Are you prepared to meet the challenges of the DATA Act and open the door wider on government spending?

Maryland Association of CPAs
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In the words of Thomas Jefferson:

“Whenever the people are well-informed, they can be trusted with their own government.”
My underlying theme

As financial managers and auditors, information is our business. Our bar just got higher with enactment of the Digital Accountability and Transparency Act of 2014 – DATA Act, which dramatically changes public reporting, accountability, and transparency.


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Recent thought leadership on the DATA Act – available at www.kpmginstitutes.com/governmentinstitute
Movement to the DATA Act and what it means
Movement to the DATA Act: An iterative process

- **CFO Act of 1990**
  - Publicly-available, audited annual financial statements
  - Systematic measurement of performance
  - Development of cost information
  - Integration of budget, program, and accounting systems

- **Federal Funding Accountability and Transparency Act of 2006 (FFATA)**


- **“Open Government” Directive (December 2009)**
  - USASpending.gov
  - PaymentAccuracy.gov
  - Performance.gov
  - Data.gov
  - Recovery.gov

- **Digital Accountability and Transparency Act of 2014 (DATA Act)**
From the framers of the DATA Act*

“Transparency is critical to our democracy. … Policymakers and taxpayers should be able to quickly answer some basic questions about federal spending, like how much did we spend, and who received the money? Determining this very basic information can take countless hours of work, if it is to be determined at all.

…. The Digital Accountability and Transparency Act, or the DATA Act, will shed additional light on the federal government’s finances and leverage modern technology to give the taxpayers the transparency over federal spending they deserve.

The DATA Act will ensure that the information collected by the budget analysts, accountants, and grant and contract officers is combined, reconciled, and presented in an easy-to-use way.

The DATA Act in a nutshell

• **Amends FFATA**
  - Expanded to all federal agency spending
  - Linking federal contract, loan, and grant spending information to programs
  - Enable taxpayers and policy makers to track federal spending more effectively and efficiently

• **Establish government-wide data standards**
  - Financial data
  - Provide consistent, reliable, and searchable government-wide spending data
  - Taxpayers and policy makers on USASpending.gov

• **Simplify reporting for entities receiving federal funds**
  - Streamlining grantee reporting requirements and reducing compliance costs while improving transparency
The DATA Act in a nutshell – continued

• Improve the quality of data submitted to USASpending.gov
  – Holding federal agencies accountable for the completeness and accuracy of the data submitted
  – GAO noted serious shortfalls in data reliability and completeness*
    ➢ $619 billion in fiscal year 2012 grant awards were not posted to USASpending.gov by January 2013.
    ➢ Only 2 to 7 percent of reported awards were fully consistent with agency records.

• Apply approaches developed by the Recovery Accountability and Transparency Board to spending across the federal government

* “DATA TRANSPARENCY — Oversight Needed to Address Underreporting and Inconsistencies on Federal Award Website” (GAO-14-476, June 30, 2014)
Implementation timeline

Initiate a 2 year pilot program to test data standards
Est. Date May 2015 – May 2017

IG publishes report on completeness, timeliness, quality and accuracy of standardized spending data
Est. Date November 2016

Report financial and payment information in accordance with government-wide standards
Est. Date May 2017

After pilot program is complete, OMB reports to Congress on its outcomes and successes
Est. Date August 2017

Ensure all data on USASpending.gov conforms to government-wide data standards
Est. Date May 2018

Issue government-wide data standards for federal spending and corresponding guidance
Est. Date May 2015

Issue guidance to all agencies on applying government-wide data standards to all grantee and contractor reporting
Est. Date August 2018

View of information post-DATA Act

Federal spending information from different systems and reporting streams will become consistent and comparable and of greater value for decision-making and oversight.

A common data format and built-in analytic tools will help integrate various systems with spending data and drive improved data quality and value in analysis for waste, fraud, and abuse within the framework of existing data systems.

Common data elements will unite information from different systems and reports.

The flow of federal funds from appropriation to account to expenditure will be publicly available on USASpending.gov in a machine-readable format.

Checkbook-level payment data will be available. The flow of federal payments will be searchable by agency, program, appropriation, account, object class, grant/contract, and grantee/contractor in a machine-readable format.
What does the DATA Act mean to our community?

The next logical steps in the CFO Act journey

• Real-time electronic reporting
  - Quarterly, monthly, weekly, daily
• Data standardization
• System standardization and integration / shared services
• Full spending life-cycle reporting
  - Appropriation to commitment and obligation to disbursement, linked to receipts and financing
  - 360-degree spending transparency
• Greater program / results linkage
• More robust financial reporting / linkage to financial statements
What does the DATA Act mean to our community? – continued

- Enhanced ability to benchmark and oversee
  - “Better Data, Better Decisions, Better Government”
- Increased citizen engagement and understanding
- Real-time application of analytic tools across the continuum of spending
  - Doubling of computing power every 18 to 24 months
  - Ability to analyze semi-structured and unstructured data
  - Powerful algorithms
- Data reliability imperative
  - Management assurance
  - Independent third-party assurance
- Next generation of financial managers
- New financial statement paradigm
- Transition to digital auditing
Transitioning to a digital auditing environment
Digital Auditing: Modernizing the Government Financial Statement Audit Approach
Obtaining data from an accounting system

- Traditional Approach
- Computer-Assisted Approach
- Digital Auditing Approach
Transitioning to a digital auditing environment – modernizing typical audit procedures

• Use sophisticated business intelligence tools to analyze financial transactions real-time as they occur, focusing on higher-risk transactions that fall outside of expected ranges or include certain attributes
• Leverage an electronic data repository, including supporting documentation
• Connect remotely to a data base server to analyze large populations of both automated and manual journal entries; for example by facts and dimensions (such as by creator, amount, and general ledger account) and applying specific criteria customized to the audit objective.
• Audit continuously and real-time
• Eliminate the need for hard copy data retrieval and analysis

Transitioning to a digital auditing environment – getting the data and data integrity

Getting the data

• Obtaining data in a necessary format
• Capturing data from different systems – systems incompatibility
• Establishing robust and flexible data warehouses containing current and historical data
• Applying audit tools to perform risk assessments, obtain audit evidence, understand trends, and provide value-added feedback to the agency and stakeholders

Data integrity

• Determining reliability and completeness
• Electronically testing for completeness by comparing automated hash and batch totals to ensure against corruption of data fields and records
• Totaling and comparing account balances to financial statement balances
What are some of the benefits of digital auditing?

Enhanced effectiveness
- Increased consistency among audits by using common tools
- Identification of internal control gaps
- Automated fraud detection and prevention
- More detailed audit finding and root cause identification

Greater efficiency
- Easily view transaction trends
- Consider and analyze large transaction volumes in less time
- Much more efficiency and less costly than traditional sampling techniques
- Reduced surprises and quick turnaround

Additional business insights
- Comparison of results between funds and organizational units
- Increased insight into IT system functionality
- Identification of higher-risk transactions

Better detection of fraud, waste, and abuse
- Identification of hidden relationships between people, organizations, or events
- Means to identify and analyze suspicious transactions
- Potential to continually monitor fraud threats and vulnerabilities
Key steps in the phases of a digital audit

Planning
• Understand data in agency systems and establish agreed-upon extraction methods
• Establish audit routines to test data

Extraction
• Copy targeted data from relevant tables in the financial management system
• Run at low priority to not affect the agency’s network
• Transfer data to a secure audit environment

Analysis
• Perform several automated data checks to verify extracted data represents data extracted from the financial management system
• Perform numerous audit routines identified during planning

Reporting
• Evaluate documentation generated by audit routines and communicate results
• Determine if follow-up audit work is needed
Actions steps to transition to digital auditing

**Action 1:** Encourage organizations being audited to implement a data standardization framework

**Action 2:** Stay current with technology investments

**Action 3:** Evaluate data security and information protection risk

**Action 4:** Invest in your auditors
Are government organizations ready to effectively respond to the DATA Act?

Benchmark questions
Is your organization positioned to effectively respond?

Can You Say “Yes” to These Questions?

DATA
- Does your data contain the common data elements that enable unique identifiers for federal awards, entities, grantees, and contractors? Are they consistent with Office of Management and Budget (OMB) and Treasury requirements?

TECHNOLOGY
- Are you able to obtain data in an efficient and effective manner? Is the data accurate and complete for all funds, object classes, or other required reporting elements?
- Do systems for obtaining, accumulating, processing, and reporting data have the appropriate level of information security?

BUSINESS STRATEGY AND GOVERNANCE
- Does your agency have a strategy to evaluate gaps in your data sources and a plan for managing the effort? Does your agency have an agile process for incorporating any subsequent revisions to federal data structure standards?
- Do you have a validation process to ensure your organization can withstand an independent audit in accordance with the DATA Act?

PEOPLE
- Do you have people available with the right skills to analyze your budgeting and spending information, and to map your data in accordance with required data structures?
- Do you have the right personnel who can lead the required implementation effort? Can you assess what data is relevant, where it needs to come from and whether the data is reliable?

PROCESS
- Do you have processes in place to help ensure the required data is accumulated, processed, and reported on time and accurately?
- Do you have the necessary business rules to adjust to Treasury’s and OMB’s data standards?
Benchmark questions

As your organization gauges readiness and develops strategy to implement the DATA Act, consider these questions as an initial benchmark.

**Collaboration**

- Are you proactive in sharing insights and solutions as data standards and other requirements are formulated?

- Are you focused on going beyond basic compliance to broader transformational change in how the public receives spending information?

- Have you developed day-to-day working relationships with Treasury and OMB, fellow federal agencies, and state and local governments?
More benchmark questions

Data

- Does your data contain the common data elements that enable unique identifiers for federal awards, entities, grantees and contractors?
- Are your unique identifiers consistent with federal data standards?
- Can you assess what data is relevant and where it needs to come from?
- Can you link DATA Act information with your financial statements?
- Is your data accurate and complete for all funds, object classes and other required reporting elements that make up “360-degree” reporting?
More benchmark questions

**Technology**
- Are you able to efficiently and effectively obtain data?
- Do you have analytic tools to enable data-centric reporting?
- Do you have appropriate information security?

**Business Strategy and Governance**
- Are you innovative, looking beyond basic public reporting to how spending information can be used for improved decision-making and oversight?
- Have you evaluated gaps in data sources?
- Do you have a validation process to continually ensure your data can withstand an independent audit?
- Do you have a communications strategy — in-house and with stakeholders?
- Have you developed a proactive working relationship with your inspector general?
Even more benchmark questions

**Process**
- Do you have processes to ensure required data is accumulated, processed and reported on time and accurately?
- Do you have the necessary business rules to adjust to Treasury’s and OMB’s data standards and subsequent refinements?

**People**
- Do you have people with the right skills to analyze budgeting and spending information and to map your data in accordance with required data structures and standards?
- Do you have the right personnel to lead the implementation effort?
- Are they fully empowered to work seamlessly across the agency’s organizations and programs?
- Do you have DATA Act training programs?
Final thoughts

• Be ready for change
• Be proactive
• Be highly-knowledgeable
• Be resourceful
• Be forward looking, going beyond basic compliance to transformation
• Be fully transparent and informative
• Be collaborative
• Be diligent in linking spending data to your financial statements
• Be certain to make it count and add value by using spending data to inform decision-making and oversight and to build greater public trust
• Be focused on data reliability, data reliability, and more data reliability
• Be vigilant in addressing the people equation
• Be a leader in taking up the DATA Act banner as the next step in our evolution to add greater value
Related KPMG Government Institute thought leadership

• Are You Prepared to Meet the Challenges of the DATA Act and Open the Door Wider on Government Spending, AGA Journal of Government Financial Management, Spring 2015

• The DATA Act – A Path to Greater Accountability and Transparency for Federal Spending, Journal of the National Grants Management Association, Winter 2015

• Key Considerations in Meeting DATA Act Challenges – Are You Prepared?, KPMG Government Institute, July 2014


• Moving to the Next Stage of Federal Financial Reporting: Bringing Greater Value and Transparency through “Open Government” Reporting, KPMG Government Institute, June 2012

Related KPMG Government Institute thought leadership (continued)

• The CFO Act Turns 20 Years Old: As We Blow Out the Candles, Where Are We Today and Where Do We Go From Here,? AGA Journal of Government Financial Management, Winter 2010


• The KPMG Executive Guide to High Performance in Federal Financial Management, KPMG Government Institute, June 2009


These documents are available at www.kpmginstitutes.com/government-institute
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