

Journal

OF GOVERNMENT FINANCIAL MANAGEMENT® WINTER 2022 VOL. 70, NO. 4

Value Creation in Government





Creating Greater Value

THROUGH THE

Statutory Performance and Accountability Framework

By Andrew C. Lewis, Derek W. Thomas, Kelly D. Salter and Jeffrey C. Steinhoff

Governments have long recognized the importance of creating value. In the private sector, value is usually considered in financial terms, such as profitability and increased market value, and in the quality of goods and services. Some may even measure societal value, such as protecting the environment, creating jobs or enhancing diversity and inclusiveness. In government, value can be all encompassing and almost entirely societal — from national defense, health and welfare, social security, the safety net, the environment, transportation, housing and employment to poverty, equality, justice and the soundness of the financial markets. People expect governments to provide for common needs and be ready in times of crisis.

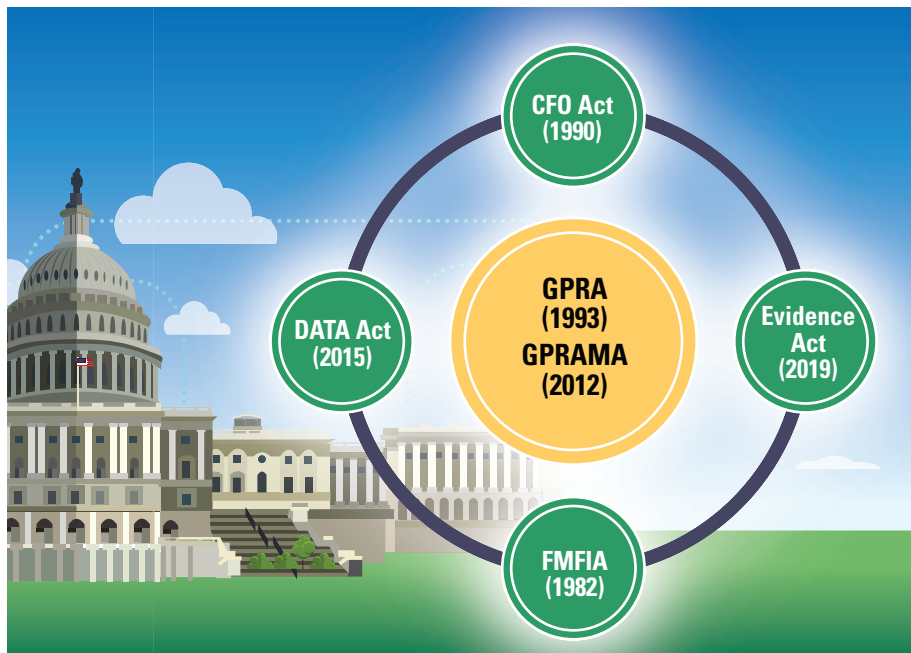
The complexity and sheer enormity of government and its impact on our daily lives make the value equation especially challenging and important. The federal government spent \$6.55 trillion in 2020, or \$19,800 per individual, and collected \$3.42 trillion, or the combined revenue

of the top 16 Fortune 100 companies in 2019.¹ People can decide not to patronize a business, but they have no choice whether to pay taxes.

Recognizing the criticality of enhanced performance, the federal government over the past four decades has developed a statutory framework to increase value through performance and accountability. With the Government Performance and Results Act (GPRRA), as updated by the GPRRA Modernization Act (GPRAMA), this framework includes the landmark CFO Act, Federal Managers' Financial Integrity Act (FMFIA), Digital Accountability and Transparency (DATA) Act and Foundations for Evidence-Based Policymaking Act (Evidence Act).

The framework boosts value as an integrated management system that rests upon six actions: 1) seek continuing public input, 2) standardize program and financial data, 3) adopt managerial cost accounting, 4) collaborate within and across disciplines and agencies, 5) work with the grantee community, and 6) validate performance data.

Figure 1. Statutory Framework Legislation



Understanding the Statutory Framework

It is crucial to understand the content, intent and context of the five bipartisan laws of the framework, shown in **Figure 1**, and how they should work together. As shown in **Figure 2**, supporting legislation strengthens the framework. For example, the Grant Reporting Efficiency Agreements Transparency (GREAT) Act dovetails with the DATA Act. The value proposition is government that works better and costs less, with open and transparent public reporting and accountability for performance and results.

GPRA, as amended by GPRAMA, focuses on results, service quality and customer satisfaction. It integrates budget, financial and performance measurement and establishes a strategic planning process, annual performance plans, with defined objectives and performance goals, and annual performance reports. At the center of the framework, it encapsulates value to the public through strong performance and results — also goals of the four other framework components.

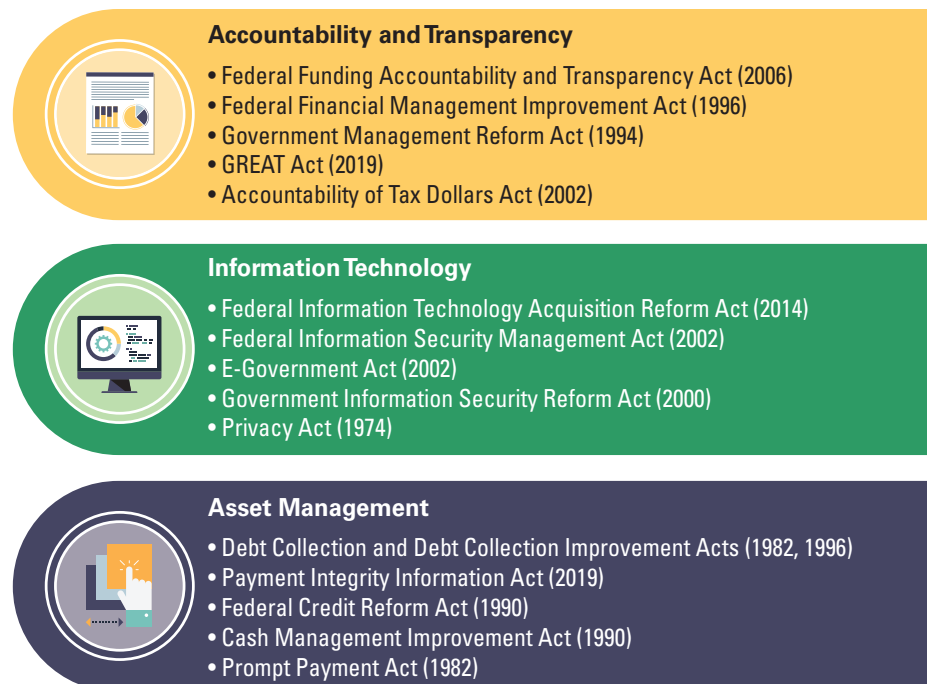
The **CFO Act** has three overarching objectives — systematic measurement of performance, development

of cost information, and integration of program, budget and accounting systems. Audited financial statements, made permanent by the Government Management Reform Act, led agencies to address longstanding weaknesses in accounting systems and financial management

data, but the end game was a cadre of CFOs who deliver valued financial information to program managers and to the public to support performance and accountability.

The **DATA Act** raised the information bar by requiring governmentwide data standards and increased data availability (e.g., public reporting on USASpending.gov), accuracy and usefulness. A sound data standardization framework is critical to users' ability to analyze and understand spending data and reach meaningful conclusions about value and performance. Treasury and the Office of Management and Budget (OMB) are focusing on the full spending life-cycle to support "Better Data, Better Decisions, Better Government." The goal is to follow spending from congressional appropriation (how much and for what programs, projects and activities) to the commitment and obligation (what goods and services, for what reason, and for whom) to disbursement of funds (amount, payment date and recipient), linked to receipts and financing (revenue and borrowing). They call this "360-degree spending transparency." Increased visibility provides the public a more complete spending picture, while supporting agency management

Figure 2. Supporting Legislation



in spending decisions, program oversight and cost management.²

FMFIA is directed at all federal managers, not just financial managers. From the outset, OMB and the Government Accountability Office (GAO) referred to internal controls as management controls — what managers want to have happen and happen well and what they want to avoid and at what cost. GAO's *Standards for Internal Control in the Federal Government* define internal control as a "process used by management to help an entity achieve its objectives" by running its operations efficiently and effectively, reporting reliable information and complying with applicable laws and regulations.³ OMB Circular A-123, *Management's Responsibility for Internal Control*, mandates enterprise risk management (ERM) to assess the "full spectrum of the organization's external and internal risks by understanding the combined impact of risks as an interrelated portfolio,

rather than by addressing risks within silos." Under ERM, a risk appetite governs the establishment of controls, predicated on costs and benefits and the amount of risk organizations are willing to accept. Too much control is detrimental to effectiveness and efficiency, thereby impacting value. A fundamental question agencies must answer is whether they have the "right" controls for today's missions and risks.

The **Evidence Act** mandates "systematic rethinking of government data management to better facilitate access for evidence-building activities and public consumption."⁴ The act emphasizes collaboration and coordination across federal agencies to advance data and evidence-building. Broadly defined, evidence includes foundational fact finding, performance measurement, policy analysis and program evaluation. The quality of data that becomes evidence used in decision-making becomes paramount.

Using the Statutory Framework to Build an Integrated Management System

Agency programs are supported by management systems and a cadre of "chiefs" — CFOs, chief information officers, chief data officers, chief risk officers, chief human capital officers and chief technologists. The CFO Act established a Deputy Director for Management in OMB to provide governmentwide leadership over all facets of management. Many agencies followed suit, through legislative mandates or voluntarily, by establishing deputy secretaries for management or chief operating officers to bring disciplines together.

Fully integrating related systems and processes across the enterprise to include partner agencies and state and local governments drives better information for decision-making to enhance performance and impact and lower costs, while increasing accountability and transparency.

KPMG remembers

Hal Steinberg

1935-2021

Partner in charge of KPMG's state and local government practice

Partner in charge of KPMG's federal government practice

OMB's first Deputy Controller and Acting Controller

Driving force behind AGA's CEAR Program

FASAB Board Member

Mentor

Friend

We will miss you, Hal





It is, thereby, essential to build an integrated management system, supported by six actions to create greater value and rebuild public confidence. Fully integrating related systems and processes to include partner agencies and state and local governments further improves information for decision-making, while it enhances performance, lowers costs, and increases accountability and transparency. These six actions will increase value.

I. Seek continuing public input on their expectations, customer service quality and ideas for improvement. Private sector companies continually gather hard data on customer likes and dislikes by asking them. Federal agencies largely do not. This lack of input drives down customer experience,⁵ causing the federal government to continually trail the private sector in public trust.⁶

II. Standardize program and financial data to establish clear definitions and comparability within and across programs and agencies. In developing trade-offs and assessing outcomes, comparisons should be “apples to apples.” Standardization strengthens public reporting, and clarity and understandability build trust. Determine which data is relevant and where it resides, and link GPRA/GRPAMA and DATA Act information with financial reporting.

Information on USAspending.gov, supporting the DATA Act, comes from agency financial systems and external governmentwide reporting systems. In November 2021, GAO reported that Treasury had taken additional steps to disclose known data limitations on USAspending.gov. GAO identified nine opportunities to further enhance data quality, covering areas such as timeliness, completeness, accuracy, business process controls, and the implementation and use of data standards. For example, for the reporting period ending March 31, 2021, GAO found that hundreds of billions of dollars in obligations were reported with a program activity of “Unknown/Other.”⁷

III. Adopt managerial cost accounting by systematically accumulating and analyzing financial and nonfinancial data to determine the cost of achieving

performance goals, delivering program elements and pursuing other activities. Expressly required by the CFO Act, but largely unavailable over 30 years later, high-quality managerial cost information is integral to strategic and operational planning, budget preparation and execution, performance measurement, program evaluation and cost control.⁸

IV. Collaborate within and across disciplines and agencies so the whole exceeds the sum of the individual parts of the statutory framework. These laws should **never** be implemented as independent requirements or viewed as free-standing compliance programs, which may often be the case today. Implement a coherent, integrated transformation strategy. Also, reporting can be smartly integrated to avoid duplication and disconnects. Among common collaboration challenges:

- **Information systems**, a prerequisite to all parts of the statutory framework, must be modernized. Decades-old systems never get better with time. Continued maintenance of antiquated, standalone management systems dominates federal IT spending, pushing aside modernization that improves performance and adds value.⁹
- **Disparate information** of dubious quality and reliability must be identified and eliminated.
- **Processes and procedures** must be recalibrated through ERM to address what is important and accept informed risk.
- **Intelligent automation**, from robotic process automation (RPA) to AI, must be implemented.

V. Work with the grantee community to implement the GREAT Act. The new emphasis on standardized reporting requires grantees and government agencies to change certain grant accounting and reporting procedures. The type of data being collected is fundamentally unchanged. It is

being gathered in new formats with clearer parameters. Data standardization helps grantees with awards from multiple agencies to more efficiently and effectively meet their reporting requirements. It also permits greater oversight and comparability and more targeted use.

Expect federal agencies to become increasingly focused on grantee internal controls over financial reporting, use of grant funds and outcome measurement. Federal grantee oversight and decision-making is enhanced when grantees’ results can be compared and aggregated for a grant program. Grantees should review their policies and procedures with an eye toward accountability and transparency. Similarly, federal grantors should examine their own systems to make sure they are accurately capturing and efficiently using the information received from grantees to oversee spending and ascertain performance.¹⁰

VI. Validate all performance data. Program managers and the public must be reasonably assured that information used and reported by government is reliable and complete. Bad data breeds bad decisions, poor oversight, and limited transparency and accountability. Reasonable assurance over performance data and information used for day-to-day management must be included. For example, program managers should be aware of the reliability and proper application of algorithms supporting AI, RPA and continuous monitoring and of the usefulness and reliability of executive dashboards. Eventually, these tools may be a primary focus of government program and financial audits. Finance staff should expect to shift to a more analytic role as powerful technology tools take care of basic finance operations and deliver rich analytic data for financial management insights never before available.

The requirement for annual audited financial statements drove major improvements in financial management and government accountability. People may not always understand

what an audit entails, but they know it represents a benchmark of independent assurance. Program managers must continually self-evaluate gaps in performance data sources and quality and use a validation process to continually ensure data can withstand an independent audit and, most importantly, support sound decisions. All five legs of the statutory framework place responsibility on management for high-quality performance data. One option is for the auditor to evaluate the agency's self-validation process, which should be the linchpin of performance data quality.

Final Thoughts

The strategic framework and its supporting legislation come with bipartisan expectations for federal agencies, along with a clear mandate to create value through modernized business practices and management systems. Over the past four decades, the framework has increased performance and value and enhanced accountability and transparency, but the full range of expectations remain unrealized. In some areas, federal agencies may not even be close to achieving the needed reforms. By regarding the statutory framework as an integrated management system rather than a set of independent requirements, agencies can take the next step toward attaining its potential.

Greater value will come from a more agile government, one that is customer-focused and built up on current technology and risk-based management systems and processes. Decisions can then be based on evidence from high-quality information and performance reporting. Through the statutory framework and the six related actions, agencies can add value and help rebuild public trust with a "government that works better and costs less, with open and transparent public reporting and accountability for performance and results." ■

Endnotes

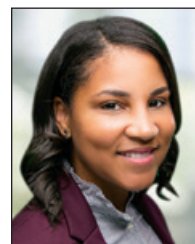
1. U.S. Department of the Treasury. "Your Guide to America's Finances," *America's Finance Guide* | U.S. Treasury Data Lab (usaspending.gov).
2. Ho, Christina and Karen Lee. "The DATA Act: What It Is and What It Means," presentation before the Data Transparency Town Hall, Sept. 26, 2014.
3. GAO. *Comptroller General's Standards for Internal Control in the Federal Government*, GAO-14-704G, Sept. 10, 2014.
4. OMB. "Phase 1 Implementation of the Foundations for Evidence-Based Policymaking Act of 2018: Leaning Agendas, Personnel, and Planning Guidance," M-19-23, July 10, 2019.
5. Parish, Rick. "U.S. Federal CX Eked Out a New High but Still Trails the Private Sector," Forrester Research, Inc., Oct. 1, 2020.
6. Pew Research Center, *U.S. Politics & Policy*. "Public Trust in Government: 1958–2021," May 17, 2021.
7. GAO. "Federal Spending Transparency: Opportunities Exist to Further Improve the Information Available on USAspending.gov," GAO-22-104702, Nov. 8, 2021.
8. Federal Accounting Standards Advisory Board. "Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*," includes accounting standards for managerial cost accounting.
9. GAO. "Information Technology: Agencies Need to Develop Modernization Plans for Critical Legacy Systems," GAO-471, June 11, 2019.
10. Hluchan, Sarah, Ramona Manikarnika and Jeffrey Steinhoff. "The DATA Act – A Path to Greater Accountability and Transparency for Federal Spending," *Journal of the National Grants Management Association*, Winter 2015.



Andrew C. Lewis, CGFM, CPA, PMP, CIPP/G, is AGA's Past National Treasurer, past co-chair of AGA's Leadership Development Committee, and a member of AGA's Montgomery/Prince George's County Chapter. He is the partner-in-charge of KPMG LLP's federal audit practice, and an executive fellow of the KPMG Government Institute.



Derek W. Thomas, CGFM, CPA, CISA, is a partner in KPMG's federal audit practice. For over 25 years, he has provided financial statement audit, attestation and advisory services to federal agencies, state and local governments and nonprofits. He currently serves on the Board of Governors for the Greater Washington Society of CPAs and on the Board of Directors for the KPMG US Foundation.



Kelly D. Salter, CGFM, CPA, CISA, is a senior manager in KPMG's federal audit practice where, for the past eight years, she has provided financial statement audit services to federal agencies. She is a member of AGA's Washington D.C. Chapter, served as assistant director of its Education Committee and received its 2021 Chapter President's Award for her contributions to the annual spring training. Kelly is an executive fellow of the KPMG Government Institute.



Jeffrey C. Steinhoff, CGFM, CPA, CFE, CGMA, is a senior advisor to KPMG and retired managing director of its Government Institute. He enjoyed a 40-year federal career in which he served as Assistant Comptroller General of the U.S. for Accounting and Information Management, led GAO's largest audit unit, had responsibility for developing government auditing and internal control standards, and was a principal architect of the CFO Act. Jeff is a Past AGA National President, founded the CGFM program, and received the organization's highest honor, the Robert W. King Memorial Award, as well as the AICPA's Outstanding CPA in the Federal Government. Jeff is a member of AGA's Northern Virginia and Washington D.C. chapters and an elected Fellow of the National Academy of Public Administration.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. This article represents the views of the authors only, and not necessarily the views or professional advice of KPMG LLP.