

reliable

timely
hire

fire **useful**

train and promote personnel

Strategic

support budget requests
lead and guide federal entities

initiate or terminate programs

produce goods and services

accurate

Consistent

Policy, program and operating officials are the federal government's true financial managers.¹ They lead and guide federal entities; establish policy direction; make budget decisions; support budget requests; make investment decisions; hire, fire, train and promote personnel; initiate or terminate programs; procure goods and services; and make the major decisions affecting the finances and performance of the federal entities for which they work. This premise has significant implications for the financial information needs of policy, program and operating officials and for the role of federal financial officials.

As federal government financial managers, policy, program and operating officials (and their staffs) require timely, accurate, reliable, consistent and useful financial information for day-to-day operating, strategic, investment and policy decisions and actions. Unfortunately, such information is not routinely available. This article examines the financial information needs of policy, program and operating officials, discusses the financial information hierarchy, provides guidance for implementing financial information systems and discusses the nature of cost management (cost accounting) information. The article also discusses transformation of financial officials to focus on advice, analysis, diagnosis and a seat at the (management) table as well as the transformation of the finance office from transaction processors to financial analysts.



Financial Information Needs

Congress and the Administration recognize the need for reliable, consistent financial information for federal decision-makers. The Chief Financial Officers Act of 1990, the Government Management Reform Act, OMB Circular A-127 on Financial Management Systems and the creation of the Federal Accounting Standards Advisory Board (FASAB) are among a few actions intended to ensure that federal officials have access to relevant financial information. In addition, the Government Performance and Results Act (GPRA) recognizes cost of service information as a key performance indicator.

The need for reliable financial information is best exemplified by requirements that the federal government and each major entity prepare financial statements, which can receive an unqualified ("clean") opinion from independent auditors. These are known as audited financial statements and include: Management Discussion and Analysis; Financial Statements including the footnotes; and Supplemental Information.

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Financial Information for Policy, Program & Operating Officials

Audited financial statements demonstrate the financial position and condition of an entity as of the prior fiscal year-end and the results of operations for the year then ended; enable Congress and the public to evaluate the stewardship of assets entrusted to these agencies; and play an important role in overall policy-making. I'm delighted that each major federal agency delivered audited financial statements by March 1, 2001 for the year ended September 30, 2000 and most received an unqualified opinion from independent auditors. That's the good news. The bad news is that the audited financial statements do not provide financial information for policy, program and operating officials—the true financial managers of the federal government—for management, strategic leadership and decision-making. Nor do the underlying processes and systems provide such information.

Audited financial statements alone are too aggregated and too late to provide information for ongoing decision-making and management. For fiscal year 2000, most agency audited financial statements were delivered five months after the end of the fiscal year, much too late for timely decisions. Further, the statements were at the entity level (major department, agency or bureau), which is not the level where most policy, program and operating officials work. Unfortunately the financial information on which the audited statements are based was typically not available during the year for timely operating decisions. The fact is most policy, program and operating officials (and their staffs) do not use the audited statements for operating or strategic decisions; most are not even aware of such statements or the information contained in the statements.

The requirement for annual audits is presumed to instill discipline into financial systems so that useful, accurate, timely, consistent financial information will be provided to policy, program and operating officials throughout the year at the required level of detail. That common-sense premise has not yet been realized. In reality, many agencies attain unqualified opinions through "heroic" year-end efforts by many dedicated personnel to prepare the financial statements conforming to rigorous accounting standards. Often financial and performance information developed at year-end is not routinely available throughout the year.

Many federal leaders recognize the need for useful financial information for policy, program and operating officials. For example:

- President Bush's Fiscal Year 2002 Budget and Management Initiatives indicate, "If program managers are going to be held more accountable for the achievement of output targets, they should be given accurate information on the cost of their programs."
- Senator Fred Thompson said, "...Clean opinions are only the start. While getting a clean opinion is important, this alone does not evidence sound financial management. A clean opinion simply means that an agency's financial information is accurate as of one day of the year (the last day). It provides no assurance that the agency can actually *produce and use reliable financial data on a real-time basis...*" (emphasis added)

The critical missing elements are an understanding of the financial information needs of policy, program and operating officials and a seamless suite of financial systems which provide that information *and* directly "roll into" annual financial statements. Such seamless and integrated systems should provide information for decision-making and operations consistent with annual financial information. The fact is that many policy, program and operating officials obtain financial information from "program" systems, "feeder" systems or "cuff" systems—that is, systems custom developed to meet day-to-day operating needs. Such program systems are valuable since they meet (hopefully) the needs of the decision-makers. Unfortunately, often these systems were not designed to provide accounting information for periodic reporting or to meet standards for consistent financial reporting. In fact, much year-end work is devoted to reconciling these program, feeder or cuff systems to the official records of the entity.

Many federal entities are modernizing their financial systems. Often the modernization focuses only on periodic financial statement reporting and does not consider the day-to-day management needs. Modernized systems must accommodate both—financial statements and ongoing information needs. Unfortunately, I have seen instances

where agencies focus only on annual requirements, ignoring the day-to-day information needs of policy, program and operating personnel. Those systems are being developed for accountants rather than for decision-makers. The systems must accommodate both.

The requirement for earlier annual statements and for semi-annual and quarterly unaudited statements will help encourage information for policy, program and operating officials. However, if such semi-annual and quarterly statements suffer from the same defects as the current annual statements—late and aggregated—the promise of useful, timely, accurate, consistent financial information will remain unfulfilled.

It is also critical to recognize the transforming role of financial officials. This transformation will enable financial officials to focus on advice, analysis and diagnosis, financial planning, investment analysis, cost/performance analysis and related skills; it will move the financial official out of the transaction processing role into a financial analysis and management role. The financial official who thoroughly understands the business of his or her agency and focuses on analysis will become a more valuable member of the management and leadership team of his or her entity. This focus will provide financial officials a place at their entity's management table, which is a goal of many financial officials. This in turn will enable financial personnel to develop new capabilities and skills to support the mission of their entity.

The Hierarchy of Financial Information Needs

The question is: What type of financial and related information do policy, program and operating officials need? The easy answer is that each individual requires information tailored to his or her responsibilities. The key rests on that seamless suite of financial information where details roll up to summary information and the information used for decision-making is consistent with and reconcilable with the information in the entity's financial records. Even that simple statement has significant ramifications for financial information systems.

When it comes to financial information, one size does not fit all. There is, however a Hierarchy of Financial Needs

(see *Figure 1*), similar to Maslow’s hierarchy of physiological needs. The common characteristics and the elements of the Hierarchy of Financial Needs are described below.

Budget Information

Perhaps the most important financial information for any federal official is the amount of money available for obligation or expenditure for his or her program, service or organization. Knowing the budget is the foundation of the hierarchy, irrespective of whether funds are from a congressional appropriation or from internal mechanisms (as for a working capital fund or nonappropriated federal entity). Most federal officials devote significant effort to preparing and justifying their budget requests through numerous review cycles. Federal officials wait with baited breath for budget approval so they can complete detailed plans for fund use. (In many ways, the federal budget process is the federal equivalent of the private sector marketing and selling cycle. The budget provides the revenue for federal activities—the top line. Subsequent obligations and expenditures represent the spending portion of the financial cycle.)

Status of Funds

The next layer of the hierarchy, and the emphasis of most federal financial efforts today, is knowing how much of the budgeted funds are available for

obligation (or expenditure) at any time. This is typically known as the status of funds or budget execution and consumes significant attention and effort from federal policy, program and operating officials. The attention to the status of funds is justified because:

- Congressional appropriations are law;
- Overspending can result in punitive action against responsible officials; even when not an appropriation from Congress, overspending a budget is often subject to disciplinary action;
- Often funds are only available for a limited time; a single year, for example. Thus, federal officials strive to expend as much as possible, without overspending—a delicate balancing act.

Status of funds information is the most important ongoing, routine financial information required by federal officials. In fact, most of today’s financial (accounting) systems are budgetary accounting or status of funds systems. Even so, for several reasons—such as lack of commitment information—many of today’s financial systems do not provide adequate status information. This has resulted in customized program systems and cuff records.

Quite simply, federal officials need to know where they stand against their budget. Without that information they will not be prepared to move to the next level of the hierarchy. The role of status

of funds systems in the suite of financial systems must be recognized and provided for. In modernizing financial systems, the differences between budgetary accounting (status of funds) systems and financial systems must be recognized and accommodated.

Financial Information

The next layer in the hierarchy is the financial information needed for day-to-day management, monitoring and decision-making, such as information on individual accounts, assets, liabilities, etc. Determining financial information needs involves addressing many questions. How relevant is financial statement information, even at the right level of detail? To what extent are certain accounting conventions of value for day-to-day management (for example, credit reform information)? What is the proper level of detail or summary? Are needs different for officials who manage business-type enterprises than for taxpayer-funded entities? Is accrual information useful? Depreciation? What is the role of cost accounting (cost management)? How is budgetary accounting information reconciled with financial accounting information?

Often such financial information has been provided by the policy, program or operating official through program systems or cuff records or from feeder systems. That is fine, and in fact recognized by the Joint Financial Management Improvement Program (JFMIP) Financial Systems guidance, so long as the information in the program systems is consistent with and reconciled to the entity’s basic financial systems. Unfortunately, that has not always been the case. Often summary information in the entity’s general ledger, or equivalent, has not balanced with detailed information in the program systems. For example, one major issue facing the federal government is balancing the cash with Treasury with specific agency accounts. The reasons for the differences vary widely, including program systems not designed with financial statements in mind, coding errors, entries made to one system not reflected in the other system, lack of documentation, etc.

Figure 1: Hierarchy of Financial Needs



The financial information needs of the policy, program and operating official must be satisfied at the same time the information is gathered for financial statement purposes. Systems modernization must address the day-to-day operating needs of decision-makers, not only the year-end needs of the accountants. The need to incorporate the financial information needs of policy, program and operating officials is a two-part requirement.

- First, new systems must provide information currently available for ongoing operations and decision-making, or a reasonable substitute, with no additional effort. As an example, if operating staff needs to identify specific items such as a vehicle for day-to-day management, that information must be provided in the new systems or a reasonable alternative provided. At times, the designers of the new systems are not aware of those day-to-day operating needs and do not provide for them in the new systems. The result is additional effort to manage the program or entity.
- Second, the unmet information needs of policy, program and operating officials must be considered and recognized. If we don't provide such information now, we will lose years in our ability to provide the information for more effective management of federal entities.

Considering the budget status and the financial information needs of policy, program and operating personnel will enable preparation of annual financial statements earlier (and support issuance of semi-annual and quarterly statements) and will also fulfill the promise of audited financial statements—financial discipline and information for day-to-day operations and decision-making.

Cost Management Information

Federal managers recognize the value of cost information—details on how federal entities use resources to manage their organizations, programs, projects and services—and are demanding such information. Often cost management information cuts across different organizations and different budget lines; cost

information focuses on resource use by program, service, organization or project, irrespective of the source of the funds.

Cost management represents a new way of thinking being embraced by many federal officials. Cost management information is necessary for management. Even though often referred to as cost accounting, it should be clear—cost management (cost accounting) information is for management; it is not an “accounting thing.”

While the need for cost management information is growing, relatively few entities have responsive cost systems. Annual financial statements include one report devoted to cost of services, the Statement of Net Costs. However, for the reasons mentioned above (too late and too aggregated) most policy, program and operating officials do not yet have cost information for management purposes.

Until recently, most cost systems were designed to support pricing by fee-for-service entities or to comply with congressional requirements. However, as policy, program and operating officials recognize the value of cost information for management purposes (for operating and strategic decision-making) financial systems must be able to accommodate such information.

Since most current financial systems do not generate costs of programs, services, organizations or projects, many cost systems were developed as program systems (to meet the needs of specific officials) and/or cuff records. However, as with many program systems, the cost data often does not have the underlying financial discipline; too often the cost management information is not consistent with the entity's financial systems. Thus, the need to include cost management information in the seamless suite of financial systems and/or to ensure that the cost systems are consistent with the entity's financial systems. More on cost management later in the article.

Cost/Performance Information

This is the top of the hierarchy the intersection of cost with performance information. The Administration and Congress are more adamant than ever that federal activities must produce results for the taxpayer (as demonstrated by the President's Management

Agenda). Certainly cost is not the only, possibly not even the most important, factor considered in program decisions. However, as the federal budget is more and more stretched, it will become increasingly important. Thus, the relationship of program (or service, organization or project) results with the cost of providing those results will be increasingly important in future policy, program and operating decision-making.

Some Basic Guidelines

Modernized financial systems must recognize the financial information needs of policy, program and operating officials. In developing that seamless suite of systems and information a few basic guidelines are outlined below:

- **Top Management Support**—This is one of those rules advocated in every systems development process. Top management is being pressured to prepare annual financial statements with a clean audit opinion. That is good. If the resulting systems also fulfill the day-to-day information needs of policy, program and operating officials that support will be more readily obtained.
- **Knowledgeable Project Team**—To provide information for policy, program and operating officials, the development team must include (or consult with) individuals who use the information on a day-to-day basis. In particular, those individuals understand how information from legacy systems, program systems and cuff records is used and how such systems can be made consistent with the entity's financial systems. The question is: How will the information be used for management purposes? I have seen systems that followed the best practices of development methodology, but failed to recognize the needs of the users. The systems were a failure. Understanding the business, including financial needs, is an excellent area for involvement by financial officials.
- The team must also include individuals who understand the underlying accounting systems and processes—the debits and credits. That may seem obvious, but it is

often ignored. Often in implementing a commercial off-the-shelf (COTS) system, the implementation team includes information technology staff who do not understand the underlying accounting logic. Each COTS system handles accounting transactions differently. Understanding the transactions is necessary so that related manual processes and reconciliation techniques can be designed, particularly if the COTS system is to interface with existing “program systems” or “feeder systems” (payroll or payment systems). Similar logic applies to custom solutions.

Recently much has been written about the need for well-trained project managers on financial system implementation projects. I agree, but the need for other knowledgeable staff must also be accommodated.

- **Recognize Differences**—As noted several times, one size does not fit all. The designers of financial systems must recognize the different needs of policy, program and operating officials in systems implementation. The differences are not only in the type of information required, but also the level of detail or summary (senior managers need more summarized, concise information than staff), timing and levels of precision.

- **Ensure the Information is Relevant**—The key word here is information. Financial systems must provide relevant information to policy, program and operating officials, not just data. Many financial systems are overloaded with large amounts of minute data, which can be sliced and diced in many different ways. Policy, program and operating officials need information relevant for their responsibilities, at the right level of summary or detail, to make decisions and judgments. Unfortunately, too often, decisions are made without facts, often because the decision official is not provided with information.

The role of the financial official is crucial in ensuring that relevant information is available to policy, program and operating officials. The financial official must understand the business

and advise policy, program and operating officials on how to best convert data into useful information. At times the core financial systems do not provide information; they provide a lot of data. Financial officials must step into their roles of advisors and analysts to provide policy, program and operating officials with relevant information for decision-making. The concept of data warehouses and related techniques is very useful in converting data into information.

Relevancy is a critical concept in cost management information. More on this later in the article. In addition to relevant, financial information must be useful, timely, accurate and consistent.

- **Useful**—Financial information, particularly when combined with performance information, must be useful. Keeping it relevant makes it useful. However, to be truly useful, the information must be at the right level of detail or summary (with the capability to drill down into more detail), in a readable format, understandable to the official expected to use the information (free of jargon and oriented to the responsibilities of the official) and contain analyses and diagnostics for decision-making. Useful information also enables the official to perform ad hoc analyses, or have them performed, to highlight and capture information as needed.

- **Timely**—Information must be available when needed by the policy, program or operating official. Contrary to what many believe, this does not necessarily mean real-time, online. Often daily, weekly, monthly or quarterly information is satisfactory. The key is that the user knows what transactions are included and that information is as up-to-date as possible, relevant and useful (see above). Many policy, program and operating officials would say that timeliness is more important than precision. Certainly the information must be accurate (see next point) but policy, program and operating officials can deal with a bit of inaccuracy if they get timely information and if they understand the limits of the information.²

- **Accurate**—Financial and performance information must be accurate. However, as noted above, for day-to-day decisions, officials can effectively use information accurate within a known range. Financial information is at times based on estimates (uncollectibles, depreciation, etc.). Understanding the estimates and the uncertainties of the information, as long as it is timely, is far more important to most officials than waiting for weeks and months to get information that is balanced to the penny but too late to be useful.

- **Consistent**—Even more important than accuracy is the need for consistent information. In real estate, the three most important factors are “location, location, location.” In financial and performance information, the three most important factors are “standards, standards, standards.” Unfortunately, often information presented to a policy, program or operating official from different sources (as from a program system and the core financial records, or from detail and summary records) is different. Which information is correct? The official is frustrated and often does not use either set of information. Often the reasons for the differences relate to different definitions of the same term. As an example, I am aware of one common term in a particular federal agency with more than 10 different definitions.

Financial officials are responsible for ensuring that common financial definitions are used—in central financial systems, in performance systems, in cost management systems, in feeder systems, in program systems, in cuff records and so on. Often the financial official can identify inconsistencies in program definitions as well. One constant source of confusion is between reports prepared on a budgetary accounting basis and those prepared on the financial accounting basis. For example, an Operating Statement prepared on a budgetary basis and one prepared on a “financial” basis will be different, even though they are both Operating Statements. The differences are appropriate. However, it is mandatory that the reports be reconcilable to each other. As has been

done by state and local governments, the federal government must recognize the differences and reconcile the information and the statements.

One effective approach to ensure consistency of information is to establish the policy or rule that there is only one set of official records for the entity and only one set of accepted definitions. Those official records should be the entitywide accounting or financial system and its subsidiary systems. Under this focus, all financial reports and information must be consistent with the information in the central financial system; the information comes from either the central financial system or is reconcilable to that information.

- **Evolutionary**—Financial systems cannot be implemented as a “big bang.” Evolving systems works better. Introducing new financial information for policy, program and operating officials should be well thought out to ensure the officials understand the information and how to best use the information. This is often referred to as change management. While this evolutionary approach applies to all financial and performance information it is crucial to introduction of cost management information, since cost management represents a new way of thinking. The role of financial officials is critical—to help shape the information to the needs of the policy, program and operating officials, to analyze the information and to advise as to the meaning of the information.

A Word About Cost Management Information

Cost management information is more and more critical for policy, program and operating officials for day-to-day and strategic decision-making—for management purposes. The key is to provide officials with relevant information tailored to and consistent with the types of decisions being made.

FASAB standards require that cost information in financial statements be based on the concept of “full costs.” This requires that the costs of activities and functions displayed in the financial statements include depreciation and the allocation of indirect costs (most often administrative and overall management costs). Full costs of programs, etc. is reasonable for financial statement purposes and for a number of operating activities, particularly those for which reimbursement and fees are expected.

For many internal management decisions, full costs are not relevant or even useful. For example, the comparative operating costs of similar offices to determine which are most efficient can be better judged by comparing the direct costs of operation, without considering indirect costs. The indirect costs will not change, no matter what action is taken with regard to operation of the different facilities.

For many operating and program decisions, relevant information is, well, more relevant. Policy, program and operating officials must have cost information available so they can make good decisions. Often the relevant costs are the direct costs (or traceable costs) attributed to the program, service, project or organization in question. Even gathering those direct costs is often a challenge in today’s financial systems environment. Allocations of administrative or other costs tends to blur and confuse, not to clarify. Further, allocations of administrative costs make it more difficult to monitor and manage the administrative resource centers. Thus, the financial systems must recognize the costs relevant to specific activities or operations. The concept of relevant costs was highlighted in the CFO Council’s 1997 report titled *CFO Council/JFMIP Cost Accounting Implementation Guide*.

Financial systems must recognize and be designed to report relevant costs, as well as “full costs.” A key responsibility of the financial official is to help determine relevant cost information to provide to the policy, program and operating official.

Conclusion

Policy, program and operating officials need relevant, timely, accurate useful information for strategic and day-to-day decision-making. That information requires the financial discipline mandated by requirements for periodic financial statements subject to outside audit. This demands a seamless suite of financial systems and reports to ensure that information for decision-makers is consistent with the information in the audited financial reports.

Still little is known about financial information needs of policy, program and operating officials. To gain more insight, AGA and *Government Executive* magazine have conducted a web-based survey to identify and articulate those needs (see page 8). The results of this survey will be available for analysis and consideration as new financial systems are being implemented. This survey will help us to better understand the type of financial information required by policy, program and operating officials and the requirements for a seamless suite of financial information and systems.

1. *The Government Accountants Journal*, Winter, 1997 and *Government Executive*, July, 1998
2. *The Government Accountants Journal*, Winter, 1997.



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