Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Subject: ACTION: Quality Control Review of KPMG's Notice of Finding and Recommendation, "Financial Reporting Process—ESC Reporting Structure"
QC-2005-076

Date: September 22, 2005

From: Theodore Alves
Principal Assistant Inspector General
for Auditing and Evaluation

Reply to Attn. of: JA-20

To: The Secretary

This management letter addresses findings related to the operations of the Enterprise Service Center (ESC). ESC is a Federal Aviation Administration (FAA) organization that is located at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma. It operates and maintains the Department's financial management system, called Delphi, and provides accounting services to all the Department's Operating Administrations. Because ESC has also been designated a "Center of Excellence" by the Office of Management and Budget, it is authorized to provide accounting services to other Federal agencies and currently provides services to one other Federal agency. ESC plays a key role in the Department, so ESC's organizational structure, reporting relationships, and operational effectiveness are important to the Department's overall efforts to improve financial management effectiveness.

We hired the auditing firm KPMG LLP to audit FAA's fiscal year 2005 financial statements. When KPMG reviewed FAA's Accounting Operations Consolidation Plan during the planning phase of the audit, it identified concerns regarding ESC's reporting relationships and organizational structure. After completing a limited review and discussing the issues with responsible officials from FAA and the Office of the Secretary, KPMG documented its concerns and recommendations in a Notice of Finding and Recommendations (see Attachment 1). Although KPMG concluded that these issues have not resulted in control deficiencies that would adversely affect the current financial audit, it believes the issues have the potential to result in a reportable condition in the future unless they are promptly addressed.

In summary, KPMG identified eight findings:

- ESC does not have a direct reporting relationship to the Office of the Secretary of Transportation (OST). As a result, the OST Chief Financial Officer's (CFO) ability to establish policies, procedures, and controls at ESC could be impaired.

- The FAA's CFO does not have full control of the portion of FAA's financial accounting operations budget that goes to ESC. As a result, unlike other Operating Administration CFOs, the FAA CFO does not have budgetary control over the services provided by ESC. The budget to support FAA accounting activities is provided to ESC by the Regional and Center Operations organization, rather than the FAA CFO.

- Operating Administration CFOs may lack clear authority to ensure that operating and programmatic units institute adequate internal controls to prevent submission of erroneous data to ESC. As a result, ESC may receive erroneous data from the Operating Administrations, which could affect the reliability of the DOT financial statements.

- It is unclear what authority the CFOs for the Operating Administrations and OST have to determine the types of transactions ESC will process. As a result, individual CFOs may not be in a position to make the most cost-effective decision about the services to outsource to ESC.

- The proposed job description of the ESC Chief Executive appears to be too broad and lacks requirements for technical and financial systems experience.

- ESC lacks an effective cost accounting system. As a result, ESC has difficulty establishing unit prices for its services.

- The Service Level Agreement between ESC and the Operating Administrations is not standardized. This means that transaction processing activities could be extensively customized, thus increasing the risk of errors.

- The draft ESC performance agreement lacks metrics to measure key performance elements. Because the existing metrics focus heavily on timeliness, other important performance measures, such as accuracy and completeness, are not being tracked. As a result, ESC management, OST, and the Operating Administrations may not have the information they need to ensure that accounting operations are being conducted in the most cost-effective manner.

KPMG made a total of eight recommendations to address its findings. The FAA CFO agreed with the KPMG findings and recommendations. We also agreed with the KPMG findings and recommendations and transmitted the Notice of Findings and Recommendations to the Assistant Secretary for Budget and Programs / CFO on August 11, 2005. In her August 31, 2005 response (see Attachment 2), the CFO concurred with the findings, agreed with the recommendations, and committed to implementing corrective actions during fiscal year 2006.

This management letter communicates deficiencies in internal controls that at this time do not rise to the level of a reportable condition (in accordance with section 5.16 of the Government Accountability Office's statement of Generally Accepted Government Auditing Standards). However, continued attention to the proposed corrective actions is needed to ensure these internal control deficiencies do not rise to the level of a reportable condition in the future. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow up.

This work was completed as part of our financial statement audit, which is being done in accordance with Generally Accepted Government Auditing Standards. In our opinion, the audit work performed by KPMG complied with applicable standards.

We appreciate the cooperation and assistance of the CFO, FAA, and KPMG LLP representatives. If you have any questions or if I can be of further assistance, please call me at (202) 366-1992.

Attachments (2)

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Federal Aviation Administration
FY 2005 Financial Statement Audit
Notification of Findings and Recommendations (NFR) 05-J-01

Financial Reporting Process – ESC Reporting Structure

Background:

The Department of Transportation (DOT) created the Enterprise Service Center (ESC) to serve as a centralized systems and accounting operation for the DOT and each of its Operating Administrations (OA). The ESC accounting operation is located in the Office of Financial Operations (Finance Center), located at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma. The ESC will be the primary accounting services provider for all OA's and the Department of Transportation, and will eventually become one of the few "Centers of Excellence" designated by the OMB to provide outsourced / centralized accounting services to other Federal agencies.

The ESC currently provides accounting services for all DOT OAs including a portion of the FAA. In August 2004, the FAA adopted an *Accounting Operations Consolidation Plan* (Consolidation Plan) that outlines a strategy to consolidate accounting operations activities from nine FAA regional accounting offices into the ESC. The consolidation plan was adopted by the FAA to (1) realize cost savings across accounting operations, (2) achieve standardized accounting practices, and (3) improve financial information and accounting services. Additionally, by achieving these goals for the FAA and the DOT, the ESC will be well-positioned to provide accounting services to other Federal agencies. The consolidation is a two-year process beginning in FY 2005 and scheduled to be completed in FY 2006.

Functionally, the FAA Consolidation Plan will move routine processes from eight regions to the ESC in Oklahoma City. The processes being moved from the regions to the ESC are:

- Commercial payments
- Travel
- Grants
- Accounts receivable
- Property accounting
- Reimbursables
- General Accounting
- Reports analysis / Reporting (for select smaller OA's)
- Other administrative

Most of these processes are characterized by routine / like-kind / highly automated transactions that are well suited for centralization and standard processes, procedures and controls (both system and manual). Conceptually, the ESC would provide greater accounting support, e.g., prepare OA financial statements to the smaller OA's, e.g., preparing financial statements and less to large OA's, e.g., FAA would prepare its own financial statements. Functions related to policy, financial performance and certain unique functions will remain the responsibility of the FAA CFO, as defined in the Consolidation Plan (page 10).

The organizational structure after the move has remained essentially the same as it was before the reorganization. Personnel performing the centralized processes at the ESC will continue to report to the Region and Center Operations (ARC) management. ARC leadership reports directly to the FAA Administrator. Some effort has been made to clarify the role of the FAA CFO, e.g., authority and responsibility for the successful completion of accounting functions within these processes, however responsibility remains vaguely defined. Currently the FAA CFO authority over accounting operations is defined as "dotted line". The FAA CFO also reports to the Administrator of the FAA.

Results of Review – Observations and Recommendations:

On June 7th representatives from the DOT OIG – Ted Alves and George Banks, together with the audit engagement partner for the FAA financial statement audit, Scot Janssen – received a tour of the ESC and interviewed several key management personnel to perform tests of design related to the FAA audit financial reporting process. The review was focused on the current and planned organizational structure of ESC, the effects on entity and process level internal controls related to the financial reporting process, and how the structure will affect DOT OA CFOs ability to fulfill their responsibilities for financial reporting. The matters identified below are not likely to have a significant impact on the financial reporting at the FAA in fiscal year 2005. However, they may develop into, or contribute to, internal control weaknesses in future years if not addressed. To facilitate management's review, recommendations are provided immediately below each comment. Our observations and recommendations are based solely on limited review and discussions with key management personnel, and may have been modified, possibly significantly, had we performed additional procedures.

Financial Reporting Process – ESC Reporting Structure

1 *ESC does not have a direct reporting relationship to the Office of Secretary of Transportation (OST) CFO.* The ESC was created by the DOT to provide accounting services to all DOT OAs and eventually to other Federal agency customers. However, there is no clear reporting relationship between ESC management and the OST CFO – a significant deficiency in the reporting hierarchy of the ESC. Organizationally, the ESC is a component operation of the FAA. ESC leadership and its financial managers report directly to the FAA Assistant Administrator for Region and Center Operations with a "dotted line" reporting relationship to the FAA CFO. The Consolidation Plan states that the FAA CFO (not OST CFO) has responsibility for FAA financial "policy". This situation could impair the OST CFO's ability to establish policies, procedures, processes and controls at the ESC, that reasonably assure the reliability of the DOT OA and the DOT consolidated financial statements and internal controls. As a practical matter the OST CFO has had influence over ESC operations to date, but this is not supported by a formal organizational structure, and is subject to change with personnel movements. Also a Steering Committee has been formed by the DOT, however to-date most of the Committee's focus has been on IT / Delphi system implementation and general controls, not the ESC accounting operations.

Recommendation: We recommend that the DOT formalize the reporting hierarchy of the ESC to create a direct reporting relationship with the OST CFO. We also recommend that the role of the Steering Committee be expanded to include all operations of the ESC and in particular the accounting service functions.

2 *The FAA CFO does not have full control of the FAA financial accounting operations budget provided to ESC.* Currently there is an inconsistency in how financial operating budgets are allocated and administered within the DOT. Certain OA CFOs (other than FAA) are allocated annual funds for financial accounting operations. Those OA CFOs are able to enter into an arms-length business agreement with the ESC, by negotiating the price for ESC services and making periodic payments for services received. If an OA is unsatisfied with ESC services, they are able to temporarily withhold payment until the matter is resolved through appropriate leadership channels. This creates an arms-length transaction with the ESC and provides the customer with some leverage over the business relationship. However, the majority of the FAA's funds allocated for financial accounting operations reside in ARC, placing the FAA

CFO at a significant and unreasonable business disadvantage, and hinders his/her ability to effectively fulfill the responsibilities of a CFO. Each CFO should be provided with the authority and discretion to use allocated financial accounting funds in a manner determined by them (within the parameters established by the OST CFO and OA leadership). The CFO's control and expenditure of discretionary accounting funds is a fundamental and essential tool used routinely by a CFO to invest in, and maintain, good financial management practices which the CFO is uniquely qualified to do. If left unresolved, this situation could easily marginalize the effectiveness of the FAA CFO and interfere with his/her ability to certify the completeness and accuracy of financial statements and the Performance and Accountability Report, as required by Federal regulations. In addition, it would impact the FAA CFO's ability to make an assertion on the effectiveness of internal controls in compliance with the new OMB Circular A-123, certify the accuracy of the annual FMFIA statement, and agree to provisions of the annual independent auditors' representation letter.

Recommendation: We recommend that the FAA CFO be allocated appropriate and sufficient funding annually to support the financial accounting operations of the FAA, similar to the distribution of accounting operation budgets to other DOT OAs. Each CFO should be able to use their allocated funding to best fulfill the financial management obligations of the OA, including negotiating and purchasing services from the ESC, within the guidelines established by the OST CFO. As a component of a larger organization, each DOT OA CFO would coordinate their respective budgets with the OST CFO and OA leadership. All FAA funds allocated for financial accounting operations that are presently in ARC (and a portion in the Air Traffic Organization for the Technical Center) should be allocated to the FAA CFO. The FAA CFO would then have discretion to use financial accounting funds to fulfill the responsibilities of the CFO, with appropriate oversight and approval of the OST CFO.

3 *OA CFO's lack clear authority over operating and programmatic units internal controls.* As a consequence, the ESC may receive and process erroneous data submitted by the operating and programmatic units of the DOT – which could result in unreliable financial reports and time-consuming efforts to correct the problem. The ESC must rely on the quality of input data submitted by DOT OAs, to ensure accurate and complete transactional processing. The ESC cannot reasonably, and cost effectively,

prevent the submission and processing of erroneous data. This situation requires each OA to establish extensive back-end *detective* controls and commit excessive resources to perform reconciliations to pinpoint the source of error, correct and re-process the transaction from the beginning. In addition, the correction of these issues, including the strengthening of internal controls, is complicated by a lack of clear authority of the OA CFO over accounting activities performed by the program personnel. Currently, many accounting related functions are performed by personnel who do not report to the OA CFO. Similar to the observation described in No. 1 above, a lack of direct reporting hierarchy of accounting personnel within OA program units could impair the OA CFO's ability to fulfill his/her responsibility to institute sound accounting processes and controls.

Recommendation: We recommend that the DOT OST CFO and all OA CFO's review operating and programmatic financial processes that serve as inputs to ESC, and be given the authority to correct deficiencies and establish reliable front-end accounting processes and procedures. Appropriate management and system controls should be implemented that reasonably ensure the quality of data submitted to the ESC. This program could be started by early implementation of the new OMB Circular A-123 requirements. We encourage management to implement *preventative* controls on the front-end of the processes as they are reviewed and redesigned, if necessary. To improve the control environment, the OA CFO should have authority to establish policies and procedures performed by all personnel performing accounting functions and, in some cases, have a direct reporting relationship with the CFO's office. Also OST must ensure that Delphi general controls are effective and produce a clean SAS 70 report, with no material weaknesses. The owners of the various feeder systems to Delphi must likewise ensure the reliability of automated data feeds and interfaces. This can be achieved by enhanced system edit checks to monitor and report transaction reliability.

4 *The risk of error increases proportionally with the non-routine functions performed by the ESC.* The DOT has appropriately mandated the use of the ESC to process certain routine financial transactions. It is possible to have an effective outsourcing arrangement for certain types of transactions in well managed circumstances. For example, routine / highly automated processes that involve large numbers of identical

transactions are ideally suited for outsourcing to a service provider. Conversely, non-routine transactions, that have varied input and require financial expertise and judgment to correctly process the transaction are more susceptible to error and increase risk to the financial reporting process and consequently are less suited for outsourcing without more robust and costly input / output controls over the data. Each OA CFO should be expected to determine which financial transactions are considered routine and be able to, in consultation with the DOT CFO, limit the transactions or processes outsourced to the ESC to only routine functions. Currently, OA CFO authority to choose the processes to outsource to ESC, is not explicitly clear in any documents we reviewed or by management comments provided to us.

Recommendation: We recommend that the DOT OST and OA CFOs have explicit authority to select the process and/or transaction types that are appropriate for outsourcing to ESC. This may include whole processes or select transactions within a process. Instances my also arise when the OST or OA CFO will need to temporarily perform the processing of certain transactions to diagnose issues and establish proper controls. However, each CFO should be expected to operate within the systems design established by the DOT OST CFO, and accordingly decisions that may be inconsistent with established ESC outsourcing mandates should require appropriate leadership approvals.

5 *The job description of the proposed ESC Chief Executive appears to be overly broad, and lacks technical and financial systems experience.* As advertised the ESC Chief Executive will function as corporate CEO and have a significant role in marketing the operation to potential customers. Financial and technical systems expertise, unique to outsourcing and accounting service businesses, is not explicitly detailed in the Chief Executive position description. The accounting services industry is a highly specialized business that requires a Chief Executive with an appropriate balance of functional and technical expertise to serve as an effective leader of the operation.

Recommendation: We recommend that the job description of the proposed Chief Executive be broadened to include a balance of functional and technical systems expertise together with proven leadership and marketing experience.

6 *ESC lacks an effective cost accounting system to accumulate costs-of-service on a unit basis.* The ESC will need an effective cost accounting system to accumulate its direct and indirect costs (including allocated overhead) by product or service unit. Until then, the ESC will have difficulty establishing unit prices (or charge-backs within DOT) for its services, ensuring full recovery of costs, periodically benchmarking its processes against best-practices, and resolving the cost of disputed services. The ESC will also have difficulty supporting its annual budget requests to ensure appropriate funding for needed investments and on-going operations.

Recommendation: We recommend that the ESC develop a cost accounting system to accumulate direct and indirect costs on a unit basis, to support the operating budget, and product and service fee structure of the ESC.

7 *The Service Level Agreement (SLA) between the ESC and the DOT OA's is not standardized, and the ESC may be enticed to customize processes in the interest of customer service.* There is an unusual emphasis being placed on the design and content of the SLA to respond to unique customer requirements. Customization will create variants of the process – each requiring incremental knowledge, training, and experience to ensure accuracy in processing and output. Process variants also increase the administration and cost of service affecting unit prices, performance metrics, and cost of services. More importantly, the risk of process errors and financial statement misstatements will increase with process customization made by ESC.

Recommendation: We recommend that the Service Level Agreement (SLA) be standardized, and the ESC should limit the extent of customization of processes. Generally, the ESC should offer processing services only for routine, standardized accounting functions that safely fit within the parameters of the ESC process and IT system. The ESC should establish the SLA with strict and easy to monitor performance standards (see No. 8 below).

8 *The draft ESC performance agreement lacks metrics that measure critical management assertions – accuracy and completeness – addressing the quality of work performed the ESC.* The current performance agreement focuses almost exclusively on "timeliness" of service, and is not designed to measure and report on all transactions processed. For example, one performance standard states that "95% of transactions will be processed in 3 days", without

mention of the remaining 5%, or the quality of the processing for all transactions. As captive customers, the DOT and its OAs should be able to rely on established standards of performance that provide management with confidence that all (or a very high percentage – e.g., 99.99%) transactions are processed accurately and completely, resulting in materially correct account balances. Without this confidence the CFO may be unable to assert to the reliability of the DOT or OA financial statements, without extensive and costly "internal audit" functions or output controls performed over critical process level assertions – accuracy, completeness, existence, ownership, and presentation. Further, performance measures are necessary to measure cost effectiveness, and benchmark the competitive position of ESC compared with other service providers.

Recommendation: We recommend that ESC develop a performance agreement that includes metrics to measure essential management assertions – accuracy and completeness – and that addresses the quality of work performed by the ESC. The ESC should create performance metrics, together with a timely, e.g., weekly or daily, executive dash board that provides critical information on transaction flow, error rates, and other efficiency and quality standards.

* * * * *

Agency Response:

_____X___ Management concurs with this finding.

__________ Management does not concur with the finding.

Your written response will be considered when preparing the draft audit report. ***Please provide specific actions planned or taken to address the condition along with specific target dates***.

Scot Janssen	Remesh Punwani
Partner, KPMG LLP	FAA – Chief Financial Officer

U.S. Department of Transportation
Office of the Secretary of Transportation

Assistant Secretary for Budget and Programs and Chief Financial Officer

400 Seventh St., S.W.
Washington, D.C. 20590

AUG 31 2005

MEMORANDUM TO: Theodore Alves
Principal Assistant Inspector General
for Auditing and Evaluation

FROM: Phyllis F. Scheinberg

Phyllis Scheinberg

SUBJECT: KPMG's Notice of Finding and Recommendation on "Financial Reporting Process – ESC Reporting Structure"

Thank you for your memorandum (copy attached) that summarized and forwarded the KPMG Notice of Finding and Recommendation (NFR) on the organizational reporting structure of the Enterprise Services Center (ESC), located at the Federal Aviation Administration (FAA) Mike Monroney Aeronautical Center (MMAC) in Oklahoma City. We concur with the findings and recommendations provided by KPMG, which were previously concurred in by FAA Chief Financial Officer (CFO) Ramesh Punwani. We have already taken action on several of the recommendations and will ensure that the remaining actions are taken as follows:

1. **Recommendation**: DOT formalize the reporting hierarchy of the ESC and expand the ESC Steering Committee to include all ESC functions.

   Response: **Concur –** On July 18, 2005, I issued a policy (copy attached), effective October 1, 2005, that requires the MMAC to staff and operate on a reimbursable basis the ESC, which will provide accounting operations and financial systems services to DOT Operating Administrations (OAs) and to agencies outside DOT under the Office of Management and Budget (OMB) Center of Excellence program.

   An SES level position (Director of ESC) has been established and advertised to provide leadership for the ESC. In accordance with the July 18, 2005 policy, the Director of ESC will report for administrative purposes to the MMAC Director; however, programmatic direction and guidance will be provided by my Office, and the annual performance plan and the annual performance rating, bonuses, and awards for the ESC Director, the ESC Director of Financial Operations, and the ESC Director of Financial Systems (Delphi) will be submitted to the DOT CFO for advance concurrence.

In addition, by October 1, 2005, the Delphi Executive Steering Committee charter will be expanded by to include all operations of the ESC, including accounting services.

2. **Recommendation:** The FAA CFO be allocated appropriate funding to support accounting operations similar to other OAs.

   Response: Concur – We are working with FAA to modify their internal budget process to re-direct funding provided to ARC and the Lines of Business to the FAA CFO for the purpose of procuring financial services from the ESC. Additionally, the DOT CFO will be responsible for the final review and approval of ESC charges and a signatory to the annual interagency agreement between the OAs and the ESC. The review of the overall ESC budget, including both accounting services and financial systems, will be subject to oversight by the Delphi Executive Steering Committee.

3. **Recommendation**: The DOT CFO and OA CFOs should review financial processes and develop policies and procedures to minimize erroneous data being provided to ESC. Each OA's CFO should have the authority to require that financial policies and procedures are followed by all OA staff.

   Response: Concur – As part of implementing the requirements of OMB's revised Circular A-123, Management's Responsibility for Internal Control, the DOT CFO will work with each OA during FY 2006 to strengthen internal controls and the policies and procedures used by all OAs. The goal is to minimize the amount of erroneous data and to reduce the need for after the fact corrective actions. We believe the OA CFOs already have the authority to enforce their policies and procedures, but the July 18, 2005, guidance further strengthens this authority by requiring that each OA's CFO report directly to the Administrator of their OA to enhance the importance of the Financial Program.

4. **Recommendation:** The DOT CFO and the OA CFOs should have explicit authority to select the process and transaction types that are appropriate for outsourcing to ESC.

   Response: Concur – The DOT CFO has statutory authority to oversee all financial management activities relating to the financial programs and operations of the Department. The DOT CFO has been working with the OA CFOs to move standard operational accounting processes to the ESC. By January 1, 2006, the DOT CFO will inventory the functions being performed by the ESC for each OA and will work with each OA CFO to ensure that the processes and transaction types appropriate for ESC are identified and that a plan is developed to move these activities to the ESC by September 30, 2006, if they are not already being done by the ESC.

5. **Recommendation:** The SES ESC Director position be broadened to include functional and technical expertise together with leadership and marketing experience.

Response: Concur – This position is responsible for the leadership of the ESC under administrative guidance of the MMAC Director and programmatic and functional guidance from the DOT CFO. We are working with MMAC to ensure that the person selected has the functional and technical skills and leadership needed to be successful.

6. **Recommendation:** The ESC should develop a cost accounting system to accumulate direct and indirect costs on a unit basis and to support the operating budget and the product and service fee structure of the ESC.

   Response: Concur – We are working with ESC to ensure that by March 1, 2006, the ESC can correctly account for the full cost of their operations and develop billings that represent full cost recovery from each of their customers.

7. **Recommendation:** The Service Level Agreement (SLA) be standardized and the ESC should limit the extent of customization of processes. The ESC should establish the SLA with strict and easy to monitor performance standards.

   Response: Concur – The general SLA for all OAs is being expanded to cover both accounting services and the financial system and is being standardized for similar processes. In cases where the OA, the ESC and the DOT CFO agree that additional services are to the benefit of all concerned, the SLA will be modified to address these items. The SLA will contain measurable performance metrics that can be used to monitor performance. The revised SLA will be effective October 1, 2005.

8. **Recommendation:** – The ESC should develop a performance agreement that includes metrics to measure essential management assertions – accuracy and completeness – and that addresses the quality of work performed by the ESC.

   Response: Concur – The performance metrics will be included in the annual SLA signed by all OAs. The metrics and results will be published as a part of the Delphi DashBoard and will be visible to all ESC customers.

Implementing these recommendations will strengthen our efforts to improve financial management systems and operations throughout the Department. Thank you for your continuing support for these efforts.

Attachment

cc: Ramesh Punwani
Ruth Leverenz
Lindy Ritz

CFO Authority and Oversight Policy

PURPOSE

The purpose of this policy is to clarify the Assistant Secretary for Budget and Programs /Chief Financial Officer's (DOT CFO) responsibilities pertaining to the oversight of:

- The organizational structure of the Enterprise Service Center (ESC), and budget/accounting offices within Department of Transportation (DOT).
- The selection of executive-level financial, accounting and budget personnel within each Operating Administration (OA) and the ESC.
- The establishment of performance awards and bonuses for selected positions within the ESC, and OA Finance, Accounting and Budget executives.

Additionally, this policy is intended to clearly state the required organizational alignment of each OA's Chief Financial Officer (OA CFO) and the concurrence requirements relating to the selection of, and the awards, and bonuses provided to Budget, Accounting and Finance personnel in each OA and the ESC.

EFFECTIVE DATE: October 1, 2005

AUTHORITY

Title 31 U.S.C. Section 902, CFO Act of 1990. The Congress mandated financial management reform by enacting the CFO Act (P.L. 101-576), which establishes a leadership structure, provides for long-range planning, requires audited financial statements, and strengthens accountability reporting. Among other duties mandated under Title 31 U.S.C. Section 902, the DOT CFO is required to:

- "Report to the Secretary regarding financial management matters;"
- "Oversee all financial management activities relating to the programs and operations of the agency;"
- "Develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls;"
- "Make recommendations on the selection of the DOT Deputy CFO;"
- "Direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including:"
  - "The recruitment, selection, and training of personnel to carry out financial management functions, and"
  - "The approval and management of financial management systems design or enhancement projects;"

OVERSIGHT POLICY

Organizational Structure - To ensure that each OA has an organization structure in place that enhances our probability of success and meets the spirit and intent of the CFO Act:

- Each OA will establish a CFO position.
- The OA CFO will report directly to the Administrator.
- The OA CFO will be a dedicated position responsible for the oversight of all financial management and budget activities relating to the programs and operations of the OA.
    - The DOT CFO may approve assigning additional duties to the OA CFO if the additional duties will not impair the CFO's ability to perform CFO functions.
- The Federal Aviation Administration's Mike Monroney Aeronautical Center (MMAC) will staff and operate on a reimbursable basis the ESC. The ESC will provide accounting operations and financial systems services to DOT OAs and to agencies outside of DOT under the Office of Management and Budget (OMB) Center of Excellence program. An SES level position will be established to provide leadership to the ESC. The Director of the ESC will report for administrative purposes to the Director of the MMAC; however programmatic direction and guidance will be provided by the DOT CFO.

Selection of Budget, Finance and Accounting Personnel – To ensure that individuals selected to fill leadership positions in accounting, financial management and budget activities have the necessary qualifications and background to successfully carry out and improve CFO activities:

- All financial, accounting and budget related Senior Executive Service selections submitted to the Executive Resources Recruitment Committee (ERRC) will be routed to the DOT CFO for concurrence.
    - The positions included are:
        - Director of the ESC,
        - ESC director of Accounting Operations
        - ESC director of Financial Systems (Delphi)
        - OA CFO
        - OA Director of Budget
        - OA Director of Financial Management/Accounting; and
        - equivalent positions.
    - If any of the above noted positions is not an SES level position, and is therefore not required to go through the ERRC, the ESC/OA will contact the DOT CFO for concurrence before the selection is finalized.

Performance Awards and Bonuses – To ensure that Departmental goals and requirements are considered when developing the annual performance plan, and the associated annual rating, bonuses or awards for the rewarding individuals occupying the above noted positions:

- Annual performance plans for the individuals in the positions noted above will be routed to the DOT CFO for concurrence.
- All annual ratings, proposed awards, and bonuses for these individuals will be routed to the DOT CFO for concurrence.

Phyllis Scheinberg
Phyllis Scheinberg
Assistant Secretary for Budget and Programs/ CFO

Date: July 18, 2005