

The Business of Government

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FROM THE EDITOR'S KEYBOARD 1

Profiles

OUTSTANDING LEADERS 2

Leading the Department of Health and Human Services: A Conversation with Secretary Donna Shalala and Deputy Secretary Kevin Thurm

CHANGING ORGANIZATIONS 8

The Chief Financial Officers Act — 10 Years Later
Transforming the District of Columbia Department of Motor Vehicles

Research Abstracts 18

The Endowment 28

Recent Grant Award Winners

by Paul R. Lawrence



This issue of *The Business of Government* commemorates the 10th anniversary of the Chief Financial Officers (CFO) Act of 1990. This act was the first in a series of new legislation enacted in the

decade of the 1990s which mandated that government adopt many business practices common in the private sector. In short, the act required that government begin operating more "businesslike."

In preparing their article, Steve Watson and Kent Owens talked to seven of the government's most respected Chief Financial Officers. When asked about the impact of the CFO Act, all noted the importance of performing a financial audit of a government organization. In many ways, the public sector is now repeating the experience of the private sector. The expansion of audit capability in the private sector resulted in a profound change in our national business culture. A similar revolution in the audit capability in the public sector will likely have a dramatic impact on the culture of government.

In the late 1920s and early 1930s, there was growing concern in the private sector about the need for accurate and objective information to ensure that financial markets operated fairly and efficiently. Franklin D. Roosevelt introduced legislation requiring increased financial reporting during his famous "hundred days." Legislation creating the Securities and Exchange Commission (SEC) was passed. The SEC then oversaw the establishment of the Generally Accepted Accounting Principles, commonly called GAAP.

The private sector accounting "movement" required that corporations be audited by disinterested third parties. It is hard to minimize the effect that financial audits have had on the private sector. The creation of accurate information has become an essential tool for business leaders, investors, and entrepreneurs. A good case can be made that the growth of our national economy can be traced to a commitment to information transparency, stemming from financial audits. For the federal government, the requirement for audited financial statements parallels the private sector's early experience. For example, the Federal Accounting Standards Advisory Board (FASAB) was established in 1990 and created accounting principles for government.

The results of an audit are reported succinctly. A clean opinion means an agency has "passed" its audit. A qualified opinion generally means that deficiencies exist. Deficiencies are described with the understanding that an agency will address the problems cited and fix them. An adverse or disclaimed opinion means that more significant problems exist and that serious attention to the organization's financial management is needed.

During the last several years, the term "clean opinion" has entered the federal government's lexicon. In addition to receiving a "passing" grade, a clean opinion also means that agencies have followed prescribed financial processes. In short, it certifies that government agencies have the discipline to adhere to a series of principles. Since adhering to these principles is a necessary condition for strong financial management, a clean opinion provides independent validation of an agency's financial management skills.

The value of a clean opinion becomes clearer when we recall the private sector experience. Without this validation, doubts existed as to the accuracy of the information and the credibility of management. In the federal government, the same doubts and credibility gaps exist. Congress, for example, with too little time and an abundance of information, is drawn to the audit opinion as a quick way to understand who can be entrusted with scarce resources. Thus, absent other information, a clean audit opinion provides credibility to management seeking more funds.

The attempt to adhere to uniform financial management practices debunks the myth that agencies are unique. Auditors, rendering opinions about how the agencies are faring, provide a meter as to how businesslike our government really has become. In this issue of *The Business of Government*, we recognize the importance of Chief Financial Officers as leaders in this movement. In the decade ahead, the "clout" of CFOs is likely to increase as both the executive and legislative branches pay increased attention to the results of agency audits. The private sector clearly has shown us the impact that audits can have on organizations and on the economic well being of our nation. ■

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