

OPENING STATEMENT OF DAVID K. KLEINBERG

DEPUTY CHIEF FINANCIAL OFFICER

BEFORE THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO APPEAR BEFORE YOU TO DISCUSS THE DEPARTMENT OF TRANSPORTATION'S IMPLEMENTATION OF THE CHIEF FINANCIAL OFFICERS (CFO) ACT (P.L. 101-576). I WOULD LIKE TO TAKE THIS OPPORTUNITY TO SHARE WITH YOU DOT'S EXPERIENCE SINCE 1990.

SINCE THE CFO ACT WAS PASSED IN 1990, THE DEPARTMENT OF TRANSPORTATION (DOT) HAS BEEN IMPLEMENTING ALL ASPECTS OF THE ACT. THIS HAS INCLUDED:

- DESIGNATION OF A PRESIDENTIAL APPOINTEE AS CFO (LOUISE FRANKEL STOLL) AS WELL AS DESIGNATION OF A DEPUTY CFO AND A CFO IN THE VARIOUS OPERATING ELEMENTS OF DOT;
- COMBINING BUDGET AND FINANCIAL MANAGEMENT FUNCTIONS UNDER THE CFO;
- PREPARATION OF FINANCIAL STATEMENTS FOR AUDIT; AND
- PREPARATION OF AN ANNUAL FINANCIAL MANAGEMENT STATUS REPORT AND 5-YEAR PLAN.

(1) WHEN THE CFO ACT WAS PASSED, DOT WAS IN THE PROCESS OF IMPLEMENTING A DEPARTMENTAL ACCOUNTING AND FINANCIAL INFORMATION SYSTEM. THIS EFFORT WAS COMPLETED IN JUNE 1993.

DOT NOW HAS THE ADVANTAGE OF HAVING FINANCIAL MANAGEMENT INFORMATION IN A SINGLE CORE SYSTEM. WITH ALMOST ALL DEPARTMENTAL COMPONENTS ON THE SAME ACCOUNTING SYSTEM, DOT HAS BEEN ABLE TO IMPLEMENT COMMON ACCOUNTING STANDARDS THROUGHOUT THE DOT OPERATING ADMINISTRATIONS.

COMMON DOT ACCOUNTING STANDARDS, INCLUDING A RECENTLY DEVELOPED MODULE FOR FINANCIAL STATEMENTS, FACILITATED THE PREPARATION AND SUBMISSION OF THE REQUIRED FINANCIAL STATEMENTS. WHEN AUDIT FINDINGS IDENTIFY DIFFERING OR INAPPROPRIATE STANDARDS OR STANDARDS CHANGE, IMPROVEMENTS CAN BE ACCOMPLISHED IN THE DEPARTMENTAL ACCOUNTING SYSTEM.

DOT HAS COMPLETED THE PREPARATION OF UNAUDITED FINANCIAL STATEMENTS CLOSE TO THE ESTABLISHED DUE DATES FOR THE PAST COUPLE OF YEARS. DOT IS STRIVING TO DO THESE STATEMENTS EARLIER EACH YEAR. OUR GOAL IS EARLIER AUDITS AND EARLIER AVAILABILITY OF AUDITED FINANCIAL STATEMENTS.

(2) NOW THAT A DEPARTMENTAL ACCOUNTING SYSTEM IS IN PLACE, DOT IS ENTERING A NEW PHASE WHICH FOCUSES ON MAJOR FINANCIAL MANAGEMENT SYSTEM IMPROVEMENTS. AS ENHANCEMENTS ARE MADE TO THE DEPARTMENTAL SYSTEM, THEY WILL BE AVAILABLE TO DOT OPERATING ADMINISTRATIONS. WE ARE PARTICULARLY INTERESTED IN REDUCING TIME DELAYS, PROGRAMMING EFFORTS, AND THEIR COSTS BY OBTAINING COMMERCIAL OFF-THE-SHELF SOFTWARE, WHICH CAN BE INTEGRATED WITH THE DEPARTMENT'S CURRENT

SYSTEM. COMMERCIAL OFF-THE-SHELF SOFTWARE IS BEING CONSIDERED FOR TRAVEL AND PROCUREMENT.

FOR FY 1994, DOT PLANS TO SPEND APPROXIMATELY 16 MILLION DOLLARS FOR DEVELOPMENT AND OPERATION OF COMMON DEPARTMENTAL FINANCIAL MANAGEMENT SYSTEMS TO SUPPORT FULL SYSTEMS IMPLEMENTATION OF THE CFO ACT. FOR FY 1995, THE BUDGET INCLUDES ABOUT 17 MILLION DOLLARS. WE ARE ASSESSING FY 1996 REQUIREMENTS.

THE DEPARTMENTAL ACCOUNTING SYSTEM GENERALLY CONFORMS TO THE OFFICE OF MANAGEMENT AND BUDGET'S REQUIREMENTS AS WELL AS THOSE OF THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM AND THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB).

AS DEFICIENCIES ARE IDENTIFIED AND REPORTED, THEY ARE CORRECTED IN THE DEPARTMENTAL ACCOUNTING SYSTEM. WE ALSO STRIVE TO INCORPORATE NEW STATUTORY REQUIREMENTS AND POLICIES BY MAKING SYSTEMS FLEXIBLE. WE BELIEVE THAT WE ARE MAKING SIGNIFICANT PROGRESS IN CONFORMING OUR FINANCIAL MANAGEMENT SYSTEMS TO APPROPRIATE STANDARDS.

(3) DURING THE PAST FEW YEARS, MY STAFF HAS WORKED CLOSELY WITH THE OFFICE OF MANAGEMENT AND BUDGET STAFF ON THE IMPLEMENTATION OF ALL ASPECTS OF THE CFO ACT. DOT HAS WORKED TO COMPLY WITH THE GUIDANCE FOR THE FINANCIAL

MANAGEMENT STATUS REPORT, 5-YEAR PLAN, AND FINANCIAL STATEMENTS. DURING THIS TRANSITION PERIOD, REQUIREMENTS HAVE BEEN EVOLVING AND CHANGING. OMB CONTINUES TO EVALUATE CFO REPORTING REQUIREMENTS. WHAT IS USEFUL AND MEANINGFUL IS BEING RETAINED, WHILE OMB AND THE CFO COUNCIL WORK TO REDUCE IRRELEVANT AND REDUNDANT REPORTING REQUIREMENTS AND STREAMLINE THE REPORTING PROCESS.

(4) THE CFO ACT REPORTING REQUIREMENTS CLEARLY ADD VALUE BY RECOGNIZING THE IMPORTANCE OF FINANCIAL MANAGEMENT IN THE FEDERAL SECTOR. THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) PREDATES THE CFO ACT. IT WAS INTENDED TO SURFACE ISSUES IN INTERNAL CONTROLS AND FINANCIAL MANAGEMENT SYSTEMS. HOWEVER, THE MATERIALITY STANDARD OF THE FMFIA PRECLUDES THE REPORTING OF SOME FINANCIAL MANAGEMENT SYSTEM DEFICIENCIES. THE CFO ACT IS NOT LIMITED BY SUCH CONSTRAINTS. IT IS A VEHICLE FOR AGENCIES TO ADDRESS MOST IMPORTANT FINANCIAL MANAGEMENT SYSTEM PROBLEMS.

(5) IN GENERAL, PREPARATION OF FINANCIAL STATEMENTS HAS PRODUCED VARIOUS LEVELS OF BENEFITS TO THE DEPARTMENT. FOR EXAMPLE, DOT OPERATING ADMINISTRATIONS ARE IMPROVING DATA INTEGRITY BY DEVELOPING MORE DISCIPLINED ACCOUNTING ENVIRONMENTS AND IMPLEMENTING PROJECTS TO ADDRESS PROBLEM AREAS, SUCH AS THOSE IDENTIFIED IN OUR FINANCIAL MANAGEMENT STATUS REPORT AND 5-YEAR PLAN. THIS PROCESS IS MOVING THE DEPARTMENT TOWARD BEING MORE ACCOUNTABLE AND IS SURFACING

SOME SYSTEMS ISSUES THAT REQUIRE ADDITIONAL FOCUS AND REFINEMENT.

SINCE THE CFO ACT REQUIREMENT TO PREPARE FINANCIAL STATEMENTS FOR AUDIT IS LIMITED TO TRUST, REVOLVING, AND COMMERCIAL ACCOUNTS, ABOUT 81% OF THE TOTAL FY 1993 DOT BUDGET AUTHORITY OF ABOUT FORTY BILLION DOLLARS IS SUBJECT TO THIS REQUIREMENT. THIS RESULTS IN CLOSE SCRUTINY OF SOME SMALL FUNDS, SUCH AS GIFTS AND BEQUESTS, WHILE OTHER LARGE PROGRAMS, SUCH AS SOME OF THE UNITED STATES COAST GUARD, MAY WARRANT REVIEWS, NOT NECESSARILY STRUCTURED AS AN AUDIT OF FINANCIAL STATEMENTS. WE BELIEVE THAT IT WOULD BE DESIRABLE TO ASSURE THAT ALL SIGNIFICANT FUNDS RECEIVE SOME PERIODIC AND THOROUGH EXAMINATION.

(6) DOT FINANCIAL STATEMENTS HAVE INCLUDED SOME PERFORMANCE MEASURES. THIS HAS ASSISTED THE DEPARTMENT IN BEING POISED TO IMPLEMENT THE GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) OF 1993. THE DOT CFO IS RESPONSIBLE FOR DIRECTING BOTH OF THESE MAJOR EFFORTS. THE EXPERIENCE GAINED FROM DEVELOPMENT OF PERFORMANCE MEASURES FOR INCLUSION IN THE FINANCIAL STATEMENTS HAS HELPED DOT IN THE GPRA PILOT PROCESS. DOT CONTINUES TO STRIVE FOR QUANTIFIABLE MISSION-RELATED OUTCOME PERFORMANCE MEASURES TO COMPLY WITH BOTH THE CFO ACT AND GPRA.

(7) FASAB HAS BEEN INVOLVED IN THE DEVELOPMENT OF GOVERNMENTAL ACCOUNTING STANDARDS. IN THEIR ATTEMPT TO DEVELOP STANDARDS WHICH WILL SERVE THE NEEDS OF THE FEDERAL SECTOR, THEY HAVE INVITED INTERESTED DEPARTMENTS AND AGENCIES TO PARTICIPATE IN TASK FORCES TO CONSIDER VARIOUS ASPECTS OF THE ISSUES UNDER DISCUSSION. WHILE THIS MAY HAVE LENGTHENED THE PROCESS TO SOME EXTENT, THIS SHOULD RESULT IN A MORE PRACTICAL AND IMPROVED FINAL PRODUCT.

(8) THE GOVERNMENTWIDE CFO COUNCIL HAS RECENTLY BEEN RECONSTITUTED TO INCLUDE BOTH CFOS AND DEPUTY CFOS. THIS ACTION IS EXPECTED TO ENHANCE THE EFFECTIVENESS OF THE CFO COUNCIL BY BRINGING TOGETHER BOTH POLITICAL AND CAREER OFFICIALS. THE CFO COUNCIL'S ROLE IS A SIGNIFICANT ONE, IN IDENTIFYING ISSUES OF INTEREST TO ALL, GENERATING GROUP ACTION ON FINANCIAL MANAGEMENT IMPROVEMENT INITIATIVES, AND THE SHARING OF BEST PRACTICES.

IN SUPPORT OF THE GOVERNMENTWIDE CFO COUNCIL, DOT HAS ALSO ESTABLISHED A DOT CFO COUNCIL COMPRISED OF THE CFO, THE DEPUTY CFO, THE INSPECTOR GENERAL, THE ASSISTANT SECRETARY FOR ADMINISTRATION, AND CFOS FROM EACH OPERATING ADMINISTRATION. THE DOT CFO COUNCIL HAS BEEN AND WILL BE CRUCIAL TO THE IMPLEMENTATION OF THE CFO ACT AND THE IMPROVEMENT OF FINANCIAL ANALYSIS, FUNDS MANAGEMENT, AND COST ALLOCATION IN DOT.

(9) AS YOU KNOW, THE DEPARTMENT OF TRANSPORTATION OFFICE OF THE INSPECTOR GENERAL HAS BEEN STATUTORILY LIMITED TO ONE MILLION DOLLARS FOR THE AUDIT OF FINANCIAL STATEMENTS. THE HOUSE HAS VOTED TO LIFT THIS RESTRICTION FOR FY 1995. WITHIN THIS LIMITATION, WE NOTE THAT THE OFFICE OF THE INSPECTOR GENERAL HAS BEEN ABLE TO AUDIT ABOUT 97% OF ALL TRUST, REVOLVING, AND COMMERCIAL FUNDS REQUIRED TO BE AUDITED, INCLUDING THOSE OF MOST CONCERN TO THE DEPARTMENT.

CURRENT FUNDING IS BELIEVED TO BE ADEQUATE TO IMPLEMENT THE FINANCIAL MANAGEMENT REQUIREMENTS OF THE CFO ACT. HOWEVER, IDENTIFYING AN EXACT AMOUNT WITH THE CFO ACT IS DIFFICULT, SINCE MUCH OF DOT'S FINANCIAL MANAGEMENT ACTIVITY IS INTEGRATED IN THE MECHANISMS OF THE DOT OPERATING ADMINISTRATIONS. WE CONTINUE TO STRIVE TO USE AVAILABLE FUNDS WISELY AND TO LOOK FOR OPPORTUNITIES TO IDENTIFY AREAS OF POTENTIAL SAVINGS. RESOURCES OBTAINED THROUGH THIS MEANS CAN THEN BE REDIRECTED TOWARDS MORE FINANCIAL MANAGEMENT IMPROVEMENTS.

UNDER THE AUSPICES OF THE CFO ACT, THE DEPARTMENT HAS UNDERTAKEN NUMEROUS FINANCIAL MANAGEMENT IMPROVEMENTS. MOST RECENTLY THE DOT CFO COUNCIL HAS DIRECTED THE DEVELOPMENT OF A DOT FINANCIAL MANAGEMENT STRATEGIC PLAN. THIS PLAN HAS BEEN DESIGNED TO ENSURE THAT DOT'S FINANCIAL MANAGEMENT INFORMATION, SYSTEMS AND STAFF EFFECTIVELY SUPPORT DOT'S MISSION.

DOT IS STRONGLY COMMITTED TO IMPROVE ITS FINANCIAL  
MANAGEMENT. IMPLEMENTATION OF THE CFO ACT HAS ASSISTED DOT  
IN WORKING TOWARDS THIS GOAL.

I WOULD BE PLEASED TO ANSWER THE SUBCOMMITTEE'S QUESTIONS.