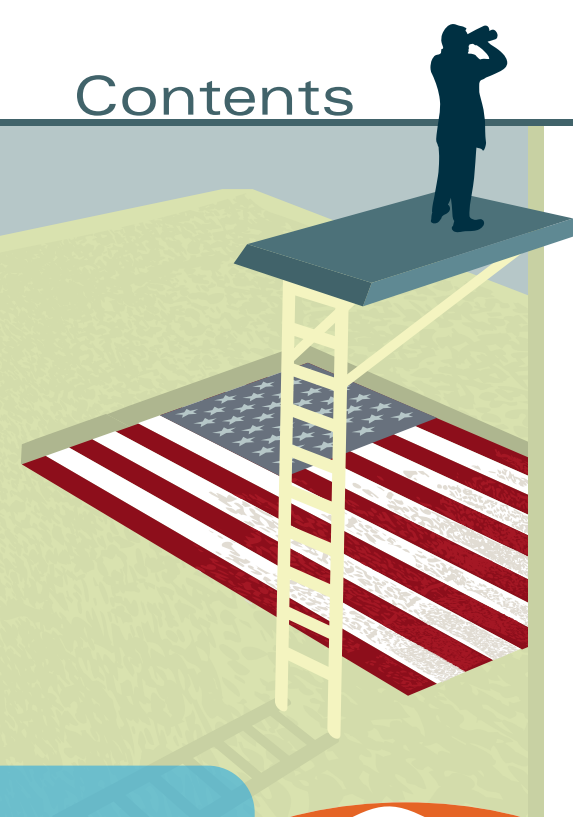


# Journal

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*Financial Reporting &  
Auditing: Trends  
and Techniques*



## 12



### Should the Federal Government Continue Its Pursuit of Proprietary Financial Statements?

By: Christopher Hanks, Ph.D.

This article makes the case for abandoning the pursuit of private-sector-style *proprietary* financial statements able to win unqualified opinions from auditors and focusing solely on Statements of Budgetary Resources, which represent the natural reporting vehicle for federal budgetary accounting.

## 20

### Q&A with Gene L. Dodaro, CGFM, Comptroller General of the United States

By: Donald E. Tidrick, Ph.D., CPA, CMA, CIA

Gene L. Dodaro responds to a wide range of questions about the role of the Government Accountability Office and his responsibilities as the Comptroller General of the United States. Dodaro is the eighth comptroller general in GAO's history and the first to be selected from within the agency's own ranks.

## 26



### Something's Gotta Give!

By: Denise Lippuner, CGFM, CPA

Chief Financial Officers (CFOs) stand at the vortex of the federal government's ongoing financial travails. In the 2013 CFO survey conducted by AGA and Grant Thornton, CFOs say they need a new CFO Management Agenda to help them maintain integrity and transparency, implement internal controls, cut costs, and improve performance.

## 32



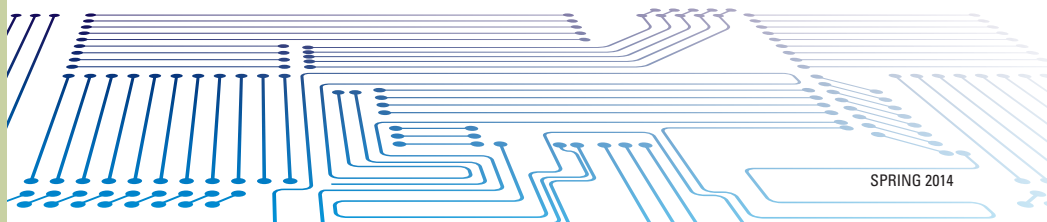
### Digital Auditing: Modernizing the Government Financial Statement Audit Approach

By: Andrew C. Lewis, CGFM, CPA, CIPP/G; Corbin Neiberline, CGFM, CPA; and Jeffrey C. Steinhoff, CGFM, CPA, CFE, CGMA

We are in a 'wired world' with information available 24/7. Governments have invested heavily in modern financial and business systems. Auditors are now discovering ways to change the face of financial statement auditing by leveraging these modern systems. This article explores why digital auditing is right around the corner.



Denotes articles eligible for CPE hours through AGA's CPE Online Program. This issue of the *Journal* is worth 3 CPE hours, through the CPE Online Program. Visit [www.agacgfm.org/cpeonline](http://www.agacgfm.org/cpeonline) for more information.





# 38

## The Nature and Extent of Financial Distress in Pennsylvania's Municipal Governments

By: Patricia A. Patrick, Ph.D., CGFM, CPA, CFE; and John Trussel, Ph.D., CPA

Using socio-demographic, economic and financial data, the authors examined fiscal distress in 2,562 municipalities. They found rates of distress twice as high in urban municipalities and noted that urban municipalities had the most unfunded pension obligations and bond defaults. Rural municipalities had the most missed payrolls and bankruptcy filings.

# 44

## Why We Need Accrual Accounting in Washington

By: Joseph J. DioGuardi

Public discussions about the need for government-wide accrual accounting have dated back to the Truman Administration. In the meantime, countries such as Australia and New Zealand have adopted government-wide accrual accounting for their budgets and financial reports. It is past time for the United States to do the same.

# 50

## AGA Survey Spotlights Federal Inspectors General

By: David M. Zavada, CPA; Ron Longo, CGFM, CPA; and Steven E. Sossei, CPA

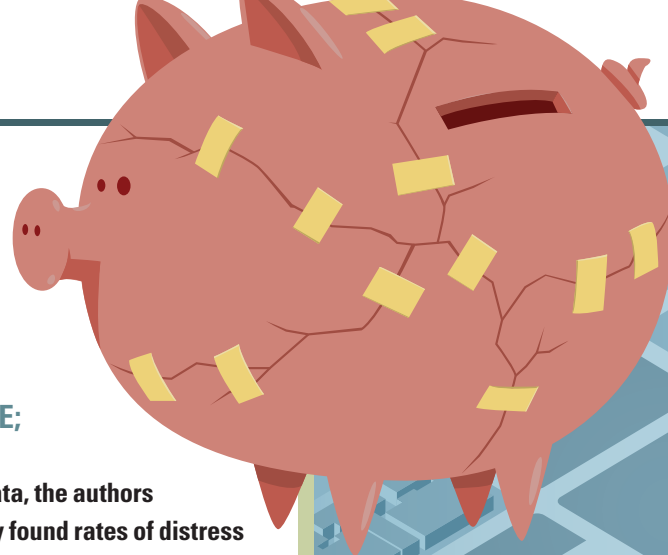
AGA and Kearney & Company surveyed federal IGs. Key findings — tight budgets, added responsibilities and new technologies present major challenges. IGs met challenges by scaling-back hiring, furloughs and developing new oversight and reporting approaches. IGs reported supportive relationships with management and ongoing value from the annual financial statement audit process.

# 56

## Government of Guam Moving Forward

By: Doreen T. Crisostomo, Ph.D., CGFM

Due to sequestration and limited resources in the General Fund, the Guam government must increase revenues, decrease expenditures or both. Performance audits have identified ways to improve the efficiency and effectiveness of government operations. Moving towards shared services, particularly in IT, is one way to increase revenues and reduce expenditures.



## Departments

- 4 From the Editor
- 8 Letter to the Editor
- 8 AGA Calendar
- 10 Standards Watch
- 55 Ethics Q&A
- 62 Inside the Huddle
- 64 Controller's Corner
- 66 Final Entry: CGFM Celebrates 20 Years!



# AGA Survey Spotlights FEDERAL INSPECTORS GENERAL

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By: David M. Zavada, CPA;  
Ron Longo, CGFM, CPA;  
and Steven E. Sossei, CPA



Tight budgets and new technologies are changing the environment within which agency Inspectors General (IG) operate. While budget levels and uncertainty are a top concern of the IG community, new and innovative approaches to report more quickly and efficiently and to conduct data analytics on a broader scale are taking shape. These were the overarching themes in the inaugural AGA Survey of the IG Community. AGA, with the support of Kearney and Company, P.C., (Kearney) undertook a survey of the federal IG community in 2013. This survey was conducted to ascertain the IG community's views on the key issues they face in completing their mission as well as the significant challenges ahead for IG operations.

IGs are a key part of the accountability structure in the federal government. Along with chief financial officers (CFOs), the IG plays a critical part in strengthening accountability for taxpayer resources by providing independent oversight of federal agency programs and financial operations. The IG has a unique role, reporting to both the head of the agency and to Congress on its work. The IGs have helped to prevent and detect fraud, waste and abuse of federal funds while providing accountability through financial statement audits of federal agencies. The results of the initial survey were contained

in a report entitled *AGA's Inspector General Survey: Effective Oversight in a Changing Environment* published in 2013.

The IG survey took the pulse of the community through a series of interviews guided by a survey tool developed with two broad objectives in mind. The survey sought to gather information on cross-cutting issues that affect IG operations in the federal government today and to identify issues that may emerge in future years affecting IG operations. The survey focused on several themes, including: Budget and Operations, Human Resources,

Data Analytics, Working with Management, Independence, and the Financial Audit. The insights that resulted provide an updated look at the state of the community, and the key issues and challenges related to providing ongoing effective oversight and accountability.

Not surprisingly, tight budgets, added responsibilities, and new technologies affected IG operations over the last several years and will significantly influence IG operations moving forward. More than two-thirds of the IGs interviewed identified budget resources as a top challenge. Many offices are using hiring restrictions and limiting development of new data analytic systems to live within the current budget levels. Decreased or flat funding has also negatively impacted the IGs' ability to meet growing oversight responsibilities in the areas of information technology (IT) security, healthcare, financial services, and other specialized areas.

New responsibilities related to major legislation and changing technologies are challenging IG offices to keep pace. Acquiring and retaining people with the right skills, and providing ongoing training to maintain these skills also



presents a major challenge. IT security was identified by 85 percent of respondents as the most significant area where improved capacity is needed. While technology presents challenges in terms of skill sets and training, it also presents opportunities. For example, IG respondents felt that leveraging technology to integrate data analytics into their work held the greatest promise for improvements in efficiency and more effective operations.

The IG's also identified opportunities to report results of their audits and reviews more efficiently and effectively by utilizing new streamlined reporting tools that report issues sooner so that actions can be taken quicker to avoid more significant problems down the road. In another area involving risk mitigation, the IG's were generally satisfied with their working relationships with management, however they would welcome more management input into audit plans to enable the IG's and management to more collaboratively address high-risk areas.

In discussing their overall audit plan, the financial audit was identified as an effective oversight tool for driving internal control and data integrity improvements within the federal government. Respondents indicated that the annual comprehensive review of internal controls that is part of the financial audit is important to keeping agencies focused on financial stewardship, and provides IG offices with a number of opportunities for follow-on performance audits in related areas.

### **Adequacy of Budgets and Growing Responsibilities Was a Top Concern**

The IGs surveyed were deeply concerned about the adequacy of current budget resources at a time when they have experienced a growing list of audit and investigative responsibilities. Two-thirds of the survey respondents stated that maintaining an adequate budget level was their top challenge at the

present time. Some of the increased responsibilities are a result of legislative or executive mandates while others are a result of changes to programs and the operating environment. The areas of increasing responsibility include healthcare and financial services, which have grown in size and complexity, as well as rapid changes in IT operations and related information security concerns. In particular, the need to address IT security and information security concerns as well as the need to improve data analysis capabilities are complicated by the current budget environment.

The IGs were asked to describe how federal budget levels, particularly under the current sequestration, and uncertainty have affected their operations. Most cited that the sequestration has had a negative effect on their operations. Because most of the IGs budgets are invested in staff salaries, sequestration has affected the IG workforce most directly. Many IG offices have been operating under a hiring-freeze or some form of reduced hiring policies, such as filling only one out of every three vacancies, to mitigate the effects of the sequestration. IGs also cited the need to reduce staff training, reduce travel assignments, and reduce the scope of audits, when possible.

IGs are concerned about the short-term and long-term effects of sequestration on office operations. For example, some offices that have invested extensively in developing data analytic capabilities to support audit and investigative needs, have suspended further work due to budget constraints, delaying anticipated operational efficiencies and improvements. Another concern expressed was the impact of reduced and curtailed training for staff. Maintaining and improving the skills of the IG workforce are seen as essential, and reductions in training resources could have a long-term impact. The IGs also cited some other negative effects upon their operations due to pay freezes and furloughs.

### **Human Resources Issues Ranked Very High**

Although the basic mission of the IGs has not changed since enactment of the IG Act in 1978, the skills needed to accomplish the mission have changed and will continue to change over time. The survey asked questions regarding the mix of skills IGs need today and in the future. The questions focused on what, if any skill gaps, do they see in current operations and how they address any shortages. We also asked about the need to address skill gaps in the future.

In line with the answers we received regarding budget concerns; nearly all of the IGs indicated they need to enhance their skills and capabilities in three critical areas: IT security, data analytics and specialized program knowledge, such as healthcare and financial services. The most frequent problem mentioned by the IGs with hiring staff is the difficulty of competing with the wages offered by the private sector and the cumbersome federal hiring process. Even in those IG offices where they are able to attract the skill sets needed, hiring and retaining those individuals is a challenge. Some respondents also expressed concern that talented young individuals who are hired gain a certain level of experience and then move to the private sector where salaries and fringe benefits are more attractive.

### **Data Analytics: an Emerging Area of Focus**

We asked survey participants a series of questions focusing on their view regarding data analytics, the analytical tools and techniques available to the IG community at large and what, if any barriers, do they see regarding the expansion of data analytics in the IG community. Our survey disclosed that there was broad agreement among the survey participants that using data analytic techniques has the greatest potential to significantly improve the efficiency and effectiveness of IG operations. The IGs believe data ana-





lytics has a positive impact on both the investigative and audit side of operations and fosters ability to work cooperatively in providing oversight across the federal government.

Another consistent theme emerging from the interviews was the benefit of sharing information between IG offices and the need for more data-sharing across agencies and programs. Respondents also believed there may be opportunities to better coordinate the activities between offices and within the broader community to provide a single source of information that can be used to serve multiple purposes. The challenges faced by the IGs regarding the possible expansion and improvement of data analytics were several, including smaller IGs lacking resources to begin development of data analytics and difficulties in hiring qualified staff.

### Working With Management and Congress and Independence Issues

We asked the IGs to assess the level of support they receive from agency management in their work. All of the IGs rated management support as either very good or excellent. IGs and their staff met frequently with top agency management to discuss audit and investigative concerns and to seek input on their work and future audit plans. All IGs surveyed felt the tone coming from the top of the organization regarding their work was positive and supportive.

IGs also told us they actively work with Congress, explaining their work, answering questions posed by Congressional staff and seeking their input regarding important issues affecting the agency. We asked the IGs surveyed to character-

ize their relationship with Congress and the frequency with which they interact. Two-thirds of the IGs surveyed had regular interaction with Congress, meaning that regular meetings or interactions occurred on either a daily basis or weekly basis. About one-third of the IGs surveyed classified their interaction with Congress as episodic or infrequent. The IGs with regular interaction were more likely to exchange information with Congressional staff and receive substantive input regarding future audit plans.

Our survey also asked the IGs questions regarding their independence and whether they have experienced any challenges to their independence. None of the IGs saw any major impediments to their independence. All of the IGs felt they have been able to establish cooperative

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working relationships with agency management while maintaining their integrity. Regarding the dual-reporting relationship, reporting to agency management and Congress, all of the IGs felt this strengthened their independence and provided an outlet, should something threaten their independence on a matter.

### Annual Financial Statement Audit Has Ongoing Value

A major responsibility of most IGs is to either perform or oversee the annual financial statement audit of their agency. We asked the IGs to speak about the costs and benefits of the annual financial statement audit. What, if any effect, has the financial statement audit had on agency operations and how the audit benefited agency operations and accountability.

All of the IGs in our survey stated internal control and data-integrity improvements were the primary benefits from the financial statement audit, and these areas would be at risk of decline if financial statement audits were not performed annually. The IG respondents said the financial statement audit is a key component of their oversight of internal controls within their agencies, and the audit “keeps internal controls on the agenda.” Similarly, within the group of respondents referencing internal control improvements as the primary benefit of the annual financial statement audit, there was concern that but for the annual financial audit, “internal controls would deteriorate markedly,” and there would be “less financial stewardship of funds.”

Benefits to IG offices resulting from the financial statement audit included raising issues that could be the subject of subsequent, more-focused, follow-on performance audits. More than half of the IGs stated they have used the financial audit results to structure more in-depth performance audits in a number of both financial and program areas.

### Conclusion

Budget uncertainties and advances in technology are changing the environment within which IGs operate. The adequacy of budget resources to address growing demands and responsibilities in areas such as IT security, health-care, financial services, and other areas, are major concerns of the community. However, the good news is that new approaches are taking shape as part of the vision forward. While new technologies create IT security challenges, they also create opportunities to work more efficiently and effectively using data analytics to detect and prevent fraud, waste and abuse. Similarly, new ‘early warning’ or ‘risk advisory’ reporting product lines are being used effectively to immediately communicate and report health, safety and other risks, enabling management to take corrective action to avoid consequences down the road. The financial audit has also been an effective and reliable annual oversight tool, resulting in ongoing internal control improvements and a source for further, in-depth performance audits. Looking ahead, many IGs will be required to carefully balance budget resource levels and growing responsibilities with innovative approaches to oversight that leverage technology, data analytics, greater collaboration and sharing, and more timely communication to maintain effective oversight in an uncertain and changing environment.

AGA will soon begin its next annual survey of the federal IG community. The survey will focus on more innovative practices and approaches developing within the community. ■

**Access the full  
Survey Report at  
[www.agacgfm.org/AGA/  
Research/IGSurvey2013.pdf](http://www.agacgfm.org/AGA/Research/IGSurvey2013.pdf)**



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