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The Chief Financial Officer Act 25 years later

Introduction

Today, Mary—a sixth grader, had to stay home from school to care for her brother and sister as her mom needed to take a second job in order pay for health insurance. This is just one of the many "blows" that Mary will face over her lifetime. By the time she is ready to draw Social Security, if no changes are made, she will receive only a portion of the benefits that she has been promised.

The Chief Financial Officer Act is a tool that could greatly soften these blows. Being fiscally responsible in the public sector depends not just on sound financial reporting, but it also depends on the efficient management of resources, the elimination of waste, improvement of productivity, and most important, on the use of professional financial management principles and practices. Congress and the President need to take notice of the fact that every large business and financial entity vests the responsibility for financial management in a professionally trained and experienced Chief Financial Officer (CFO).

I was elected to Congress in 1984, as the first practicing Certified Practicing Accountant ever to serve in the House or Senate. Building on my twenty-two years of experience at Arthur Andersen & Co. (twelve as tax partner), I was determined to change how our American government worked—protecting Mary and millions like her.

Now, as the President spends $4 trillion during Fiscal Year 2016, on programs and operations, it is even more important to provide elected officials and their appointees with tools to facilitate their management and control of government business. For example, there are over 100 federal government cash and non-cash assistance programs for low-income individuals and families. If these programs were "cashed out" and the money given to those in poverty, there would be no one left in poverty! We know that cashing out government programs doesn't work, but the plain truth is that we have been spending hundreds of billions each year since 1965, much of it borrowed, and we still have about the same percentage of Americans in poverty! Many millions of Marys are being denied the American dream because our elected representatives, citizens, and government workers lack accurate financial reports that would lead to more responsible social, economic, and national security policies.

Origins of the CFO Act

As we observe the 30th anniversary of my election to House of Representatives and the 25th anniversary of "The CFO Act"—which I first introduced in the House of Representatives as a new Member in 1986—it is important to connect the historical dots.

I remember the awe and respect that my immigrant father had for his accountant when he came to our family food market in the Bronx several times a year in the 1950s to prepare tax filings. This must have been on my mind when I chose to become an accounting major at Fordham University. My professional career at Arthur Andersen gave me the practical knowledge about public sector accounting that later would enable me as a CPA to bring fresh ideas to Washington.

The work that I performed as part of a firm-wide team of Arthur Andersen partners in 1975 and 1976 that facilitated the federal bailout of New York City and that developed the first prototype US consolidated financial statements (using "general accepted accounting principles" on the accrual basis of accounting) set the stage for what I would accomplish in Washington. My major goal, as a Member of the House, was to improve federal financial management, reporting and accountability.

In January 1985, as a new House Member, I let my colleagues know that I was concerned about poor government accounting practices. Specifically, these included: the use of the cash basis of accounting in the budget process, the lack of independently audited financial statements, and the lack of congressional oversight over the poor and inadequate federal financial management practices and accounting systems.

In a letter to the Senate's Government Affairs Committee (the counterpart to the Government Operations Committee in the House on which I served), Comptroller General Charles Bowsher agreed with my early assessments, noting that "financial management in the federal government is a major problem facing us today. Poor systems, information inadequacies, and weak controls have frequently resulted in wasteful spending, inefficient management, and losses totaling billions of dollars."

Bowsher, himself a CPA and former Partner at Arthur Andersen (as was his successor, David Walker), added that:

Current financial reporting practices of the federal government do not disclose the actual cost of operations; do

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not disclose the financial condition of the federal government; do not disclose the current and probably future costs of investment or policy decisions; do not permit effective comparison of actual costs or accomplishments to budget plans; and do not provide the timely information required for efficient management of programs... There is no official with clearly defined authority and responsibility for assuring the effective and efficient operation of the federal government's accounting and other financial management systems.

Clearly the original concept of tying management improvement to the budget just hasn't worked. The time has come to find a more workable solution to these problems. I believe the establishment of an independent Chief Financial Officer is a major element of such an approach.

The Comptroller General of the United States, head of the Government Accountability Office, was to most people the most respected accountant in America. Although Bowsher obviously agreed with my ideas, I was criticized by other Representatives and by political opponents as being too focused on accounting issues. At times I was pejoratively called a "bean counter," or someone with proverbial "green eye shades" as well as lacking compassion, even though my voting record clearly showed my concern about human rights and social issues.

I was persistent in reminding my colleagues in the House during floor statements and "special orders" that we had grave budget deficit and financial management problems in the federal government, but that I was willing to increase spending on some programs and decrease others based not only on need but on how they were managed. On many occasions I declared that cutting expenditures across the board to reduce the budget deficit (as is happening today with the "budget sequester") was nonsense, and that we needed compassion as well as commonsense when identifying social needs and allocating resources through the political process.

Simultaneously, I argued that we must also manage government programs the way successful businesses are managed--holding people responsible for their actions and rewarding good performance. Now, I can confidently repeat what I said as a Congressman on the floor of the House years ago; namely that if more Members were attuned to how business functions, they would be more understanding and appreciative of the long-term ramifications of their political decisions. As I stated in a meeting of the Republican Party Caucus years ago, "Waste isn't one thing—it is thousands of small things. It is structured, systemic, and must be approached from the point of view of financial management, good accounting systems, and strategic planning." I was trying to prepare my House colleagues for the need for a federal Chief Financial Officer—a concept that could be implemented by the federal government only through legislation.

The first CFO bill is introduced in the house

On March 25, 1986, in the 99111 Congress, I introduced H.R. 4495, a bill entitled "The Federal Financial Management Improvement Act." The bill provided:

- The establishment of an independent Office of the Chief Financial Officer of the United States within the president's Executive Office to provide "government-wide direction and coordination of financial management activities."
- The establishment of an Office of the Assistant Secretary-Financial Management within each executive agency.
- The creation of a federal Financial Management Council chaired by the CFO and comprising the Assistant Secretaries for Financial Management of the major federal agencies and departments.

The bill was referred to the House Government Operations Committee, on which I served. In introducing the bill, I stated that federal departments and agencies use a "veritable jungle of special purpose, incompatible, antiquated accounting systems producing unreliable, incompatible, and often irrelevant financial information." I also noted that federal government financial management functions and responsibilities "are seriously fragmented and disorganized—split among the Office of Management and Budget, Office of Personnel Management, the Treasury Department, the various executive branch agencies, and the General Accounting Office, with none having clear-cut responsibilities for oversight and direction of the federal government's financial management operations and activities."

With the Savings & Loan Bank crisis clearly emerging on February 25, 1987 (in the 100th Congress), I introduced H.R. 3142, a new version of H.R. 4495, now called "The CFO Act" and with 10 co-sponsors. Later, on August 6, as the S&L crisis was raging, I introduced an enhanced version of the CFO Act with 57 co-sponsors, after much personal lobbying of my House colleagues on both sides of the aisle. The bill later became the basis for the CFO Act introduced by my senior colleagues in the Government Operations Committee, Chairman John Conyers (D-MI), and Ranking Member, Frank Horton (R-NY). After a conference with the Senate Committee on Governmental Affairs, chaired by Senator John Glenn, "The CFO Act" (now H.R. 5687) was passed in the 101st Congress after I left the House and was signed into law on November 16, 1990, by President George H.W.Bush. (Bush sent me a personal note to commend the work that I initiated in Congress to get this done.)

Why the CFO Act should be amended is now clearer than ever

After twenty-five years under the CFO Act of 1990, the federal government is still not mandated to provide annual consolidated financial statement using the "generally accepted accounting principles" required by the accounting profession and enforced by the Securities and Exchange Commission for publicly traded companies. This allows trillions of dollars of unfunded liabilities, the huge cost of government guarantees and insurance subsidies, and the real cost of uncollectable government loans to be relegated to "sustainability" figures for entitlements just below the "balance sheet" and in "footnotes" spread throughout 200+ pages of the U.S. government's consolidated annual financial report signed by the Secretary of the Treasury.

It is estimated that, currently, at least 50 trillion dollars of federal obligations and liabilities are excluded from the actual financial statement of our federal government's assets and liabilities (commonly called the "Balance Sheet"). Mary's share alone is hundreds of thousands of dollars and is rising every day!

But even if one accepts the use of the accounting principles upon which the annual financial statements are currently prepared, the Comptroller General's Report is ominous in that no audit opinion can be expressed on the annual consolidated financial statement of the U.S. government. This is due to serious financial management problems and "material weaknesses, at the Department of Defense, and the federal government's inability to adequately account for and reconcile intra-governmental activity and balances between federal entities. (The latter was taken from the Statement of the Comptroller General of the United States on February 27, 2014 iii.) The significance of the accounting problem was brought home in an article by Robert Romano, the senior editor of Americans for Limited Government, in describing how the federal deficit for fiscal year 2014 of $484 billion turned into $1.1 trillion of new debt subject to the statutory debt limit. Romano pointed out that because of divergent accounting systems used within the federal government, the annual budget deficit "bears little resemblance to how much money the US Treasury will actually need to borrow to pay for all of the obligations of the federal government over the coming year." He concluded rightfully that, "We cannot expect Congress to truly address the debt when the government will not even be fully transparent about how much it is really borrowing on an annual basis."

The opening paragraph of the Comptroller General's Report begins with a wake-up call addressed to the President of the United States, the President of the Senate, and the Speaker of the House that, "the federal government continues to face an unsustainable long-term fiscal path" and ends with the admonition that "much work remains to improve federal financial management, and these improvements are urgently needed."

Conclusion

We need to return to the legislation that I originally proposed in 1987. The CFO Act passed in the House and Senate was watered down by political compromise. To accomplish this, an updated CFO Act should include:

(1) A Chief Financial Officer as the President's trusted appointee, confirmed by Senate, holding an independent position within the Executive Office of the President for a fifteen-year term which would be not coterminous with any Presidential election, thus reinforcing the perception of complete independence from the political process to match the independence of the Comptroller General in the Legislative branch.

(2) Annual reports using "generally accepted accounting principles" on the accrual basis of accounting, as prescribed by the accounting profession and called for by every Comptroller General and four U.S. Presidents and two Hoover Commissions since 1949.

(3) Independent audits by nongovernment, private-sector Certified Public Accountants would remove even the perception that annual financial statements are in some way compromised by government agencies auditing other government agencies. (In addition, this would help to alleviate the manpower shortage of high-level financial management professionals in the federal government today.)

(4) CFOs of every federal agency and department who are highly qualified, professional, and experienced management accountants or CPAs, to avoid even the perception of political cronyism in their appointment. (Today only the Deputy CFOs of each agency or department are required to have such qualifications.)

An updated CFO Act, taken seriously by the Congress and the President, in combination with a strict following of current congressional authorization, appropriation, and budget laws, rules, and procedures could make a substantial difference for all "Marys" and her siblings in America today and for future generations.

Finally, a change in the accounting system to an "accrual" basis versus a cash basis of accounting for federal operations would become an automatic break on reckless spending—once Americans realize that the real cost of government and the real national debt are far greater than politicians are telling them. "Intergenerational fairness" will result from these important changes in accounting for federal spending and obligations. Current and future generations of Americans would gain immensely from this.

The challenge faced by the accounting profession is now more obvious than ever. The American Institute of CPAs, the fifty State Societies of CPAs, the Association of Government Accountants, the Institute of Management Accountants, and the American Accounting Association must take the lead through their large memberships of well informed and highly trusted citizens to call for the implementation of the reforms outlined above—reforms that are needed to bring genuine transparency, public accountability, fiscal responsibility and financial sustainability to the United States.

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