The Future of Federal Financial Management

Fiscal Assistant Secretary | U.S. Department of the Treasury | April 2018

About this document

The first session of the United States Congress established the Department of the Treasury in 1789 to *"prepare plans for the improvement and management of the revenue ... and to decide on the forms of keeping and stating accounts and making returns."* From the early days of the republic, Congress entrusted Treasury to control and safeguard public monies. In modern times, Treasury led the development of the financial management practices of a rapidly expanding federal government.

This document continues Treasury's tradition of forward-looking financial management to serve the federal government. It envisions what Treasury's role in federal financial management will be ten years from now. This white paper builds on the Department's and the Bureau of Fiscal Service's strategic plans and extends them further into the future. It presents a cohesive set of interconnected initiatives that will transform federal financial management over the next decade.

Executive Summary

Every day, millions of Americans have financial interactions with the federal government. Whether paying taxes, receiving benefits, or acquiring information, citizens need to trust the financial operations of their government.

American citizens expect that:

1. the government is an efficient steward of its financial resources;
2. the financial information provided by the government is accurate; and
3. their financial interactions with the government are modern, seamless, and secure.

The use of data is crucial to the future of federal financial management.

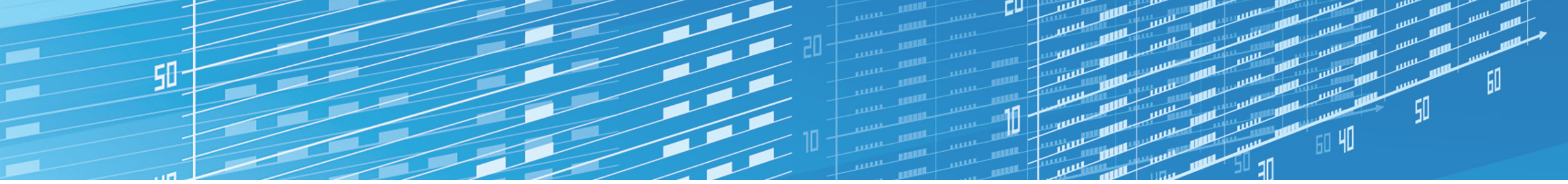
The Chief Financial Officers (CFOs) of federal agencies are in a unique position to build trust in the efficiency of government. They have an enterprise-wide view and can quantify what an agency's programs achieve and how much they cost to operate. They are particularly well-suited to educate the public on the costs and outcomes of federal programs.

Many of today's CFOs are striving to serve their agencies and the public in this manner. Too often, however, a CFO has to spend a disproportionate amount of time on the administrative tasks of processing financial transactions and the associated reporting burden.

Looking to the future, Treasury can relieve the CFOs of these administrative tasks so they can refocus on harnessing their agencies' financial and performance data to improve program performance.

Treasury plans to maximize the efficiency of the common processes of disbursing, collections, reporting, and administrative operations through standardization, consolidation, and automation. The technological advances that are transforming the banking industry hold great promise for government. As a provider of central services, Treasury plans to take full advantage of new technology by applying it to high-volume financial operations.

This document identifies a set of initiatives that will accelerate the progress that many agency CFOs have already made to strengthen their agencies' performance by relieving them of routine financial transactions and administrative operations.



An Opportunity to Build Trust in Government

Every day, millions of Americans have financial interactions with the federal government.

Many times this involves the transfer of money as the citizen pays taxes, purchases services, receives benefits, or invests in securities. Other times, the government is providing financial information on the status of government accounts, interest rates, level of expenditures, or the size of the national debt. Whether they are transferring money or receiving information, citizens need to trust the financial operations of their government.

American citizens need to trust that the money they pay or receive is correct and their privacy is protected. They need to trust that the financial information provided by the government is accurate. In a more important sense, citizens need to trust that the government is a careful steward of tax dollars, and remain confident that their tax dollars are spent in the most effective manner with a minimum of waste, fraud, and abuse.

The public's view of government's role and performance

Areas a majority/plurality say ...	Major role for government %	Govt doing a good job %
Keeping country safe from terror	94	72
Responding to natural disasters	88	79
Ensuring safe food and medicine	87	72
Managing immigration system	81	28
Maintaining infrastructure	76	52
Protecting the environment	75	59
Strengthening the economy	74	51
Ensuring access to high quality ed	70	52
Ensuring basic income for 65+	69	48
Setting workplace standards	66	76
Ensuring access to healthcare	61	56
Helping people get out of poverty	55	36
Advancing space exploration	47	51

Today, trust in the federal government is near an all-time low. A recent national survey has shown that only 19 percent of Americans trust that "the federal government will do what is right most of the time."[1] And 57 percent say that the federal government "is almost always wasteful and inefficient."

The same survey revealed that citizens actually support the role of government when asked about specific government functions. But they are not strongly positive about government's performance. For example, 87% of Americans felt "the government should play a major role" in ensuring safe food and medicine, but only 72% felt the government was "doing a good job" in that function.

The difference is more pronounced for the other basic functions of government. Most citizens see the value of government — but clearly, they want better performance. In light of these expectations, there is an opportunity to inform the public that government can be effective and efficient.

The CFOs of federal agencies are in a unique position to address their agencies' financial management challenges in a way that builds trust in the efficiency of government. They are positioned at the nexus of their agencies' budget and program performance. The CFOs have a unique enterprise-wide view and can quantify what an agency's programs achieve and how much they cost to operate.

The role of the agency CFO could be refocused to address the issue of public trust in the efficiency of government. This new role takes advantage of the CFOs' access to the full breadth of their agencies' performance and cost data. Instead of simply reporting financial data, the CFO could leverage both financial and performance data to maximize program efficiency. Equally important, the CFO could inform the public on the costs and outcomes of federal programs. But to do that will require giving the CFO the tools, capabilities — and time — to present program performance in an understandable manner.

Toward a Ten-year Vision for Federal Financial Management

The American citizen expects that:

1. the government is an efficient steward of its financial resources;
2. the financial information provided by the government is accurate; and
3. their financial interactions with the government are modern, seamless, and secure.

These are realistic expectations in light of the trends that we see today. Pressure to reduce the size of government will continue. At the same time, citizen scrutiny of federal expenditures will intensify as the public expects increasing levels of information access and transparency. As the private sector further streamlines the customers' experience with their services, citizens will expect the same when they transact business with the federal government.

Ten years from now, an agency CFO could have a central role in meeting these public expectations. As the publisher of their agency's financial statement with responsibility for reporting on both financial and program performance, the CFO is best suited to communicate to the public.

But for CFOs to play this larger role, they must be freed from lower-value activities such as financial transaction processing and the maintenance of expensive information technology systems. Instead, they should be able to focus on higher-value activities such as program finance and performance, and become strategic partners with their agency's leadership in driving federal programs to optimum efficiency.

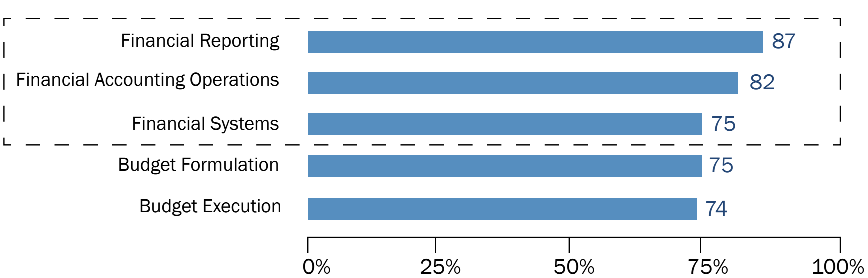
A citizen's interaction with agency programs should engender trust in government finances. Detailed financial data should be available to citizens interested in how their tax dollars are spent. Citizens should be able to trace a federal expenditure in their locality through program allocation and budget decisions and ultimately to its representation on the nation's balance sheet. When citizens pay a program fee or receive a federal benefit, the transaction should be modern, seamless, and secure — that is, no different than their experience with a commercial service.

A New Role for Agency CFOs

In the future, we must enable agency CFOs to refocus their attention from financial transaction processing to program performance measurement and reporting.

Today, agency CFOs spend a disproportionate amount of time on the administrative tasks of processing the transactions associated with financial management. Across federal agencies, an estimated 40,000 employees and contractors process financial transactions in dozens of separate automated systems.[2] This comes with the added responsibility of maintaining agency automated systems with all the complexities of software licensing and version upgrades. It is estimated that 50 percent of the personnel working in federal financial management perform transaction processing or support the related automated systems.

CFO Survey: Current Responsibilities

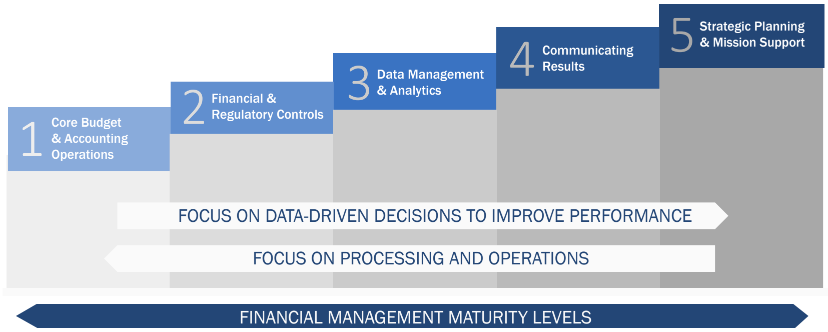


A recent survey[3] revealed the extent to which CFOs are focused on financial transaction processing. Over three-quarters of the CFOs surveyed had direct responsibility for financial reporting, accounting operations, and financial systems. In addition, they characterized their staffs as predominantly concerned with transaction processing.

The same survey, however, revealed that many CFOs believe they could also serve their agencies in a more strategic role. Almost one-half of the CFOs thought "program performance management," and almost one-third thought "program evaluation" would make effective use of their enterprise perspective.

Agencies' emphasis on in-house financial systems is a direct result of the Chief Financial Officers Act of 1990, which mandated that agency CFOs "develop and maintain an integrated agency accounting and financial management system, including financial management and controls."[4] However, in the nearly three decades since the passage of the CFO Act, the federal landscape has changed and information technology has evolved, creating new options for financial transaction processing. Since 1990, over 50 small- and mid-size federal organizations have relied on shared service providers for their financial transaction processing. As transaction processing, financial reporting, and compliance become increasingly automated, this trend will continue.

The Agency CFO:
From transaction processor to strategic partner



Today, many CFOs are redefining their role beyond that of maintaining agency financial systems. The Government Performance and Results Modernization Act of 1993 sharpened agency focus on program performance data. And the recent implementation of the Digital Accountability and Transparency Act of 2014 has expanded the availability and usefulness of agency expenditure data. In response, many CFOs are driving their organizations to higher levels of sophistication where they have integrated program and financial data.

In a future of constrained budgets, CFOs can continue to assist their agencies in optimizing — and reporting on — their agencies' performance by reducing the resources and time they need to dedicate to transaction processing, financial reporting, and compliance.

Treasury to Enable Agencies to Focus on Their Missions

Historically, Treasury has led the transformation of certain federal financial operations when technology has enabled significant savings due to economies-of-scale.

Because much of the processing of financial transactions is often localized in individual federal agencies, these operations seldom achieve economies-of-scale. The intermittent nature of financial processing and the significant fixed costs of agency automated systems are spread over a relatively small volume of transactions.

The Bureau of Fiscal Service, and its predecessor organizations, was created to enable economies-of-scale for the most common financial processes performed by all federal agencies. The government's disbursing, revenue collection, financial reporting, and financing were centralized in a single Treasury bureau. Automation made it possible for one organization to process millions of highly-standardized and repetitive financial transactions. This has resulted in tremendous benefits for the agencies, payers and payees, and taxpayers. These transactions are now predominantly electronic and performed at a fraction of the cost of the paper transactions they replaced. As a result, citizens make and receive payments faster, and agencies are relieved of burdensome processing operations.

The Value Proposition

Over the past few decades, this efficient strategy of standardization, consolidation, and automation has created genuine value for government agencies and taxpayers. It has produced savings by reducing the number of redundant information systems. By consolidating investment, it has enabled innovations that have improved customer service. Most importantly, it has relieved the agencies of burdensome administrative operations so they can focus on their mission.

Looking to the future, Treasury has identified a set of ten initiatives to maximize the efficiency of the common processes of disbursing, collections, reporting, and administrative operations through standardization, consolidation, and automation.

Time-tested and proven by actual experience, this approach is precisely in line with the emerging priorities of the current administration. It improves the efficiency of the administrative functions of government through the more widespread use of common solutions. And it supports Treasury's strategic goal to "transform government-wide financial stewardship" through the use of federal financial data and innovative practices to improve the efficiency of government.

This approach effectively accommodates the accelerating change in financial technology that is occurring outside of government. Today, the banking and financial services industries are going through a period of disruptive technological advancement. Mobile technology and real-time payments are changing how Americans conduct financial transactions. Robotics and intelligent automation are radically streamlining back-office operations. But, as promising as the new technology is, it is most effectively deployed when operations have significant transaction volumes to justify the up-front investment. This approach guarantees that level of transaction volume.

1. Optimize Federal Disbursing

- **Advance all-electronic invoicing**
- **Increase electronic payments**
- **Minimize non-Treasury disbursing**

These three initiatives lead toward a fully electronic federal payment process where the invoice that initiates the payment is received from a vendor in a standard electronic form, then payment authorization and transmission is fully automated. To achieve this, all federal civilian agencies will rely on a single electronic invoicing service.

Today, a paper check is over ten times as expensive as an electronic payment, yet millions of citizens and businesses still receive federal payments as paper checks. In the future, all federal payments will be delivered by faster, more secure, electronic methods originating from Treasury's disbursing centers.

2. Transform Federal Collections

- **Reduce revenue collection lockboxes and increase digitization**
- **Pursue additional accounts receivable**

These two initiatives streamline the government collection process by squeezing out all inefficient paper-handling steps. Today, the federal government still relies on dozens of expensive lockboxes to collect check-based payments from taxpayers. The current lockbox network receives over 85 million paper transactions annually. The first initiative will replace these paper transactions with a modern Internet-based solution that is fast, safe, and secure for taxpayers.

Today, millions of dollars owed to the federal government go uncollected because agencies are too busy to track them down. Treasury offers a centralized collection service that agencies can rely on as soon as an account receivable is past due.

3. Strengthen Financial Reporting

- **Automate inter-agency buy-sell transactions**
- **Implement single government financial statement with risk-based audits**
- **Make federal financial data more accessible**

4. Expand Services Available to Agencies

- **Expand the role of ARC in delivering shared financial management solutions**
- **Offer data analytic services to reduce improper payments and fraud**

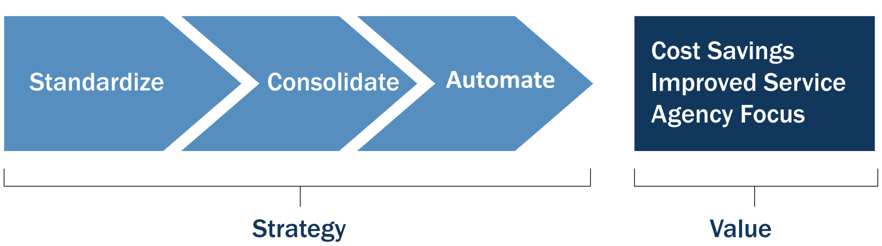
As a result of these three initiatives, the citizen will be able to learn more about the government's finances through user-friendly sites such as *USASpending.gov*. Data quality related to intragovernmental transactions, a major source of today's audit failing, will be greatly improved. Citizens will be able to see their government's finances in a single understandable financial statement with a clean audit opinion. Today, individual agencies spend millions in preparing financial statements that are seldom read.

With these two initiatives, Treasury will offer financial transaction processing as a shared service performed at optimal efficiency. Through economies of scale, standardization, and state-of-the-art automation, Treasury's Administrative Resource Center will set the benchmark as the government's most efficient financial processing operation. For those agencies wishing to relieve themselves of financial transaction processing and the maintenance of expensive information technology systems, Treasury will be a viable option for even the largest federal departments. In addition, Treasury will offer a "best practices" model for the use of DoNotPay resources, external data sources, and data analytics to minimize improper payments and fraud.

> These initiatives will generate savings that will ultimately reduce the estimated $11 billion annual expense of government financial management operations.

With the consolidation of certain transaction processing operations and automation comes economies-of-scale. In a recent study,[2] McKinsey & Company estimated that the total annual savings generated by the ten initiatives could exceed hundreds of millions of dollars when fully deployed government-wide.

Treasury's Plan for Financial Transaction Processing



Also resulting are service improvements for citizens when they receive or make more reliable and secure electronic payments, or when they can access a wide array of federal expenditure data in a useable format. And businesses will benefit when submitting invoices to one place for fast federal payment, versus multiple agency locations.

A Future of Data-driven Improvement in Program Performance

These initiatives will accelerate the progress that many agency CFOs have already made, enabling CFOs to harness financial and program data to strengthen their agency's performance by relieving them of routine financial transactions and administrative operations.

The initiatives enable a broader role for CFOs that is based more on the use of financial data for program performance and transparency, and less on financial transaction processing. In the future, CFOs will serve as more complete stewards of an agency's financial resources. Whether analyzing agency expenditures with an eye toward productivity — or reporting on agency performance to the public — this is the broader role that many CFOs are currently working toward. In the future, CFOs will play key roles in increasing the transparency of federal financial and performance data, thereby building trust in federal financial management.

Less burdened by transaction processing, this empowers agency CFOs to pursue a trend that is well-established in the private sector. Within commercial firms, CFOs are emerging as "the focal point for enterprise activity, connecting business strategy to operations to financial results…the CFO has the opportunity not just to formulate their companies' strategic vision for data and analytics, but also to become passionate public advocates for that vision."[5]

Engaging the Federal Community in Taking the Next Step

Developing a government-wide plan for the future of financial management will require the engagement of all stakeholders.

This paper presents an opportunity to refocus financial management to build public trust in government. It offers the broad outline of a future vision. To add the details — and more importantly, to generate support — a plan will require the involvement of leaders from across the federal financial management landscape.

The Planning Process

Together, our next step is to discuss and refine the ten-year vision with leaders from the CFO community and the central agencies of Office of Management and Budget, the Government Accountability Office, and Treasury. With the vision in place, the critical future role of the agency CFOs will be defined and agreed upon. No progress toward a vision of the future is possible without the engagement and support of the agency CFOs. Then the plans and activities of the program and central agencies can be aligned in a common effort to shape the future of federal financial management.

Notes:

1. "Beyond Distrust: How Americans View Their Government," Pew Research, Nov 2015.
2. "Financial Management Strategy Study," McKinsey & Company for U.S. Treasury, June 2017.
3. "Annual CFO Survey: Navigating Disruption," Association of Government Accountants, January 2018.
4. "Chief Financial Officer's Act of 1990," Section 902(a), 101st Congress, second session.
5. "Advanced Analytics and the CFO," *Harvard Business Review*, 2017.

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