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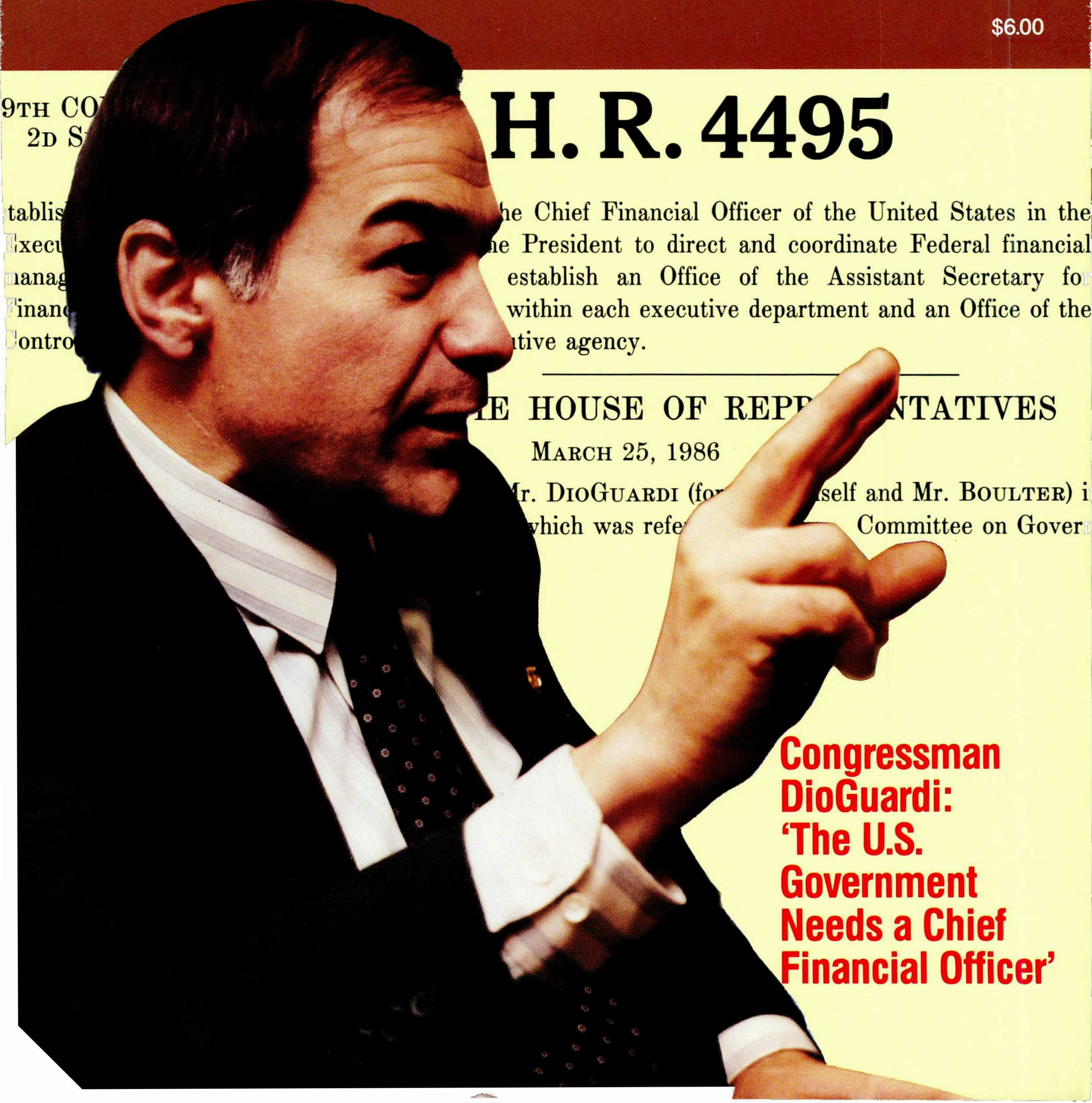

Congressman DioGuardi: 'The U.S. Government Needs a Chief Financial Officer'

Congressman DioGuardi: The U.S. Government Needs a Chief Financial Officer

This lonely accountant
(one of only four CPAs in Congress)
says there is a missing link
in government: the linchpin of
financial discipline.

By Kathy Williams

Will the United States government ever be run like a business—subject to proper accounting systems and procedures, a capital budget, audited financial statements, fiscal responsibility, adequate record keeping, good controls? Congressman Joseph J. DioGuardi (R-N.Y.), a former partner with Arthur Andersen & Co. and one of only four certified public accountants in Congress, is doing his best to make it happen.

Last March the freshman representative from New Rochelle in Westchester County introduced in the House of Representatives Bill H.R. 4495, the Federal Financial Management Improvement Act, calling for a chief financial officer for the federal government. Operating in much the same manner as a controller or CFO of a corporation, the federal CFO would coordinate all federal financial management activities by consolidating them within a single organization. At present, these activities are scattered across several areas: the Office of Management and Budget (OMB), Office of Personnel Management (OPM), and the Treasury in the executive branch; the various executive branch agencies; and the General Accounting Office (GAO) in the legislative branch.

"None of these entities has clearcut responsibility for oversight and direction of the federal government's financial management operations and activities," Mr. DioGuardi notes. "In addition, financial management responsibilities have frequently been shifted from one central agency to another, and in each central agency, financial management functions must compete with a number of other assigned responsibilities for their fair share of attention. There is a missing link in the federal government. The linchpin of financial discipline is nowhere to be found. The financial management leadership void must be filled."

Mr. DioGuardi became determined to try to change the government's accounting systems after hearing "horror story after horror story regarding the lack of established businesslike financial management practices" during his first year on the Government Operations Committee and attending hearings on the deficit and government waste. The businessman of 22 years was appalled by the reactive attitude and actions of Congress, "robbing Peter to pay Paul, putting out fires every day, staying one step ahead of the sheriff—that's our budgetary process."

"I thought I was going to Congress to get on the Board of Directors of Government," he exclaims. "Accountability is key to a Board of Directors, but I found we didn't have reliable financial information upon which to make decisions and report back to the public, our shareholders." He also discovered that the U.S. government operates on "a Mickey Mouse, cash basis of accounting and has no strategic planning whatsoever. The government is trained to think only a year ahead. It asks *what* we spent instead of *how* we spent it. It builds the home from the fifth floor down instead of the ground floor up. We have conditioned people in government to spend, not save," he admonishes.

He felt the time was right to introduce his legislation because of the current emphasis on reducing the federal deficit and curbing waste. A CFO could pull together previous attempts at coordinating government financial management practices. For example, the GAO for years has been reporting that "Our departments and agencies are a veritable jungle of special-purpose, incompatible, antiquated accounting systems producing unreliable, incompatible, and often irrelevant financial information. One of the latest GAO studies, moreover, reports that the federal government now uses 427 separate accounting systems, of which 53% do not conform to GAO accounting principles, standards, and related requirements," the congressman says.

The now-famous Grace Commission declared its "War on Waste" after uncovering in the government an estimated $424 billion of mismanagement and projecting a $1.96 trillion national deficit by the year 2000. J. Peter Grace, head of the Commission and chairman of W.R. Grace & Co., is, in fact, spending his own money to bring this message before the public via television commercials and print ads. The Citizens Against Government Waste, co-chaired by Mr. Grace and columnist Jack Anderson, is a nonprofit, bipartisan foundation formed to educate the public and Congress about the Grace Commission recommendations. The Grace Caucus, of which Mr. DioGuardi is an avid member, is a group of about 150 senators and representatives proselytizing to "not let the Grace Commission recommendations sit on the shelf."

Other predecessors to Bill H.R. 4495 include the Inspector General Act of 1978; the Federal Managers' Financial Integrity Act of 1982; Debt Collection Act of 1982; President Reagan's Council on Integrity and Efficiency; the President's Council on Management Improvement; a proposal by the Association of Government Accountants to strengthen controllership in the federal government; and various attempts by executive branch departments and agencies to reform their systems. These efforts aren't new—over the past 30-35 years, various systems and controls experts have developed coordinated accounting systems for the military and for other governmental operations, only to have them squelched right before actual implementation or implemented only partially. Even William E. Simon, former secretary of the treasury, 1974-77, tried to institute similar procedures in the Treasury function before he left office, but to no avail, and after he left, the matter dropped. Now Congressman Joe DioGuardi has picked up the gauntlet.

Setting up the Organization

The management structure Mr. DioGuardi envisions encompasses the CFO, who would serve in the executive office of the President; an assistant secretary for financial management in each executive department; and a controller in each executive agency. All would be appointed by the President, with the advice and consent of the Senate. The CFO would serve a 10-year nonreappointable term, and the assistant secretaries and controllers would serve a four-year, reappointable term. A Federal Finance Council, consisting of the CFO and the assistant secretaries for financial management, also would be established to assist the CFO in formulating plans and objectives, comment on proposed major changes in financial management operations, and prepare recommendations on selected issues.

In general, the federal CFO would provide leadership and direction while monitoring executive agencies in their financial management and reporting activities. He would develop and maintain a five-year strategic plan that would cover "system enhancements, staffing needs, technology improvements, required legislative actions, financial management objectives, information requirements, and budget priorities," Mr. DioGuardi explains. The CFO also would create financial statements for the government, which would be subjected to audits, as well as maintain the government's central accounting and reporting records. He also would ensure that personnel were managing the financial operations properly—even down to the details of making sure cash and checks were deposited as soon as they came in, something that doesn't happen now. "He needs tentacles going into each governmental agency and operation if this thing is to work. Otherwise, he's going to be on Cloud Nine, talking about accounting principles and not knowing what's happening in the trenches," Mr. DioGuardi exclaims.

A natural candidate for the position, he muses, would be "someone from a major company—like ITT, Texaco, IBM—where you have to literally pull together all kinds of pieces of financial information from various divisions and industries and even holding companies. You need someone who has been in the trenches gathering information, managing the financial function—a CFO from the private sector, whether he or she is certified or not."

Is a CFO Necessary?

When criticized by other congressmen for concentrating too much on numbers and not enough on compassion, he instantly fires back that he is just as concerned as the next person about humanity, and cites other bills he has introduced—those on drug abuse, child abuse, suicide legislation, and homeless housing assistance. "I'm making qualitative judgments. I know there's a deficit problem, but I'm willing to increase some programs and decrease others based on how they are managed and what their needs are. Cutting right across the board to reduce the deficit is nonsense," he explodes. "We've got to exercise every bit of compassion to identify social needs, programs we need, and allocate resources. Once we allocate those resources, however, we must *manage* that program the way we'd manage any business. Let's make sure we hold people responsible. If they don't do their job, out! If they do their job, give them a bonus."

He reiterates his accounting background and speculates that if more members of Congress were attuned to business, they would better understand long-term ramifications of their decisions. "We've counted 245 attorneys and only four accountants in Congress—at a time when we are trying to balance the books in government, dealing with budget issues, tax issues, economic issues. More than half of what we do relates to analysis, either quantitative or qualitative, that almost requires an accounting or business background. . . budget systems don't tie in with accounting systems. We have a budgetary system, an appropriation system, and continuing resolutions and supplementary budgets. I'm a CPA, and you can't imagine how difficult it is for me to follow what's going on. How other legislators are making these multibillion dollar decisions, don't ask me. Then waste—waste isn't one big thing. Waste is thousands of small things. It's structural, it's systemic, and it must be approached from the point of view of systems and planning—a CFO's point of view. That's why I have to make this issue my crusade."

Joe DioGuardi isn't alone in his efforts to install a CFO in the federal government. "The idea first began to be proposed seriously in the early part of 1980 by leaders in financial management in both the public and private sectors," he notes. "Roland W. Burris, the comptroller of the state of Illinois, and Joseph E. Connor, chairman of Price Waterhouse & Co., have both assumed a key role in promoting the need for a CFO." Various other individuals, nonprofit organizations, and private-sector groups are continuing this effort.

The General Accounting Office, charged with setting uniform accounting standards and principles for all federal agencies, is the government's independent auditor and a strong proponent for financial management reform. Comptroller General Charles A. Bowsher, head of the GAO, says, "We need better financial reporting at the federa[l] level. It's the key to the whole issue. We have th[e]

auditor (the GAO) and we need a strong CFO function in the government—a scorekeeper for the executive branch. OMB is in charge of the budget, and the CFO would keep score of how the budgeted money is spent, so the two would work closely."

In a letter to a member of the Senate Governmental Affairs Committee, the counterpart to the House Government Operations Committee, Mr. Bowsher noted 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." He added, ". . . current financial reporting practices of the federal government do not disclose the actual cost of operations; do 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 tieing 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."

A Companion Bill

In addition, Senator William V. Roth, Jr., (R-Del.), this spring introduced in the Senate a bill that would be a companion effort to Mr. DioGuardi's bill. Covering the same issue—financial management—it expands that scope to include credit management and debt collection, the federal credit system, subsidies, collection procedures, and controls. "We view financial management as one very important function of information management," Bob Gilmour, a spokesman from Mr. Roth's office, said. Because Mr. DioGuardi's bill "splinters out financial management," they consider it weaker than Mr. Roth's bill, he added.

The Roth bill would set up the director of OMB, rather than a separate individual, as the CFO, and the CFO would serve "at the pleasure of the President, with the advice and consent of the Senate." Mr. Roth's bill has had a few Senate hearings already, in May, and was marked up from committee in late June. If it passes the Senate, the House probably would take a look at it, Mr. Gilmour said.

Each group is confident its bill, or a modified version, will be passed, albeit when. It is doubtful, they predict, that legislation will be passed before Congress ends its term in early October, but not impossible. They could be back in session after the elections this November.

Mr. DioGuardi would like Mr. Roth to cosponsor his bill, but Mr. Roth hasn't agreed. Nevertheless, the DioGuardi contingent isn't upset about a divergent effort. "Having the counterpart chairman propose legislation that to the untrained eye looks a great deal like ours is a very positive development," notes Kieran Mahoney, legislative director in Mr. DioGuardi's Washington office. "If the Senate moves on it, it will force the House to move. We're hopeful the House will take a closer look at the legislation we've put together. Whether it gets passed in the 99th session is an open question, but it is an idea whose time has come."

A Young Turk

How did someone with Joe DioGuardi's conservative numbers-crunching background happen to land in the House of Representatives and try to accomplish so much in his first term? "It's all part of my strategic plan," he grins. He always had "lurking in the back of my mind," the idea of running for Congress, but probably not until he was in his 50s. At 43, however, he saw an opportunity and grabbed it. As a partner with Arthur Andersen & Co., he concentrated his efforts outside the

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Congressman DioGuardi

office—within his community instead of inside the firm. As tax partner with firmwide responsibility in the not-for-profit and public sectors of his firm, he became involved both professionally and as a volunteer in a host of charitable, civic, and cultural organizations, bringing to bear his financial, tax, and accounting background.

He had joined the firm in 1962 but quickly decided auditing wasn't his forte. By 1965 he had switched to taxes, "a marriage made in Heaven," he smiles. As a young partner, he was called in to participate in the firm's work on New York City during its fiscal crisis and then worked on the audit of Yonkers, N.Y. "New York City's books were trucked in on dollies," he sighs, remembering. "People trying to run the City weren't getting the financial information they required, and politicians were setting the accounting standards. . . the crisis in the federal government today is similar to the NYC crisis. We took away New York's cash basis of accounting. . . and now we're using the same system."

He next turned to nonprofit groups, working with the Boy Scouts, Phoenix House, American Cancer Society, YMCA, Fordham University, and the Archdiocese of New York. "I saw firsthand how social welfare functions were efficiently managed by quasi-public, quasi-private organizations as good bridges between the private and public sectors. I had this interesting combination of experience looking at what happens professionally when you don't manage well, you don't account well, and looking at how public services are rendered better by nongovernmental agencies."

By 1984, he had been a partner for 12 years when the opportunity to run for Congress came along, "a natural extension of what I tried to do in the community, what I tried to do at Arthur Andersen as a professional—to educate municipalities about how to organize themselves better, how to get a meaningful database, how to account better, how to report better professionally, and how to better render services to the public." A conservative Republican in a liberal Democratic county, he won by a slim margin (4,000 votes) an election he was supposed to lose by 25,000 votes. He's up for reelection this November.

The Story of America

On occasion he still feels the glow of those first few weeks in Congress, before the hard work started, when his parents and other family members and friends were in Washington "to see Joey get sworn in." An Italian immigrant, his father came through Ellis Island in 1929 at age 15, unable to speak English and looking for work. After two years of shining shoes and other odd jobs, he bought a vegetable stand in Harlem in 1931, then a grocery store in the South Bronx, where his son was later born and raised. He met Joe's mother, the first in her family to be born in America, on 100th Street on the east side of New York. She was making ties in a factory and getting paid by the piece. They met, married, had children and moved to Westchester County in 1957. "It's not the story of the DioGuardi family—it's the story of America," Joe DioGuardi smiles.

Although he enrolled in Fordham University in 1958, "I didn't know what I wanted to be when I grew up. When you come out of an immigrant environment, your main concern is 'am I going to make enough money for my family?' " After talking with the father of one of his friends, he decided to try accounting, liked it, majored in it, and decided to use it as a basis for later attending law school. In his senior year, however, after being accepted to law school, "Our dean comes up to me and says, 'Joe, we're starting an internship program, and we'd like you to be one of the four to represent us at a Big 8 accounting firm. We've chosen Arthur Andersen for you. You'll get exemptions from your exams, and you'll get $100 a week.' I said, 'I'll take it.' The next thing I know I'm on a plane to Sylvania Electric Products in Camillas, N.Y., on an audit. I really got to see the inside of accounting. It caused me to delay my plans to go to law school, thinking I'd go at night, but I never did. I joined Arthur Andersen fulltime instead, and went from an intern to partner in 10 years. I worked hard. I took that grocery store upbringing and literally worked seven days a week. I was very proud when I became a partner." In his late 20s he married Carol Asselta. They have two children: Kara, 15, and John, 12.

Now he's charging through Congress in hopes of instituting what he considers necessary reform. He served as a trustee of the Citizens Public Expenditure Survey Foundation, a taxpayer watchdog group, and started the Commonsense Educational Fund, a group formed to educate the public about accountability issues and to help them understand why the legislative process is not responding to the challenge of planning. His main concerns at present are pushing the CFO legislation through and getting reelected. What if he doesn't get reelected and has to revise his strategic plan? "We'll see," he philosophizes. "Legislators *talk* about things, and I'm a *doer*. One of my biggest frustrations is that I want to take many of these ideas on accounting reform and make them work almost immediately. They say, 'hey, that's not your job.' I want to try to make it my job, if not as a congressman, then as a citizen through the foundation. We'll just have to see where it goes." □

Opinion

Robert L. Shultis, Executive Director

A Tale of Two Bills

Charles Dickens brought us *A Tale of Two Cities* about life in London and Paris nearly 200 years ago during the days of the French Revolution. Since the old boy has been dead for well over 100 years, I doubt that he will object to my semi-plagiarizing the title as a lead-in to this month's column.

The "bills" mentioned in the title are lowercase bills—that is, bills introduced recently in the House of Representatives which, if passed, could have a significant effect on us as accountants and as taxpayers. One looks good; the other, in its present form, could be a real problem.

In case you haven't guessed by now, the first of these is reproduced, in part, on the cover of this issue of MANAGEMENT ACCOUNTING. It is H.R. 4495, and was introduced by Congressman Joseph DioGuardi (R.-N.Y.) about whom you can read more elsewhere in this issue. As you will see there, Joe DioGuardi is one of a very small handful of congressmen who have an accounting background and probably the only one who has jumped directly from a Big 8 partnership to Congress.

Therefore, he knows whereof he speaks when it comes to financial controls of an organization. His bill would set up the Office of Chief Financial Officer in the Executive Office of the President and establish an Office of Assistant Secretary for Financial Management within each executive department and an Office of Controller in each executive agency. The proposed title of the Act itself is "Federal Financial Management Improvement Act."

Does the federal government need improvement in its financial management? Does it ever! Here is the biggest business in the world and there's no CFO, by whatever name, to guide and coordinate its activities.

The President's Private Sector Survey on Cost Control (the Grace Commission) reported three years ago that there were *332* separate federal accounting systems, of which *123*, or 37%, were *not* in compliance with General Accounting Office standards as required by law. Of course, that was three years ago. Things have improved since then, haven't they? Well, a recent GAO report disclosed that the federal government now uses *427* separate accounting systems, of which *226*, or 53%, are not in compliance with GAO standards. The number of systems not in compliance with GAO standards has grown by 84%!

What about the existing accounting offices in the federal government? What about the Comptroller General and the General Accounting Office, for example? Those titles are misnomers if there ever were any. They are really the audit arm of Congress and, even there, only about 25% of the audits are of a financial nature. The Comptroller General is not a controller within the usual meaning of the term.

The Secretary of the Treasury? Or the Office of Management and Budget? No real accounting responsibility there, either. There is no person or group of people with overall financial and accounting responsibility to help run a trillion-dollar-a-year business! As accountants and as citizens we should be ashamed of ourselves for allowing this to exist.

For that reason, all of us should bring this worthwhile bill to the attention of our Congressional representatives and express our support for it. Could *your* business run very well without someone responsible for the accounting and finances?

Now let's look at H.R. 4886, which carries with it the short title, "Financial Fraud Detection and Disclosure Act of 1986." It was introduced by Congressman Ronald Wyden, with Congressman Dingell and five other congressmen as co-sponsors, at least five of whom are attorneys.

This is a bill "to amend the Securities Exchange Act of 1934 to require audits performed under the Federal securities laws to include reasonable procedures for financial fraud detection, and to require that auditors report fraudulent activities to appropriate enforcement and regulatory authorities." The bill would require that auditors conduct their work "in accordance with specific and substantive procedures that reasonably ensure the detection and reporting of *any* illegal or irregular activity by any director, officer, employee, or agent of, or other person associated with, the entity being audited or examined." All of this is supposed to end up as a written report by the auditor to the SEC or to any other federal, state or local enforcement authority that may have jurisdiction.

There's more, but that's enough for starters. Think about this for a minute and consider how

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it might affect either the management accountant or the public accountant.

- What would happen to the valuable mutually cooperative relationship between auditor and client?
- What is an "irregular" activity?
- Are the auditors to be put in a position of defining what is legal and what isn't? What is fraud and what isn't?
- What is "a weakness" in internal control? (The auditors must report on *any* such weakness.)
- What happens if the auditors *don't* find a fraud, which then turns up later?
- If passed, what would happen to the audit fees? How about legal fees?

As I said, those questions are just for starters. In his floor statement, Congressman Wyden cites the usual well-known cases such as the "intricate and blatantly illegal shell game at ESM Government Securities that ultimately brought down the entire state-insured savings and loan industry in Ohio," (his words) as rationale for his bill to safeguard the public. Again, using his words: "Hundreds of thousands of investors and creditors were out hundreds of millions of dollars."

There *have* been cases of management fraud. There *have* been cases of auditor deficiency. No one can deny that. No one and no law can guarantee it won't happen again. But a little perspective is needed. The perspective I would like to bring into focus is a comparison between the "millions" which Congressman Wyden cites and the *billions* being wasted or uselessly spent by the federal government, as cited by the Grace Commission and the GAO.

There is an old expression that in business "you have to dance the fast ones." In other words, concentrate your efforts on the big show—and in this case the big show is the federal government. All of us as taxpayers are getting gored by monumental costs and it's time some measures were taken to control or manage these costs.

Congressman DioGuardi's bill (H.R. 4495) is a start in the right direction. It's an attempt to put some semblance of order to a totally chaotic situation. It deserves the support of all accountants who know more than anyone the contributions a capable CFO can make. Congressman Wyden's bill (H.R. 4886), on the other hand, would, if passed, raise costs, straitjacket an honorable profession and do little to improve the situation, which isn't all that bad or pervasive to begin with. □

Note: You can obtain a copy of either or both bills by writing to NAA, 10 Paragon Drive, Montvale, NJ 07645-1760, Attention James Collier.

