencies' financial management systems substantially comply with these three FFMIA requirements.

The Clinger-Cohen Act of 1996 (also known as the Information Technology Management Reform Act of 1996) sets forth a variety of initiatives to support better decision making for capital investments in information technology (IT), which has led to the development of the Federal Enterprise Architecture and better-informed capital investment and control processes within agencies and across government. The Accountability of Tax Dollars Act of 2002 required most executive agencies that are not otherwise required, or are exempted by OMB, to prepare annual audited financial statements and to submit such statements to Congress and the Director of OMB. The Improper Payments Information Act of 2002, requires executive branch agency heads to review their programs and activities annually, identify those that may be susceptible to significant improper payments, and report estimates of improper payments for susceptible programs. Lastly, in 2004 the Department of Homeland Security (DHS) Financial Accountability Act made DHS subject to the CFO Act, which requires DHS to issue audited financial statements, among other things.

As shown in figure 1, if successfully implemented, these reforms provide a solid basis for improving accountability of government programs and operations as well as routinely producing valuable cost and operating performance information. The figure shows the three levels of the pyramid that result in the end goal, accountability and useful management information. The bottom level of the pyramid is the legislative framework, as discussed above, that underpins the improvement of the general and financial management of the federal government. The second level shows the drivers that build on the legislative requirements and influence agency actions to meet these requirements. The four drivers are (1) the President's Management Agenda (PMA),⁵ (2) CFOs, (3) congressional and other oversight, and (4) the activities of the JFMIP Principals.

⁵In the summer of 2001, President Bush introduced the PMA, which outlined specific governmentwide goals and strategies to address the nation's most pressing management issues.

Figure 1: Federal Financial Management Reform Framework



Source: GAO.

One of the President’s five PMA goals 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. CFOs in place at federal agencies are responsible for developing and maintaining integrated accounting and financial management systems, directing, managing, and providing policy guidance and oversight of all agency financial management personnel, activities, and operations, and overseeing the recruitment, selection, and training of personnel to carry out agency financial management functions. They are to provide leadership on financial management issues and are expected to serve as change agents. Congressional and other financial management oversight bodies are to help ensure that federal financial management initiatives are properly focused and on track. JFMIP was originally formed under the authority of the Budget and Accounting Procedures Act of 1950 as a joint

and cooperative undertaking of GAO, the Department of the Treasury, OMB, and the Office of Personnel Management, working in cooperation with each other to improve financial management practices in the federal government. In an effort to eliminate duplicative roles and streamline financial management improvement efforts, the four JFMIP Principals agreed to realign JFMIP's responsibilities for financial management policy and oversight as described in a December 2004 OMB memorandum.⁶ As a result of the realignment, JFMIP ceased to exist as a separate organization. The JFMIP Principals continue to meet periodically to address key financial management challenges that face the federal government.

Since the passage of the CFO Act, agencies have made progress in achieving the requirements of these laws. The key success factors to achieve progress, as shown in the third level of the pyramid, are integrated systems, reliable financial and performance data for reporting, and effective internal control. However, much work remains to fulfill the underlying goals of the CFO Act and FFMIA. For example, while the CFO Act has proven to be an effective foundation for federal financial accountability, GAO has identified⁷ the following five principal challenges to fully realizing the world-class federal financial management anticipated by the CFO Act:

- Modernize and integrate financial management systems to provide a complete range of financial and cost information needed for accountability, performance reporting, and decision making.
- Build a more analytic financial management workforce to support program managers and decision makers.
- Solve long-standing internal control weaknesses.
- Enhance financial reporting to provide a complete picture of the federal government's overall performance, financial condition, and future fiscal outlook.
- Ensure that financial management reform is sustained given the leadership changes that occur at the end of any administration and the long-term nature of many of the ongoing reform initiatives.

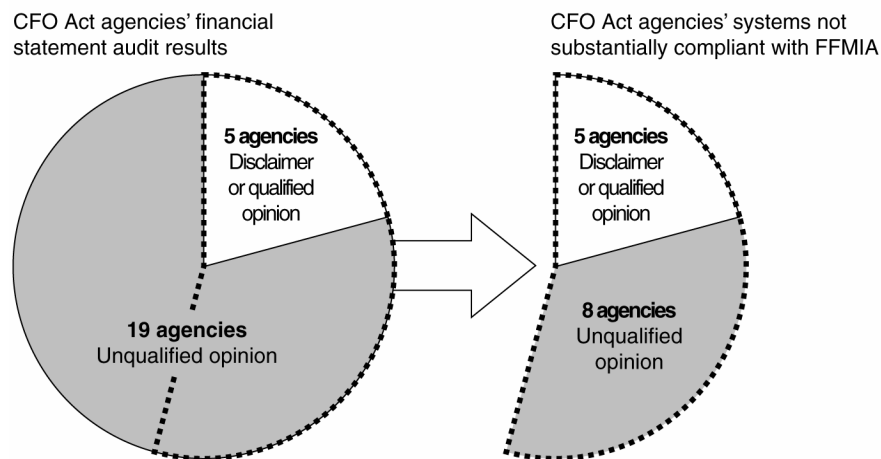
⁶OMB, *Realignment of Responsibilities for Federal Financial Management Policy and Oversight*, memorandum (Washington, D.C.: Dec. 2, 2004).

⁷GAO, *CFO Act of 1990: Driving the Transformation of Federal Financial Management*, [GAO-06-242T](#) (Washington, D.C.: Nov. 17, 2005).

Status of Federal Efforts to Implement Financial Management Framework

While the ability to produce the data needed for efficient and effective management of day-to-day operations in the federal government would be of significant value to the agency, taxpayers, and Congress, reporting by GAO and other auditors demonstrates this has been a long-standing challenge at most federal agencies. Although 19 out of the 24 CFO Act agencies received an unqualified or “clean” opinion on their financial statements in fiscal year 2007, auditors for 8 of the 19 reported that agencies’ systems did not substantially comply with FFMIA as illustrated in figure 2. This shows that irrespective of these unqualified opinions, many agencies do not have financial management systems that produce timely, reliable, and useful financial information with which to make informed decisions and ensure accountability on an ongoing basis—the ultimate goal of the CFO Act. Furthermore, the wide disparity in the types and severity of the findings reported by auditors may indicate a general lack of clarity among agencies regarding what constitutes “substantial compliance” with FFMIA.

Figure 2: Comparison of 2007 Financial Statement Audit Results to FFMIA Assessments



Source: CFO Act agencies.

Note: Data are compiled from CFO Act agencies’ Performance and Accountability Reports for fiscal year 2007.

Auditors have also reported on the inability of agencies to meet federal financial management systems requirements, which involve not only core financial systems, but also other enterprise resource planning (ERP) solutions—a business system that is intended to meet the information

needs of both internal and external customers and to promote standardization and integration of business processes and systems across the agency.⁸ While the problems are much more severe at some agencies than at others, the federal government's access to relevant, timely, and reliable data to effectively manage and oversee its major programs, which is the ultimate objective, continues to be restricted.

Across the federal government, agencies have efforts under way to implement new financial management systems or to upgrade existing systems. Agencies expect that new systems will provide reliable, useful, and timely data to support day-to-day managerial decision making and assist taxpayer and congressional oversight. As GAO has reported,⁹ implementing and upgrading information systems is a difficult job and brings a degree of new risk. However, organizations that follow and effectively implement accepted best practices in systems development and implementation, also known as disciplined processes, together with human capital management and other IT management practices, can manage to reduce these risks to acceptable levels.

⁸An ERP solution is an automated system using commercial off-the-shelf software consisting of multiple, integrated functional modules that perform a variety of business-related tasks such as accounts payable, general ledger accounting, and supply chain management.

⁹GAO, *Financial Management Systems: Additional Efforts Needed to Address Key Causes of Modernization Failures*, [GAO-06-184](#) (Washington, D.C.: Mar. 15, 2006).

Ongoing Governmentwide Initiatives Intended to Help Address the Federal Financial Management Reform Framework

Within the last decade, there have been a number of initiatives related to improving federal financial management capabilities. Some of these initiatives are in collaboration with the CIO¹⁰ and CFO¹¹ Councils and are broad-based attempts to reform financial management operations across the federal government. For example, the PMA, as mentioned earlier, has been a key initiative to drive change. As the federal organization with primary responsibility for federal financial management systems, OMB has also introduced other initiatives dedicated to addressing financial management problems. For example, OMB developed and continues to evolve governmentwide Federal Enterprise Architecture¹² products and has required a mapping of agency architectures to this federal architecture as part of the budget review process. Another key OMB initiative is referred to as the lines of business,¹³ which promotes business-driven, common solutions to enhance the federal government's performance and services. OMB's financial management line of business (FMLOB) initiative is intended to address past financial management systems' weaknesses and implementation failures and support the PMA goal of expanding electronic government. The goals of the FMLOB initiative include

¹⁰The CIO Council was first established in 1996 by executive order. See Exec. Order 13011, *Federal Information Technology*, § 3, 61 Fed. Reg. 37657 (July 19, 1996). The CIO Council's existence was codified into law by Congress in the E-Government Act of 2002. See 44 U.S.C. § 3603. The CIO Council serves as the principal interagency forum for improving practices in the design, modernization, use, sharing, and performance of federal government agency information resources. The council's role includes developing recommendations for information technology management policies, procedures, and standards; identifying opportunities to share information resources; and assessing and addressing the needs of the federal government's IT workforce.

¹¹The CFO Council was established by section 302 of the CFO Act of 1990 to advise and coordinate the activities of the agencies of its members on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and any other financial management matters. See 31 U.S.C. § 901 note.

¹²OMB is developing the Federal Enterprise Architecture, a business-based framework for governmentwide improvement, to transform the federal government to one that is citizen-centered, results-oriented, and market-based.

¹³In March 2004, OMB initiated a governmentwide analysis of five lines of business—financial management, human resources management, grants management, federal health architecture, and case management—and in March 2005 started a task force to address a sixth line of business on IT security. Three additional lines of business were initiated in March 2006 on budget formulation and execution, geospatial, and IT infrastructure optimization.

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- providing timely and accurate data for decision making;
 - facilitating stronger internal controls that ensure integrity in accounting and other stewardship activities;
 - reducing costs by providing a competitive alternative for agencies to acquire, develop, implement, and operate financial management systems through shared service solutions;
 - standardizing systems, business processes, and data elements; and
 - providing for seamless data exchange between and among federal agencies by implementing a common language and structure for financial information and system interfaces.

OMB expects its initial framework for the competitive migration to either a public shared service provider or a qualified private sector provider under the FMLOB initiative to help agencies maximize value by considering alternative solutions in a reasoned and structured manner. However, as we previously recommended,¹⁴ OMB needs to define standard business processes and ensure that agencies do not continue developing and implementing their own stovepiped systems.¹⁵ Failure to do so may require additional work, increase costs to adopt these standard business processes, and further delay the transformation of federal financial management systems. In a January 2008 memo,¹⁶ OMB recognized the risks associated with nonstandardized processes and updated its guidance on the FMLOB. Current plans are for the Financial Systems Integration Office (FSIO) to continue developing business standards and incorporate them into software requirements and only permit agencies and shared service providers to utilize the certified products as configured. While reforming federal financial management is an undertaking of tremendous complexity, it presents great opportunities for improvements in financial management system implementations and related business operations.

¹⁴[GAO-06-184](#).

¹⁵Stovepiped systems are systems procured and developed for a specific purpose and contain data that cannot be easily shared with other systems.

¹⁶OMB, *Update on the Financial Management Line of Business*, memorandum (Washington, D.C.: Jan. 28, 2008).

Shaping the Future of Federal Financial Management

Participants provided a variety of perspectives on the future of federal financial management during the forum. Many participants emphasized the need for federal financial management organizations to play a broader role as a strategic partner in meeting overall agency and program objectives. Several indicated that more focus is needed to meet the needs of program managers for managing programs more effectively. Finally, a number of participant comments focused on several factors that will continue to challenge efforts to improve government financial management in the future, including potentially competing governmentwide initiatives.

Emphasizing Strategic Role Is Key to Future Success of Federal Financial Management Organizations

The purpose of financial management systems should go beyond providing the data necessary to comply with various financial reporting requirements to focus on routinely producing reliable, useful, and timely financial information that federal managers can use for day-to-day decision-making purposes. One of the themes emerging from the forum was that federal financial management leaders should refocus their efforts on comprehending and meeting program managers' financial information requirements and not simply on meeting financial reporting compliance requirements.

Role of Financial Management Systems Is Evolving to Focus More on Program Manager Needs

Certain participants indicated that they considered financial management systems as "enablers" for providing needed financial information that can be viewed as part of the organization's overall infrastructure. One participant stated that financial management systems are a component of what is needed to become a world-class financial management organization. In determining the role of financial management systems, one participant indicated that financial management leaders need to know what information is needed for decision making and work backward to determine how it can be provided. However, forum participants expressed concerns regarding the current focus of government financial management systems on accounting information and less on the need to understand program managers' information needs and how agency business works.

Some participants indicated that the lack of integration between current financial and program systems limits their potential effectiveness as a tool for management decision making. One participant stated that financial information is just one "piece of the puzzle" needed to effectively manage agency programs and operations. Another participant stated that much of the data in their core financial systems consists of summary level data that is difficult to disaggregate to provide useful information for a program management perspective. Other participants expressed similar views pertaining to a lack of accurate data flowing from "feeder systems" and a need for financial systems to tie into program systems. Finally, another

Producing Accurate, Timely,
and Useful Financial Data Is
Important Part of Broader Goal

participant stated that the federal financial management community needs to think about accessibility of financial information in the future as users become more technology driven in an electronic government (E-gov) environment.

Responses to one of our electronic survey questions indicate concern that more integration of financial and program information is needed. When asked to what extent they believe financial systems now provide program managers with reliable, useful, and timely information to assist them in the day-to-day management of the agency, 21 of 33 participants responded that they believed such systems provide little or no information needed to meet such needs. Ten participants indicated that information provided by current financial management systems meet program manager needs to a moderate extent while only one participant indicated that program manager needs are being met to a large extent.

In contrast to concerns that finance organizations should focus more efforts toward meeting the needs of program managers, some participants cautioned that complying with basic financial reporting requirements remains an important aspect of agency finance organization activities. One participant stated that efforts over the past several years at his agency focused on cleaning up financial reporting and systems. As a result, the agency managers are now in a much better position to ask themselves whether the information produced from their systems was “good enough” for the agency’s program management needs. Prior to these efforts, agency managers were not in a good position to use this financial data to help make program assessments. Finally, participants indicated that producing accurate financial statements should be viewed as a by-product of effective business processes and financial management systems. The primary goal is not to prepare perfect financial statements; rather, the primary goal is to improve financial management systems so that financial information from these systems can be used to help manage agencies more effectively.

Shifting Focus from Financial
Reporting Compliance to
Program Stewardship

Now that most agencies are receiving clean audit opinions and fewer material weaknesses are identified, participants indicated that more effort can be focused on business processes and program manager needs. Several participants expressed concern that, due to the efforts devoted to preparing financial reports and meeting financial reporting compliance requirements, finance organizations have not focused sufficient attention on understanding and meeting the financial management needs of program managers. As a result, they indicated the extent to which program managers’ decisions are linked to financial-related performance indicators

is limited and less informed. For example, one participant indicated that he is amazed at the extent to which efforts have focused primarily on compliance issues as opposed to talking with program managers to help them understand their financial management information needs and training them how to effectively link financial and program data to better manage their programs.

Other participants pointed to a need for federal financial management to focus its efforts on providing program managers with analytic “dashboards” containing both program and financial performance data on a regular and timely basis. One participant discussed an inventory tracking system used in a large retail organization as an example of an application developed to effectively link program and financial information to meet a variety of needs. The participants generally agreed that agencies need to focus on these types of enterprise information systems in order to produce information needed for program stewardship. This financial information should result from the business processes where the transactions are being recorded—outside the CFO’s office.

Financial Management Improvement Efforts Have Reached a Crossroads

The federal government has made progress in the past 15 years in achieving the CFO Act’s goals and objectives. For example, unqualified audit opinions for CFO Act agencies financial statements have grown from 6 in fiscal year 1996 to 19 in fiscal year 2007. Nevertheless, significant agency efforts to improve federal financial management systems have resulted in limited progress as indicated by the majority of agencies still not in compliance with FFMIA. Across the federal government, evidence exists suggesting that agencies have made gradual improvements related to the accuracy of financial information, the reliability of financial reporting processes and systems, and the level of compliance with various financial management laws and regulations. However, despite the successes in meeting financial reporting compliance requirements, participants expressed concern that managers may have reached a crossroads for determining how and where to proceed with regard to future financial system implementation efforts.

Opportunities Remain for Addressing FFMIA Compliance Issues

While agencies have come a long way in improving federal financial management, opportunities exist to help agencies move to the next level and reach agreement on what constitutes substantial compliance with FFMIA. The government’s focus on financial management has led to gradual improvements in the accuracy of financial information, the reliability of financial reporting processes and systems, and compliance with FFMIA requirements, as reflected in electronic survey results. For

example, the extent to which participants believe internal controls have improved through significant agency efforts to comply with FFMIA indicate general agreement that efforts are achieving results. With regard to electronic survey results, 22 of 35 respondents said that internal controls had improved to a large or moderate extent through these efforts.

On the basis of electronic survey questions regarding compliance with FFMIA, however, participants' views concerning what constitutes compliance and who should have a role in assessing compliance vary. When asked how much progress they believed their respective agency had made in achieving compliance with the three requirements of FFMIA, 25 of 35 participants responded it had done so to a moderate or large extent. On the other hand, when asked to what extent they believe agreement exists regarding what constitutes substantial compliance with FFMIA, 20 of 35 respondents indicated that agreement exists to little or no extent while 15 of 35 believed agreement exists to a moderate extent. Importantly, none of the forum participants indicated that the federal financial community has reached agreement in this area to a large extent, indicating that this may be an area on which to focus in the future. Regarding the role of IGs and independent public accounting firms in assessing substantial compliance with FFMIA, 18 of 35 respondents believe they should have little or no role, while 16 believe they should have a large or moderate role in the assessment.

Opinions Vary on Focus of Remaining Efforts to Ensure Continued Progress

Although participants acknowledged that efforts to improve government financial management have been significant and are resulting in gradual improvements, forum participants' comments varied regarding the progress still to be achieved. One participant expressed the view that much progress has been made in that agencies are now providing financial statement auditors with good financial information. Another participant agreed that progress has been made, especially over the past few years with FSIO's¹⁷ (formerly JFMIP) help. However, one participant cautioned that it seems as though agencies are reaching a plateau in implementing new systems. In this regard, it is not unusual, in the normal evolution of financial management systems, for there to be challenges in moving

¹⁷The Financial Systems Integration Office (FSIO) was formerly known as the Joint Financial Management Improvement Program (JFMIP) staff office. In December 2004, the JFMIP Principals voted to modify the roles and responsibilities of the JFMIP. The FSIO Executive reports to OMB's Office of Federal Financial Management Controller. See OMB, *Update on the Financial Management Line of Business and the Financial Systems Integration Office* memorandum (Washington, D.C.: Dec. 16, 2005).

Efforts on Current Initiatives
Highlight Needs for Future
Improvements

forward. Implementing a financial management system is risky, and when compounded with rapidly evolving technology and standards, the risk is increased. A participant stated that agencies are at a point where they need to decide over the next several years whether to focus their efforts on financial reporting, or on developing performance analytics. Another participant expressed the view that agency efforts need to move to the next level and focus more on meeting agency business needs with appropriate data.

OMB's financial management line of business (FMLOB) initiative is an important component of the PMA for improving overall government performance management, focusing on business-driven, common solutions to help address financial management system weaknesses and implementation failures. However, in response to an electronic survey question, none of the 33 participants that answered believed the resources available to implement the initiative are fully adequate. Additionally, in connection with this initiative, OMB had established a goal of migrating the majority of agencies toward the use of shared service providers capable of providing a variety of financial management services to multiple agencies by 2011. Based on responses to an electronic survey question, however, participants appeared uncertain regarding the ability of their respective organizations to reach this goal by 2011, with 15 of 33 respondents indicating that the transition will occur either to a moderate or to a large extent and 12 of 33 indicating it will occur to little or no extent. Six of the respondents indicated that they did not know or that the question was not applicable to them.

Participants expressed views that significant resources have been devoted to improving federal financial management and have facilitated a better understanding of the issues involved in making further improvements to financial management systems. For example, one participant agreed that using agencies' past experiences as case studies may provide good models for other agencies to learn from as they work through similar challenges. Other participants expressed the view that improvement efforts also highlight the need to focus on common data and standardization to facilitate common solutions. One participant stated that agency leadership should first agree on what data are needed by internal and external stakeholders. Another participant stated that standard data elements are an important component of system implementations and those being developed through the FMLOB initiative will facilitate greater integration of financial and program management systems in the future.

Addressing Challenges to Continued Progress

While agencies have taken important steps that have contributed to improving federal financial management over the last several years, future improvements in federal financial management may become increasingly difficult. According to participants, obstacles to future success of modernization efforts include limited resources available, competing governmentwide initiatives, and varying levels of commitment among some federal officials to address long-standing financial management issues. These obstacles continue to limit the ability of the federal financial management community to effectively consider and address the needs of key stakeholders, including program managers.

Balancing and Meeting Customer Needs and Financial Reporting Requirements with Limited Resources

Many participants expressed concerns that finance organizations face significant challenges in balancing and meeting the needs of various stakeholders. Participants indicated that compliance requirements have continued to increase in complexity. One participant indicated that financial reporting requirements have become more complex to the point where a danger exists that accounting compliance requirements have become so prescriptive that they may begin to drive business processes rather than business processes driving accounting processes. Participants discussed other countries that recently implemented modern financial management systems and expressed the concern that United States legislative requirements and standards are too extensive and complex. Streamlining and simplifying financial reporting requirements to focus on essential information needed by decision makers, according to some participants, is critical for realizing continued progress in government financial management. Resource limitations will continue to represent a challenge to making progress in government financial management. One participant noted that although agencies continue to struggle with legacy systems and sound business cases exist for upgrading them, competing priorities often result in a lack of resources to fund financial management system improvement projects.

Overcoming Long-standing Parochial Interests

Participants also expressed significant concern related to stovepipes—organizational barriers that limit communication—among various initiatives that hamper federal governmentwide improvement efforts and management effectiveness. The following provides examples of some of the long-standing obstacles and challenges forum participants identified:

- It is very costly to gather the information needed to meet financial reporting requirements.
- There are significant differences in how agency finance organizations operate and devote resources to conducting budget and financial reporting activities.

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- Budget, accounting, and program management are all disconnected in today's environment.
 - OMB's various lines of business initiatives are serving to preserve existing stovepipes. For example, it is unclear why separate lines of business are needed for budget and financial management.
 - There should be increased awareness of the benefits of merging financial management activities together and demonstrating greater value through more effective integration.
 - It may be necessary to better educate stakeholders regarding the value of financial management information for project management purposes.

Participants noted that varying levels of interest in financial management information by stakeholders including program managers and Congress indicate a general lack of usefulness of such information for program management or decision-making purposes. According to participants, some legislators and senior agency leadership do not seem to appreciate the benefits of financial reports despite the fact that preparing reports consumes significant resources. Some participants thought these leaders were more focused on budget-oriented information. This effectively demonstrates the perceived lack of understanding of the value of financial management information to stakeholders, and the need to develop performance information that stakeholders consider meaningful.

Applying Lessons Learned from Past Federal Financial Management System Implementations

The forum participants generally agreed that there has been a growing body of knowledge based on lessons learned from past federal financial management system implementation projects that provide useful insights for future efforts. Managers now possess a greater knowledge of the system design and implementation challenges they face, as well as possible solutions to these challenges. As one participant noted, "agencies currently possess a good list of dos and don'ts" with respect to various system implementation challenges. Echoing the prior comment, other participants stated that it is time to start putting into practice the lessons learned from previous implementation efforts. As part of an effort to begin confronting these challenges, forum participants offered a range of perspectives, insights, and examples pertaining to the (1) experience obtained from modernizing federal financial management systems that can benefit future implementation efforts, and (2) practices agencies found most effective in monitoring progress and identifying implementation issues on a timely basis.

Experience Obtained from Modernizing Federal Financial Management Systems Can Benefit Future Efforts

Financial managers have gained valuable lessons learned experiences with regard to implementing financial management systems over the years. For example, experience related to human capital management, systems ownership, customization of commercial off-the-shelf (COTS) software, and the purchase of shared services has provided useful insights that can help financial managers avoid some of the obstacles that impeded past system implementation projects. According to participants, the effective integration of responses to lessons acquired from previous implementation efforts are critical components of a successful system implementation project.

Experienced Top Leadership Is Critical Component of Implementation Success

Because federal financial management system implementation is such a complicated and multifaceted endeavor requiring large amounts of federal resources, participants commented that it was critical for agencies to identify and obtain the services of experienced, top talent for project oversight and management purposes. For example, a participant stated that agencies should consider focusing on identifying the right oversight body capable of providing direct, decision-making authority at the highest level within the agency to increase the likelihood of implementation success. In addition, another participant noted that obtaining personnel with demonstrated, effective project management skills was critical to successful system implementation. Another participant stated that an agency should use its “A-Team” for system implementation projects rather than relatively less qualified, but more readily available, personnel. The participant also pointed out that the private sector typically devotes its top talent and significant resources to system implementation projects. Participants also stressed the importance of holding qualified program managers responsible for implementation results.

Several participants suggested the federal government should facilitate ways of sharing top system implementation talent among agencies. One participant stated that experience is of critical importance in the area of systems implementation; however, there is currently only a limited pool of top-level experienced talent. Consequently, the federal government may wish to look for creative ways to share or move these resources among agencies to best meet the federal government’s collective needs. Based on the experiences of two participants, personnel with the requisite talent and experience are currently employed by the federal government; however, such talent is not present at all agencies. Nevertheless, participants provided examples of federal agencies whose personnel had acquired significant system implementation experience over the past decade or more. According to one participant, more experienced project

Challenges in Moving from Systems Ownership to Use of Shared Services

managers eventually contributed to successful implementation outcomes at their respective agencies.

Forum participants commented that shifting agency focus from system ownership to the purchase of financial system shared services may make more economic and operational sense. According to one participant, it may be more efficient for large agencies to de-emphasize systems ownership and instead focus on purchasing large-scale system services from other agencies or the private sector. Conversely, it may be more economical for smaller agencies to contract with large agencies to obtain required system services such as financial processing. Participants noted that large agencies generally possess the necessary infrastructure required to purchase large-scale services in a more economical manner, primarily due to their greater economies of scale, particularly with regard to processing activities.

Focusing less on system ownership could allow federal agencies to devote more resources to value-added activities, such as financial analysis and managing people and processes, according to one participant. Another participant believed that purchasing certain financial systems services from other agencies or the private sector might help an agency to “right size” its CFO position. For example, through such purchases of financial services, it may not be necessary for a CFO to perform many of an agency’s financial statement preparation and internal control reporting responsibilities. Outsourcing these responsibilities to other agencies or the private sector could free CFO resources for more value-added program management and oversight activities. However, participants also expressed a number of concerns and provided certain caveats regarding the transition from systems ownership to the purchase of shared services:

- The advantages of economies of scale with regard to transaction processing may be questionable because the agency doing the outsourcing generally would still need many of the related accounting skills in-house.
- Some agency financial leaders may be reluctant to transition to the purchase of certain financial services because they fear losing control of critical functions. In order to address this concern, the federal financial management community must work to convince agency officials that they will continue to have access to the data at the endpoint.
- It may be necessary to develop a phased approach for the transition to shared service providers in order to gain the trust of agency financial and program leaders. The approach of trying to convince agencies of the benefits of wholesale outsourcing many business activities may not be

effective; consequently, a pared down “case study” approach may be more effective.

- All key stakeholders, such as agency management and shared service providers, need to be “at the table” for decision-making purposes. However, agencies should have accountability for ensuring the success of their systems.

Participant responses to GAO’s electronic survey questions tended to reinforce the importance of focusing on making the most efficient and effective use of existing resources (e.g., performing higher-level financial management activities vs. transaction processing) when attempting to implement a financial management system or move to a shared service provider. For example, the responses to the question concerning the extent to which participants believed resources invested in federal financial management system modernization efforts yielded a commensurate level of value to the federal government tended to vary, with 18 of 34 participants stating it had occurred from a moderate to a large extent, and 15 of 34 stating it had occurred to little or no extent. On a related note, 16 of 34 participants responding to our electronic survey question concerning areas of needed improvement indicated that the area of “human capital” could benefit the most from the introduction of enhanced guidance, training, or other tools designed to assist implementation efforts.

Minimizing COTS Customization Facilitates Standardization and Interoperability

Participants generally agreed that refraining from excessive COTS software customization may help to reduce the perpetuation of parochial (nonenterprise-wide) financial management and related business practices. According to participants, the need for excessive customizing of COTS software may be an indicator of inefficient agency business practices. A participant stated that if an agency’s business practices did not conform to the software, the agency should focus on reengineering its practices rather than customizing the COTS software. Participants also suggested that excessive customization of COTS software may result in promoting inefficiency by working around an inefficient business practice instead of working to eliminate it.

Several participants identified the inefficient, wasteful use of federal resources as one of the significant problems resulting from excessive COTS customization. For example, one participant noted that when federal agencies expend resources for research and development purposes in order to customize COTS software, private-sector vendors sometimes are the beneficiaries of this activity. According to the participant, customization results in altered COTS software code. Vendors sell the

altered COTS software developed for one agency to other federal agencies; however, the government is not necessarily compensated for its related software research and development expenditures to customize the software. Another participant stated that agencies, as part of the COTS customization process, have wasted resources in requiring the use of separate sets of overly prescriptive processes for implementing COTS software. A participant stated that experienced COTS-based system integrators have been successful in avoiding such costly customizations by using their own implementation processes and methodologies. From another participant's perspective, experienced systems integrators have not always been a panacea and that adherence to disciplined processes has been predictably shown to be the best indicator for success by reducing project risk.

According to some participants, the development of governmentwide standards for various agency business processes is a critical evolutionary step in the system implementation process. A participant stated it was important for the federal financial management community to begin thinking about standardization, particularly as agencies have become more aware of lessons learned from past projects and now collectively have a good list of "dos and don'ts" to begin working from. The participant also noted that OMB/FSIO's work with regard to standard business processes was especially meaningful. However, another participant cautioned that agencies should be aware that implementation failures have occurred because managers decided to ignore the systems development and implementation standards they believed too general in nature. This might result in managers engaging in implementation activities that could increase the project risk.

Participants suggested it might be of value for agencies to begin their standardization efforts by focusing on the areas of data management. A participant stated that agencies are increasingly tending to view data as a commodity or basic element of management, and as a result, government should begin focusing more of its efforts on data standardization (e.g., OMB's efforts on setting business standards). Another participant suggested that additional federal efforts should be devoted to data standardization and the conversion of old data into new systems. A participant noted the urgency of the matter by stating that the efforts to clean data for conversion can take years. Other participants stressed the importance of focusing on essential data.

Practices Agencies Found Most Effective in Monitoring Progress and Identifying Implementation Issues on a Timely Basis

Federal financial managers reported identifying various system implementation practices over the years that have proven useful in helping to facilitate successful financial system implementation outcomes. The practices include verification and validation conducted by independent sources, periodically reevaluating system implementation projects, and reliance on the authority of top management to oversee project implementation. According to participants, such practices provide early warning of potential problems.

Periodically Reevaluating Modernization Projects Helps Agencies Identify Problems and Potential Solutions

Participants suggested that it may be necessary from time to time for agencies to step back and evaluate ongoing implementation efforts from a broader perspective in order to assess progress. According to participants, this is important because it helps project managers better determine whether a project is making appropriate progress on the path to meeting its objectives. For example, one participant stated that in a previous system implementation, he had another executive who was not directly involved in the implementation attend meetings in order to act as an impartial sounding board and to ask the important question, “Does it make sense?” He believed this practice bolstered the project’s internal accountability, which in turn decreased project risk.

Oversight Bodies with Appropriate Authority Enhance Accountability

Participants generally agreed that executive oversight bodies with the appropriate authority were critical in helping to remove any impediments to implementation and to assess whether a particular project should continue or be terminated. One participant stressed the importance of having a top-level executive involved in overseeing the implementation project that did not have direct responsibility for the project. According to another participant, top management “courage” is key to identifying situations and making difficult determinations whether project efforts should proceed or be terminated. Another participant stated that courage is key to objectively assessing the viability of an implementation project. However, participants did note that sometimes the determination of whether or not to terminate a project was also influenced by such factors as the level of project funding or a negative relationship with a contractor.

Independent Verification and Validation Efforts Help Reduce Risk and Provide Additional Support to Stakeholders

Participants agreed that independent verification and validation (IV&V) efforts help to identify and provide early warning of potential federal financial management system implementation problems. Participants also generally agreed that having an effective IV&V in place was important, particularly when attempting to decide whether a project should be terminated. Another participant recommended the use of IV&V contractors, but cautioned that this would have to be carefully managed. For example, another participant stated that while the use of an IV&V

review can be an important tool in assessing the effectiveness of an implementation project, agency officials must take steps to oversee these reviews to avoid “falling asleep at the wheel” and accepting without question the findings of an IV&V contractor.

Strategies for Transforming Federal Financial Management Culture to Capitalize on Financial Management System Modernization Opportunities

Participants provided a variety of comments related to the need to transform the federal financial management culture to best capitalize on financial management system modernization opportunities. In responding to an electronic survey question asking how far along organizations are in transforming their business systems, 17 of 31 participants indicated that moderate progress has been achieved while 12 indicated that little or no progress had been made. Only one indicated that their efforts were substantially complete. Participants emphasized the importance of the financial management culture transforming itself to focus on assuring their financial systems provide information integral to the successful operation of an entire organization. Additionally, participants discussed the relevance of the CFO and financial management organizations and the need to attract and retain a new generation of financial management professionals with new skill sets.

Increasing Relevance of CFO and Government Finance Organizations

There was a perception expressed by some participants that (1) management often views accountants as merely technicians and not as relevant to decision making, and (2) the federal financial management community continues to develop financial statements that no one reads. According to some participants, the accounting profession is at a crisis point. In order to remain relevant, the federal financial management community must be willing to proactively embrace change and transform its organizational culture to focus on ways for financial management systems to provide value to the entire organization. Other forum participants commented on the need to continually reexamine the roles of the CFO and other federal financial management organizations. Finally, participants emphasized the importance of developing appropriate business metrics to demonstrate the ability to deliver greater value to the organization.

Redefining Roles of CFO and Other Federal Financial Management Organizations

Many participants expressed views and concerns regarding the role of financial management leadership in improving future federal financial management. In response to two electronic survey questions, 29 of 32 respondents indicated that “the role of the CFO” and “success for financial management” need to be redefined. Additionally, one participant stated that agency CFOs will need to assume broader roles to achieve world-class

status, including focusing on how best to support broad, overall program stewardship goals.

Participants generally agreed that CFOs now have a limited role in the management decision-making process within the federal government. One of the points that a participant raised was that this is because requested funds are appropriated by Congress and do not require approval by the CFO as in the private sector. As a result, the government CFO has less clout in decision making. According to one participant, in the private sector the CFO holds an important role in key management decisions and is frequently the path to becoming Chief Executive Officer, whereas, in the federal environment, the CFO is often the accountant and preparer of financial statements and not involved in key management decisions. In order to attain similar status, participants stated that federal government CFOs and other federal financial management organizations should consider adopting a more forward-looking financial analysis outlook and identifying ways of demonstrating the value of their financial management perspective to the organization's management.

Participants suggested that it is critical that the behavior of the federal financial management community changes to increase its focus on becoming more relevant to management and the entire organization. According to participants, federal financial managers need to do more than just provide data; they need to add value to the organization with respect to providing useful information to program managers. Participants stated that the federal financial management cultural change will require spending more time with program managers to gain the perspectives and insight needed to maximize their value as financial advisors across the organization and to assist in decision making. Participants suggested that the federal financial management community focus additional effort on helping program managers understand how to integrate financial management information and why it is important to the decision-making process. According to some participants, agency CFOs should transform the culture of their organizations to focus on their role as advisors, rather than their "bean counter" role.

Differing Opportunities and Challenges Associated with Career CFO Positions and Politically Appointed Positions

One participant suggested that making CFOs career positions would result in greater continuity and reduce turnover within the federal financial management community. However, there was more support for the opposing view that there is great merit in having political appointees in CFO positions to gain support on issues. For example, one participant stated that only politically appointed CFOs will have "a seat at the table," in making key organizational decisions. One participant served as both a

politically appointed CFO and a career-status CFO and stated that political appointees are treated very differently. That is, politically appointed and confirmed members generally have more public support, and thus they have more influence in decision making among their peers.

Some participants suggested that agencies need to assess how to change the human capital strategy regarding the different requirements, roles, and responsibilities of career and political positions. According to several participants, the federal financial management community continues to experience a great deal of turnover, particularly since many federal CFOs are political appointees. Some participants expressed concern about the level of skill in the politically appointed CFO community and whether those CFOs had the requisite experience necessary to fill the position. Thus, some participants expressed a need to evaluate whether increased reliance on career CFO positions might better provide for continuity of the CFO community. Some participants also stated that the federal financial management community might consider addressing the creation of two classes of financial management professionals within federal financial management organizations, one class for PA/PAS (Presidential Appointee/Presidential Appointee Senate Confirmed) and another for career financial management professionals. According to some participants, agencies may benefit from examining the roles of financial management political appointees, the number of such political appointees, and where they are in organizations.

Participants also discussed whether the cultural transformation of the federal financial management community might be furthered through having set term appointments for CFOs. Such a change would allow CFOs to be a member of the “political team,” as well as provide an additional degree of stability and continuity to the position. One participant suggested 5 to 7 years may be a realistic option for the term of a federal CFO.

Delivering Value through
Reliable Data and Development
of Appropriate Business
Metrics

Participant responses varied to an electronic survey question regarding the extent to which they believed modernization efforts were leading toward positive cultural transformation and creating more organizational value, with 19 of 32 indicating from a moderate to a large extent, and 13 of 32 indicating to little or no extent. It was suggested by a participant that the key to creating value for their organization is through the CFO’s vision and ability to deliver value that makes a difference. The participant also stated that such value-added activities include developing appropriate business metrics and demonstrating the influence of effective internal controls on mission effectiveness. Another participant pointed to an example where a

new agency CFO was tasked with developing a new set of performance metrics for each program. This effort resulted in the financial management organization expanding beyond its traditional accounting and budget-related activities to develop critical program performance metrics. The participants agreed that the establishment of business metrics and related goals helps a CFO demonstrate the ability to deliver greater value to the organization as an advisor, rather than as a mere “cruncher” of numbers.

Attracting and Retaining Appropriately Skilled Financial Talent Is Key to Successful Transformation of Federal Financial Management Community

The financial management environment is more and more reliant on accounting processes that are increasingly more sophisticated. Consequently, the federal financial management community must attract and retain a new generation of financial management professionals who have greater capabilities for using such sophisticated technology and information in new ways. Although the environment is changing, the ability of agencies to change their financial management cultures over the past 17 years, since the passage of the CFO Act, has been encumbered by the legacy of an existing workforce with limited technological abilities. To facilitate the transition from the old way of doing things, it was suggested that federal financial management human capital strategies could be better focused on attracting and retaining a new technology-savvy generation of financial professionals. Participants agreed that the future transformation of the federal financial management culture depends on the new skill sets of the next generation of federal financial management professionals. Additionally, the skill sets and responsibilities of current federal financial management professionals may shift with a growing use of contractors.

Challenges Exist in Recruiting and Retaining Talent in Financial Management

When asked to what extent do human capital issues significantly challenge their agencies’ ability to realize the benefits associated with financial management system modernization efforts, 31 of 32 respondents indicated it occurred from a large to moderate extent. As the financial management environment continues to evolve, federal financial management human capital strategies must adapt in order to address challenges associated with transforming the federal financial management culture, including retaining effective, experienced CFOs and financial talent within the federal government. Some participants expressed concern that there is a growing sentiment that financial management is not highly valued because agency leaders have failed to recognize significant ongoing CFO efforts. Participants stated that it is more difficult to hire good people and retain CFOs and financial talent within the federal government when the heads of federal agencies do not value the CFO’s insights and perspectives or the contributions of other financial managers. It was suggested that federal financial management professionals need to feel they are relevant and

Growing Use of Contractors
Could Facilitate or Impede
Growth of Agencies' Financial
Management Knowledge Base

valued. Without proper recognition for good performance, federal financial management professionals may lack needed incentives. Participants commented that federal financial management professionals are not interested in being part of something viewed as unimportant.

A few participants were concerned that the growing use of contractors also raised issues related to the erosion of the federal financial management critical knowledge base and intellectual capital. The movement toward outsourcing federal financial reporting and recording activities, if not properly managed, may pose a threat to the continuity of the federal financial management community and may potentially weaken federal financial management organizations' ability to provide value-added services to management. As one participant stated, even defining the "federal financial management workforce" is difficult due to the roles now carried out by contractors.

Although one participant suggested that agencies should rely less on contractors and build a skill base within their organization, another participant supported a greater, but more efficient use of contractors. Agency CFOs could consider as a model how various CIOs commonly outsource network and maintenance requirements for how to keep architecture and other strategic activities in-house, allowing them to focus on business processes and systems. One of the participants also cautioned that the federal financial management community should avoid outsourcing strategic activities. Thus, according to the participant, the federal government should control the most important financial and program management responsibilities, as well as ensure that the appropriate level of oversight and accountability is maintained in-house for the systems and information produced from contractor arrangements.

Appendix I: List of Participants on December 11, 2007

Host

Hon. David M. Walker Comptroller General of the United States
U.S. Government Accountability Office

Participants

Michael G. Barker Director, Federal Programs
Oracle Corporation

Kenneth E. Carfine Fiscal Assistant Secretary
U.S. Department of the Treasury

John R. Cherbini Partner in Charge, Federal Advisory Services
KPMG, LLP

Clarence C. Crawford Director of Financial Management Solutions Center
Deloitte Consulting, LLP

Geoffrey Darnell Director, Public Sector Solution Management
SAP

Larry J. Eisenhart Vice President of Financial Management
AOC Solutions, Inc.

Joseph Farinella Assistant Inspector General for Audit
U.S. Agency for International Development

Lisa D. Fiely Acting Chief Financial Officer
U.S. Department of Labor

Hon. Gregory H. Friedman Inspector General
U.S. Department of Energy

Adam H. Goldberg Chief, Office of Federal Financial Management
Office of Management and Budget

Patricia E. Healy Deputy Chief Financial Officer
U.S. Department of Agriculture

Terry L. Hurst	Deputy Assistant Secretary for Grants U.S. Department of Health and Human Services
Hon. Claude M. Kicklighter	Inspector General U.S. Department of Defense
C. Morgan Kinghorn, Jr.	Chief Operating Officer, Global Public Sector Grant Thornton, LLP
Joseph L. Kull	Director, Washington Federal Practice PricewaterhouseCoopers, LLP
Wayne G. Leiss	Chief Information Officer, Office of Thrift Supervision U.S. Department of the Treasury
William M. McCabe	Chief Financial Officer U.S. Nuclear Regulatory Commission
Clyde G. McShan, II	Executive Vice President Savantage Solutions
Mary J. Mitchell	Deputy Associate Administrator, Office of Technology Strategy Financial Systems Integration Office Executive Office of Governmentwide Policy U.S. General Services Administration
Daniel J. Murrin	Partner, Americas Director of Public Sector Services Ernst & Young, LLP
Catherine Nelson	Vice President Booz Allen Hamilton
Elizabeth T. O'Neil	Director of Consulting CGI Federal, Inc.
Daniel R. Petrole	Deputy Inspector General U.S. Department of Labor
Hon. Phyllis F. Scheinberg	Assistant Secretary for Budget and Programs/Chief Financial Officer U.S. Department of Transportation

Radha Sekar	Director, Business Integration Office U.S. Department of Defense
Hon. Richard L. Skinner	Inspector General U.S. Department of Homeland Security
Relmond P. Van Daniker	Executive Director Association of Government Accountants
Daniel I. Werfel	Acting Controller, Office of Federal Financial Management Office of Management and Budget
Adm. James B. Whittaker (Retired)	President The Whittaker Group
Michael Wood	Chief of Staff, Office of Inspector General U.S. Department of the Interior

GAO Participants

Sallyanne Harper	Chief Administrative Officer/Chief Financial Officer
Jeffrey C. Steinhoff	Managing Director, Financial Management and Assurance
McCoy Williams	Director, Financial Management and Assurance
George Strader	Controller, Controller/Administrative Services Office
Nabajyoti Barkakati	Acting Chief Technologist, Applied Research and Methods

Appendix II: Forum Agenda

12:30 p.m.	Check-in
1:00 p.m.	Welcome & Opening Remarks <ul style="list-style-type: none">• Comments from the Comptroller General• Participant Introductions
1:15 p.m.	Topic 1: Shaping the Future of Government Financial Management
2:40 p.m.	Break
3:00 p.m.	Topic 2: Lessons Learned from Financial Management System Implementations to Date
4:00 p.m.	Topic 3: Transforming Organizational Culture to Capitalize on Financial Management System Modernizations
4:45 p.m.	Wrap up
5:00 p.m.	Adjournment

Appendix III: Discussion Questions Sent in Advance of Forum

Topics/Discussion Questions

Topic 1: Shaping the Future of Government Financial Management

1. In your opinion, what is reliable, useful, timely, and relevant financial information?
 - What criteria and methods are well-suited for assessing agencies' progress in developing such information?
2. How have modernization efforts to date improved agencies' abilities to operate more efficiently and effectively?
 - What are the challenges that agencies face in delivering timely, useful, and relevant data to decision makers? What can we do to make users of the information more involved in the development and delivery of the reports?
 - How has financial information improved and how is it being used by decision makers?
 - What are the major problems that agencies face when improving their financial management? Are the problems limited to financial management system implementations?
 - What steps can agencies take to ensure newly implemented systems support and facilitate agencies' current and future strategic needs through appropriate integration with other agency systems and business process reengineering?
 - What actions are being taken to effectively "retire" prior systems, including their associated input, maintenance, and output activities?
 - How have agency performance metrics changed as a result of financial management system implementations?
3. What is the role of financial management systems in enabling federal agencies to become world-class finance organizations?
 - Are these systems assisting in providing reliable, useful, timely, and relevant financial information? Why or why not (or what are the impediments)?
 - Are these systems assisting in developing full cost? Why or why not (or what are the impediments)?
 - Are the existing systems supporting agency needs?
 - Are agencies successful in purchasing commercial systems and changing their processes to fit their systems?
 - Is this approach still a valid model of operation?
 - What can we do to improve the quality and effectiveness of the systems?

- Is there a need for an overarching financial management vision and related strategies and systems to define the federal government financial management organization and how improvement efforts should be measured?
4. Is there a need to reevaluate or change key financial management legislation (e.g., FFMIA and the CFO Act) or related accounting and auditing requirements to support agencies implementing financial management systems?
- How has FFMIA implementation helped or hindered agencies in meeting their goals of improving financial management?
 - What are the major challenges to achieving FFMIA compliance?
 - How do financial management systems assist in reaching the goals of FFMIA at the agency and governmentwide level?
 - What are the significant challenges for the auditor with respect to reporting under FFMIA?
 - What are some indicators that you use to assess FFMIA compliance?
 - How could the current FFMIA guidance be changed to help provide additional clarity?
 - Will this assist agencies in meeting the goals of the statute?
 - What level of auditor assurance should be required (positive vs. negative assurance)?
 - What are the differences between the two?
 - How will reporting one or the other assist in assurances that agencies have reliable, timely, and useful financial information?
5. What are the current obstacles to implementing the financial management line of business initiative designed to streamline the implementation and operation of financial management systems through the use of designated shared service providers?
- What do you see as key drivers to make it successful?
 - How will overall cost and administrative burden be reduced and service delivery improved?
 - To what extent should agency financial management services be contracted out and how much dependence should be placed on the contractor community?
 - What measures should agencies use to ensure accountability and proper oversight for service delivery in an environment increasingly dependent on shared service providers?

- What can be done to provide for continuity of current initiatives between administrations so that the current momentum and progress continues?
6. How is the federal government staying abreast of leading edge technologies and approaches for delivering world-class financial management?
- Given emerging technologies, such as Service Oriented Architecture, is the concept of a single integrated system still suitable?
 - Has Extensible Business Reporting Language (XBRL) been properly considered, implemented, or used in the federal government?
 - What key challenges need to be addressed to drive successful implementation of XBRL or other new technologies at the federal level?
 - What other technological advancements exist that should be considered?

Topic 2: Lessons Learned from Financial Management System Implementations to Date

1. What lessons have agencies learned while modernizing federal financial management systems that can benefit future efforts?
 - Do existing system implementation methodologies provide an appropriate fundamental framework for successful implementations?
 - Is there agreement on what widely accepted systems development and implementation efforts (known as disciplined processes) should be used for systems implementations (e.g., requirements management, testing, data conversion and system interfaces, risk management, project management)?
2. What actions have agencies found to be most effective in monitoring progress and identifying implementation issues on a timely basis?
 - What are the primary root causes of system implementation problems and failures and how can they be minimized or avoided?
 - When do you cut your losses on a project that is not meeting its cost, schedule, or performance goals?
3. Since modernization efforts are underway across the federal government, how could future implementations be improved to take advantage of available resources on a governmentwide basis?

- What types of additional implementation assistance and support (e.g., guidance, coordination, advisory services) would be beneficial?
4. All things considered, has the investment in financial management systems resulted in an adequate return on investment?
- Is there any gap between the new system's capability and in improving efficiency and reducing operational costs?
 - Are the true costs and benefits of new systems implementation being identified and measured?
 - Do agencies achieve cost savings after having implemented new systems?
 - What can the government do as a whole to help reduce the cost of investments in the future?
 - What can be done to avoid expensive upgrades or implementations every 5 to 10 years?

Topic 3: Transforming Organizational Culture to Capitalize on Financial Management System Modernizations

1. How are financial management system implementations affecting agency human capital strategies?
- To what extent are both financial and nonfinancial components affected such that line managers in all components better understand the financial implications of their decisions and the value of useful financial information readily available from reliable financial management systems?
 - Have system implementations significantly affected agency strategies related to training, outsourcing, and developing and retaining critical skills?
 - Do agencies' financial management organizations have appropriate and sufficient human capital resources to fully utilize modernized financial management systems to more effectively execute agency financial management strategies?
 - Are human capital strategies aligned with movement toward greater use of shared service providers and outsourcing financial reporting and recording activities to ensure appropriate oversight and accountability for the systems and information produced from these arrangements?
2. In addition to improving financial reporting, how are agencies planning to utilize improved financial management system capabilities to deliver greater organizational value and resolve financial reporting

weaknesses identified in many agencies' annual financial statement audits?

- Have agencies developed plans that clearly distinguish between weaknesses reported in financial statement audits due to system limitations vs. other limitations?
- How do agencies plan to coordinate system and non-system related efforts to ensure reported weaknesses are addressed?
- What kind of "road maps" have agencies developed to communicate, promote, and guide future uses of improved capabilities with clear linkages/mappings from system capabilities to specific goals and results/outcomes in both of these areas?
- What are some examples of significant business outcomes (e.g., improved analysis, innovative solutions to problems, operating cost savings) that improved financial management system capabilities will assist agencies in achieving?

Appendix IV: Results of Electronic Survey

Topic 1: Shaping the Future of Government Financial Management

	Percentage of responses	Number of responses
Question 1: To what extent do you believe that your financial management systems are now able to provide reliable, useful, and timely information to assist program managers in the day-to-day management of the agency?		
1) Large extent	3%	1
2) Moderate extent	30%	10
3) Little or no extent	64%	21
4) Don't know/Not applicable	3%	1
Question 2: To what extent do you believe agreement exists within the federal financial community regarding what constitutes substantial compliance with FFMIA?		
1) Large extent	0%	0
2) Moderate extent	43%	15
3) Little or no extent	57%	20
4) Don't know/Not applicable	0%	0
Question 3: To what extent do you believe OIGs or IPAs should have a role in assessing substantial compliance with FFMIA?		
1) Large extent	20%	7
2) Moderate extent	26%	9
3) Little or no extent	51%	18
4) Don't know/Not applicable	3%	1
Question 4: To what extent do you believe internal controls have improved through FFMIA compliance efforts?		
1) Large extent	14%	5
2) Moderate extent	49%	17
3) Little or no extent	34%	12
4) Don't know/Not applicable	3%	1

	Percentage of responses	Number of responses
Question 5: How much progress do you think that your agency has made in achieving compliance with the three components of the FFMA?		
1) Large extent	26%	9
2) Moderate extent	46%	16
3) Little or no extent	20%	7
4) Don't know/Not applicable	9%	3
Question 6: To what extent do you believe the resources available to implement the PMA and FMLOB initiatives are adequate?		
1) Fully adequate	0%	0
2) Marginally adequate	27%	9
3) Inadequate	64%	21
4) Don't know/Not applicable	9%	3
Question 7: In connection with the FMLOB goal of migrating the majority of agencies by 2011, to what extent do you believe your organization will transition to the use of SSPs by this date?		
1) Large extent	24%	8
2) Moderate extent	21%	7
3) Little or no extent	37%	12
4) Don't know/Not applicable	18%	6

Topic 2: Lessons Learned from Financial Management System Implementations to Date

	Percentage of responses	Number of responses
Question 8: To what extent have the resources invested in federal financial management system modernizations yielded a commensurate level of value to the government organization and taxpayer?		
1) Large extent	3%	1
2) Moderate extent	50%	17
3) Little or no extent	44%	15
4) Don't know/Not applicable	3%	1
Question 9: To what extent do you believe agreement exists regarding what constitute the disciplined processes (e.g., requirements management; testing; data conversion; configuration, risk and project management; and quality assurance) that should be used in system implementation projects?		
1) Large extent	22%	7
2) Moderate extent	53%	17
3) Little or no extent	25%	8
4) Don't know/Not applicable	0%	0
Question 10: To what extent do you believe adequate guidance exists concerning the use of disciplined processes to ensure the success of system implementation projects?		
1) Large extent	24%	8
2) Moderate extent	46%	15
3) Little or no extent	30%	10
4) Don't know/Not applicable	0%	0
Question 11: To improve future implementations, which of the following areas could benefit MOST through enhanced guidance, training, or other tools designed to assist implementation efforts?		
1) Disciplined processes	27%	9
2) Human capital (e.g., project manager, project staffing, training)	47%	16
3) Business process reengineering	27%	9
4) Don't know/Not applicable	0%	0

Topic 3: Transforming Organizational Culture to Capitalize on Financial Management System Modernizations

	Percentage of responses	Number of responses
Question 12: Do we need to redefine success for financial management?		
1) Yes	91%	29
2) No	9%	3
3) Unsure	0%	0
Question 13: Do we need to redefine the role of the CFO?		
1) Yes	91%	29
2) No	3%	1
3) Unsure	6%	2
Question 14: To what extent are modernization efforts leading to positive transformation of your organization's financial management culture toward creating more organizational value?		
1) Large extent	9%	3
2) Moderate extent	50%	16
3) Little or no extent	41%	13
4) Don't know/Not applicable	0%	0
Question 15: To what extent do human capital issues significantly challenge your organization's ability to realize benefits associated with financial management system modernization efforts?		
1) Large extent	84%	27
2) Moderate extent	13%	4
3) Little or no extent	3%	1
4) Don't know/Not applicable	0%	0
Question 16: How far along is your organization in transforming its business systems to effectively meet its organizational needs?		
1) Substantially complete	3%	1
2) Moderate progress has been achieved	55%	17
3) Little or no progress has been achieved	39%	12
4) Don't know/Not applicable	3%	1

General

	Percentage of responses	Number of responses
Question 17: As it relates to your participation in today's Forum, what has been your primary experience and/or role related to federal financial management system modernization projects?		
1) Agency Financial Leadership	33%	10
2) Agency Information Technology Leadership	10%	3
3) Oversight Leadership (including IG and other agencies involved in governmentwide efforts)	27%	8
4) External Advisors/Consultants/Private Sector	20%	6
5) Other	10%	3

Note: Percentages for Questions 5 and 11 do not total 100 percent due to rounding.

Appendix V: Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

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