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ADDRESS BY
THE COMPTROLLER GENERAL OF THE UNITED STATES
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FINANCIAL MANAGEMENT ROUNDTABLE
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"ISSUES FACING FINANCIAL MANAGERS IN THE SEVENTIES"

My remarks today might well be described as problems for the Seventies left over from the Sixties as well as the problems emerging for the Seventies. As financial managers, we find ourselves in the position of the Members of Congress who have been advised by President Nixon that they have a long list of unfinished legislation carried over from the 91st Congress that must be acted upon in the 92nd Congress.

Furthermore, the legislative and national policy problems that are going to be acted upon by the 92nd Congress and its successor Congresses during the Seventies will in turn create new and challenging problems to be solved by the financial managers in the Seventies. There is a real possibility, if not the certainty, that many new programs will be created requiring tremendous financial management attention. There is also the likelihood of certain major reorganizations within the Federal Government that will create acute problems for financial managers. As many of you know from your experiences, the budgeting, accounting, and reporting problems are usually complex when agencies are merged with other agencies, or

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parts of agencies are merged with other agencies. The Seventies are likely to confront many of you with the financial and personnel problems that occur when reorganizations are implemented.

In few periods of our national history have government in this country at--all levels--been under such serious challenge as to whether they can be made responsive and responsible for dealing with the Nation's problems. The situation is underscored by the well-known fact that the President has submitted a budget to the Congress for fiscal year 1972 with estimated outlays of \$229 billion - about \$17 billion above his estimate for fiscal year 1971. The climate of pressure for more and more Federal spending places a herculean responsibility on government's financial managers.

Does the Federal financial manager do his job well in reporting to the public and the Congress on these expanding Federal financial activities?

Is he informing the American taxpayer as to what he is getting for his tax dollar?

Can the taxpayer make a reasonably accurate judgment of what the Federal Government is doing and what it gets from its vast expenditures?

Does the financial manager perform as he should in pointing out where Federal spending could be curtailed in areas of lowest benefit return, and does he suggest opportunities for shifts in spending to areas of highest benefit return for the dollars spent? Are the supporting data for the budget well developed, realistic, and properly justified, so as to provide maximum assistance to the Congress in its consideration of appropriations?

These questions challenge the Federal financial manager, regardless of the specialty role he may have. The stated and accepted objectives of

the Seventies should be to find solutions to the fundamental problems that ~~squarely~~ squarely confront all of us in financial planning and budgeting, in accounting and reporting, in internal and contract auditing, and in staff training and development.

We have come through a period when the spending at various levels of Government has increased in amounts not experienced previously in the nearly 200 years of United States history. This acceleration has shifted a substantial proportion of "personal choice" spending to "Government choice" spending, albeit Government spending presumably is done with the tacit acceptance of a majority of voters. The accelerated spending is, however, beginning to receive effective protest, witness the many bond issues at local levels which have been rejected by the voters. There are signs that the rate of acceleration will decline and that the public expects evidence of better results from the large sums being collected and spent.

Financial problems left over in various stages from the Sixties or just emerging in the Seventies may be identified as follows:

1. Implementation and maintenance of adequate planning, programming, and budgeting systems at various levels in each agency.
2. Development and use of productivity and work standards and measurements.
3. Development and use of accrual accounting in harmony with productivity and work measurement systems.
4. Expansion in the use in electronic data processing systems.

5. Recognition of the trend toward regionalization and decentralization of agency activities.
6. Improvements in the financial management of the complex and evergrowing Federal, State, and local programs.
7. Improvements in the quality and quantity of audit work at Federal, State, and local levels of government, and increased coordination of audit work between and among those levels.
8. Development of uniform cost standards and application to defense contracting.

Planning, Programming, and Budgeting Systems

In July 1969, GAO reported on the progress made by executive agencies in implementing the PPB system. In brief, what we found was that there were considerable differences among the program classification frameworks used by the agencies. Only a few agencies had written policies to guide analysts in the preparation of required PPB documents. Communication between accounting staffs and the PPB analytical staffs was lacking.

Since then agencies appear to have done little to develop or further improve the systems and classification aspects of PPB.

Perhaps one reason for the slowdown is the "top-to-bottom" approach that was originally used for PPB. A consultant to the Office of Management and Budget (OMB) recently has concluded that existing programming and budgeting systems do not support uniformly the way in which line managers actually make program and resource decisions nor the way in which they subsequently manage approved programs. As a result of this finding the consultants and the OMB undertook a pilot effort to test approaches for

aligning planning, programming, and budgeting systems to the needs of management. The study group concluded that a "bottom-to-top" approach is essential if PPB is to conform to the information needs of agency line management.

If it should be decided that the "bottom-to-top" approach to PPB is appropriate for all agencies, financial managers will be heavily involved in bringing this about. It will be necessary to:

- identify agency goals and objectives;
- develop a common goal-oriented framework for integrating all agency management efforts;
- integrate internal management systems for planning, budgeting, progress reporting, and accounting;
- ensure that individual needs and perspectives at each echelon of management are taken into account.

Whether or not the specific recommendations of the OMB consultants are accepted by the executive branch, financial managers must face up to the need for significant improvements in PPB systems.

Analyses

Equally important is the viability of the agency analytical work.

The quality and the quantity of agency analytical work is going to be challenged more in the future than it has been in the past.

The Legislative Reorganization Act of 1970 is a clear expression of congressional interest in benefit-cost types of analyses. In this Act the GAO is encouraged to make benefit-cost studies either on its own initiative or in response to congressional requests. Other recently

proposed legislation also emphasized the evaluation of the results of agency programs and the need for GAO to forge ahead in this area.

The decade of the 70's will see a major trend toward the inclusion of mandates in legislation that evaluation of programs be an integral part in the management of on-going programs. Emphasis will be given to the degree of adherence to objectives. Evaluation activity will require the close participation and contributions of financial managers. They will be called upon to provide much of the data upon which good analysis depends.

Evaluation of Productivity in the Federal Sector

The recent increases in Federal salary scales and the provision in law for annual review and possible annual upward adjustment in such salary rates places increasing importance on the subject of the numbers and productivity of Federal employees.

The latest overall revision of the Office of Management and Budget Circular A-44 was issued in February 1970. This circular provides for agencies to establish management improvement programs, including provisions for identifying quantitative measures of performance, establishing performance goals, analyzing results, and initiating corrective action. OMB Circular A-11 provides for the use of work measurement, unit costs, and productivity indexes to the maximum practicable extent in justifying staffing requirements for measurable workload in agency budget requests.

Some agencies of the Federal Government have done work in selected areas to measure productivity of employees, but this measurement data is not applied in Government generally. On the other hand, the agencies of the Federal Government have done extensive work to improve methods,

to eliminate unnecessary work, to place certain functions on machines, to reorganize groups, etc.

Many agencies have been slow in applying productivity and work measurement methods to their operations on the grounds that their operations do not lend themselves to measurement methods or that their operations are unique.

Recently the General Accounting Office ^{has} ~~(received a congressional inquiry regarding the feasibility of measuring productivity in the Federal Government. As a result, we have]~~ entered upon a joint project with representatives from the Office of Management and Budget and the U.S. Civil Service Commission to assemble data on the current Federal efforts in this area and to provide impetus for more attention to the matter of improvement of employee productivity.

Some activities, of the Federal Government are of a character where productivity, work measurements, and unit costs can be determined with relative ease. Other activities require a more sophisticated or subjective approach to their evaluation.

We believe that many new areas will be found where output measurements can be integrated with financial data. We are convinced this will provide much information of value to managers in controlling day-to-day, month-to-month, and year-to-year costs. These studies will serve a cost reduction objective and support more clearly and logically the budget presentations to the Congress.

Concerted attention to studies and implementation of productivity evaluations and performance measurements in all areas of Federal agency management, must be developed in the 70's.

Development and uses of accrual accounting

As you know, the requirements for accrual accounting in the internal management of agencies are found in the budget and accounting acts of 1950 and 1956. These requirements were given significant additional support by the recommendations of the President's Commission on Budget Concepts in 1967. D1258

As one investigator for a congressional committee recently asked, "Why after 25 or more years have agencies been reluctant to accept the accrual basis of accounting?". One quick answer, which is really no answer at all, is that agency management just doesn't understand the accrual basis.

Contrary to this view, we find that most agency managers understand the accrual principle even though perhaps not under that label. It is the rare manager, indeed, that does not understand a system by which revenues are recognized as earned and costs recognized in terms of resources consumed. Yes, there may be differences of opinion as to when and how much is earned and when and how much is consumed, but the basic principle has a greater understanding among managers than many might assume.

We are inclined to conclude that agency managers are reluctant to support and use the accrual basis of accounting in many instances not because they differ with the concept but because they are not convinced that the quality of the decision-making processes are necessarily improved by the use of financial data produced on the accrual basis. In other words, the challenge is in terms of the real effectiveness and potentials of the accrual basis and its costs/benefits rather than in terms of a lack of understanding of the concept.

Herein lie the relationships of the development of the accrual basis and the development and use of productivity and work standards and measurement. These measurement systems which should be developed in close coordination with the accounting managers to produce account classifications and financial data which will produce useful and credible unit cost data to serve management, budgeting and planning needs. We know that obligation and cash data by their very nature do not produce acceptable data which may be synchronized and integrated with the productivity and other performance measurement data. They just cannot be properly synchronized. They are on different wave-lengths.

Our experiences would suggest that agencies which have realistic productivity and work standards and measurement systems underlying their budgetary processes find the accrual principle essential to the proper evaluation of budget and management results. The accrual basis flourishes when internal budget and program plans are based on performance over given time spans.

Program and budget management dictates the uses of accounting for management purposes. Unless and until the art of both program and budget management becomes more apt and better developed in many agencies, the uses of accounting data measured on the accrual basis frankly will continue to lack general acceptance.

The accrual basis of accounting will never be used as a generally accepted management tool simply because those skilled in financial management say that it is good. We need much more effective joint participation in the entire management information systems complex by all functional

groups-- program planners, operating managers, budgeteers, and accountants. The development of productivity and work measurement systems at the same time as those in accrual accounting will do much to demonstrate by actual agency experiences that the quality of management decision-making can be appreciably improved by their association in usage.

Automatic Data Processing

The increasing need for information by managers of the Federal Government resulted, as we all know, in increased automation of data processing systems. Unfortunately, at the end of the 60's there was still much unfinished work in designing efficient information systems. A common fault in this development has been inadequate management.

Many systems were simply allowed to evolve over the years with no particular objective other than to automate existing procedures. Others were developed primarily to computer specialists within a general framework of information requirements established by management. Serious operating problems and loss of management control has resulted. There is no question that costs are excessively high and that strong action is needed to re-establish the control functions lost in the rush to automate.

A related problem has been the inadequacy of documentation of information systems. ADP technicians have tended to lack the discipline of fully documenting their work. Inadequate systems documentations has become a management problem because:

- changes and corrections are extremely difficult to make,
- interagency sharing of systems documentation is not possible,
- auditability of the systems is seriously impaired, and
- training of new personnel is more costly and time consuming.

The forecast of continued technological advances in the Seventies paints a rosy picture for improvements in information processing. We will be wise, however, if we view this picture in the light of our experience of the Sixties. Improvements must not come from faster computer cycle times and more sophisticated program language repertoires alone. They must also come through changes of a qualitative nature in systems design.

One ingredient for improved information systems which has been missing is total communication. To achieve this, three specific areas must be emphasized.

1. Satisfaction of user requirements. In order to exploit technology and properly utilize its potential, we must consider information systems from the viewpoint of their totality and usefulness to management rather than as disjointed functional operations.

2. Greater standardization of procedures, equipment, software, and data elements. The increasing interrelationships developing among the data systems of Federal, State, and local Governments and between such systems and those of industry add emphasis and dimension to the need for standardization.

3. Improved man/machine communication. To increase the utility of the computer, we must direct our technological efforts to improving the conversational mode of communication and removing the barrier of language which now exists.

Achieving the above goals will be necessary before we will be able to realize the benefits expected from Title II of the Legislative Reorganization Act of 1970. As I have said, this Act calls upon various resources

of both the executive and legislative branches for greater input to the information gathering and evaluating processes. Of primary concern to all Federal financial managers are the new requirements for budgeting and fiscal information. Title II of the Act requires the Secretary of the Treasury and the Director of the Office of Management and Budget, in cooperation with the Comptroller General, to develop, establish, and maintain a standardized information and data processing system for budgetary and fiscal data. It requires also the development of standard classifications of programs, activities, receipts, and expenditures.

The definition, design, and implementation of such a Government-wide information system will take an extended period of time. It will be costly, and it will require a firm and continued commitment to its objectives. It will require the cooperation of the entire Federal financial management community. The Act is clear that the proposed system must meet the needs of all branches of Government. The initial step will have to be a systematic determination of these needs. These developments undoubtedly will have an impact upon the information systems of all agencies of the Executive branch.

Agency Decentralization

As you know, one of the President's goals is to shift operating responsibilities for Federal programs from Washington to States and localities - nearer to the people served. This has often been called "regionalization" or "decentralization".

In the Department of Defense there is a measure of the same idea in the program of "participatory management". This decentralizes management within the Department. Its program of emphasizing the importance of decision-making at the System Program Office level for major weapons acquisitions is one example.

Perhaps the best known step toward the goal of decentralization is the establishment of ten regional centers for which the principal Federal agencies in urban problems are required to establish uniform regional boundaries. However, the establishment of the regional centers is only a small part of the change that is taking place.

Take the Department of Housing and Urban Development for an example. As one of the agencies required to establish a regional office at each of the ten regional centers, HUD created four new regional offices and this year it plans to create 21 more. The area offices and the Federal Housing Administration insuring offices will be responsible for operating and decision-making functions and will be HUD's principal point of contact for program participants. The regional offices will supervise and evaluate area and insuring office operations. The Washington office will establish policy, define priorities, set criteria and standards, promulgate standards, and oversee field operations.

At this time one can only speculate as to the number of departments which eventually will decentralize their operations. It is clear, however that financial managers in agencies that do decentralize will face a real challenge in the 70's:

- Accounting, budgeting, and management information systems must be developed or revised to provide the needs of field managers.
- Inputs to the accounting, budgeting, and management information systems will be generated at the field offices.
- Headquarters' offices will require information from the field offices and there will be the greater requirement that such

information be both timely and accurate. This seems to foretell greater numbers of "on-line" computer systems which will result in a marked departure from conventional data transmission techniques.

-- Effective monitoring systems will have to be developed. Possible shifts in the organizational alignments of internal audit organizations might be anticipated. As data transmission techniques change to become responsive to "on-line" systems, auditors will need to take a good hard look at their processes and give consideration to such techniques as using live data from input to output in the actual testing of transactions.

Improvements in Intergovernmental Relations

Federal Assistance Review Program

At present there are over 1,000 Federal assistance programs involving every State and many thousands of other political subdivisions. The program has grown tenfold in the past two decades to an estimated \$27.6 billion in FY 1971. Over ninety percent of these funds are administered by six Federal agencies.

These programs finance a wide variety of grants, loans, technical assistance, and services ranging from a few dollars to several million dollars. Many programs are narrowly defined and are rigidly controlled; others are comprehensive in scope and can finance a variety of activities. Each has its own Federal guidelines, policies, priorities, administrative requirements, fiscal regulations, and voluminous documentation and reporting systems.

Many programs overlap and duplicate each other. It is not unusual for a given project desired by a community to be eligible for funding under any one of five to ten programs. It has taken five years to produce a reasonably accurate inventory and description of the maze of Federal grant programs.

On March 27, 1969, the President directed the Budget Bureau (now the Office of Management and Budget) and all ten Urban Affairs Council agencies to mobilize a three-year interagency program to cut red tape and streamline the delivery of Federal assistance.

Under Office of Management and Budget chairmanship, top level agency representatives prepared a work program calling for execution of the President's directive within three years. The FAR participating agencies have developed internal improvement programs covering ten areas--

- Common Regional Boundaries
- Regional Councils
- Cutting Red Tape
- Reduction in Processing Time
- Greater Reliance on State and Local Government
- Decentralization
- Consistency of Procedures
- Joint Funding Simplification
- Grant Consolidation and Coordination
- Implementation of Intergovernmental Cooperation Act of 1968

The FAR Program also includes non-Federal participants as the U.S. Conference of Mayors, International City Management Association, National Association of Counties, National League of Cities, Council of State Governments, and the National Governors Conference. Under a contract with an agent for these groups, the Office of Management and Budget assigns projects

to these organizations for such activities as analysis of State and local viewpoints with regard to administration of specific grant programs, validating the significance of grant improvements as they are made, and making special analyses of incentives, processes, and requirements of the Federal system which tend to block or inhibit the achievement of the grant administrative improvement objectives.

On December 18, 1970, the Office of Management and Budget urged the FAR agencies of the Federal Government to concentrate on three of the ten defined areas:

1. Greater reliance on State and local governments in the detailed administration of grant-in-aid programs.
2. Decentralization to the Federal field office of significant operational activities for which State and local governments cannot assume administrative responsibilities.
3. Interagency collaboration in the standardization of requirements and procedures with respect to grant programs.

It is apparent that as the Federal Assistance Review Program develops its programs, all areas of financial management at the Federal level -- planning, budgeting, accounting, reporting, data processing, and auditing -- will contribute to this effort which brings all related Federal, State, and local levels into collaboration.

The Effect of Changes in Intergovernmental Relations
Upon Developments in Agency Audit Functions

The current proposals of the President for greater reliance on State and local Governments in the administration of grant-in-aid programs

and for regionalization of many of the decision-making processes now reposed at central Federal levels raises immediately the question as to how their development and implementation may effect the performance of the audit function. The appropriate role of Federal audits in intergovernmental relations and programs comes immediately to mind.

Some of the issues which will face Federal managers and which impinge upon the functions of audit are:

1. The necessity for greater coordination of audit effort among the Federal agencies as well as between Federal, State or local agencies. This improved coordination will be beneficial from the viewpoint of the grantee and will minimize duplication of audit effort.
2. Greater attention will need to be given by Federal audit personnel to the establishment of standards of audit to be observed by Federal and non-Federal auditors. In the interests of economy, Federal auditors will need to learn how to recognize the value of the work of the non-Federal auditors when the non-Federal auditor ^{met} has these established performance standards.
3. Consideration of how the Administration's plan for general revenue sharing will affect the agency audit organization. Under present bills, the audit as well as policing responsibilities are placed in the Secretary of the Treasury. (Since bills relating to special revenue sharing have not been introduced, the proposed shifts in audit responsibilities, if any, are not known.)

Improvements in the Quality and Quantity of
Federal Audit Programs

The 60's brought perceptible progress not only in the quantity but in the quality and coordination of the audit work of the agencies of the Government.

The improvements have been multi-dimensional. Agency heads have generally come to recognize to a greater extent than ever before the potentials of a strong, independent, and objective audit arm. In turn, auditors have demonstrated by many case-examples that they have the ability to search beyond transactions and financial accountability and expand their horizons into management audits, which in the language of GAO, are concerned with the management and utilization of resources -- personnel, equipment, inventories, etc.

The level of professionalism of the audit function has significantly increased. Perhaps as much as any other functional group in government, the auditor has seen the need for continuing education and career development by training courses in the many facets of his art. Further, agency audit groups have learned to depend upon the work of audit talent of other agencies and independent public accountants in many Federal programs which come under their purview.

This is not to say there is not room for further improvement. Every good auditor approaches an individual assignment with the view that some improvements are possible. So it should be with the overall conduct of the audit discipline.

There is much unplowed ground awaiting audit developments in the 70's. The growth and complexity of Federal programs produce problems which place

increasing demands upon the auditor. In addition to financial and management audits, the GAO has been concerned with the development of the program audit, that is, audits of program effectiveness or program results. This is not to say that the GAO intends to abandon or neglect financial and management audits. We are by no means satisfied with the cutting of costs, the increasing of revenues, and the improving of efficiency of operations. We are also concerned with extending our evaluations to the accomplishments of the organization or the effectiveness of its operations in achieving established or prescribed goals and objectives. These evaluations have assumed great significance in these days when we have a national budget of over \$200 billion with many competing claims for allocation of scarce financial resources to important national programs and objectives.

A program effectiveness audit can do much to shed light on whether and to what extent government programs are accomplishing the purposes for which they were authorized and whether alternative approaches might not be more effective at less cost.

From our experiences in conducting program audits let me cite an example which indicates the nature and scope of such audits and the employment of concepts and techniques of system analysis in cost/effectiveness studies.

Pollution of the Nation's waters has become a matter of major national concern. The Federal Government in the past 15 years has made grants of nearly \$2 billion to cities and other government entities to help finance the construction of about 10,700 waste treatment plants costing \$9 billion. A comprehensive GAO examination into the effectiveness of the construction grants program led to the following principal conclusions in a report to the Congress:

1. The benefits obtained from the construction of municipal waste treatment facilities were not as great as they could have been because many of the facilities were built on waterways where major industrial and municipal polluters located nearby continued to discharge substantial quantities of untreated or inadequately treated waste into the waterways.
2. The construction grant program was being administered mostly on a "shotgun" approach -- that is, grants were being awarded on a first-come, first-served or readiness-to-proceed basis. Little consideration was given to the immediate benefits to be obtained by the construction of specific treatment plants. In other words, no systematic approach was being followed to decide where applications of public funds would do the most good in enhancing the quality of our Nation's waters.

The auditors recommended that the Federal agencies directly concerned require that the States, in establishing priorities for the construction of treatment facilities, consider the benefits to be derived from construction in each case and the actions taken or planned by other polluters. They also recommended that the Federal Water Quality Administration use system analysis techniques in planning for and carrying out water pollution control programs. In this regard, GAO engaged an engineering firm during the audit to assist in demonstrating the usefulness of systems analysis in developing and implementing river basin plans to construct water treatment facilities.

Uniform Cost Accounting Standards

In August 1970, Public Law 91-379 was passed providing for the establishment of a Cost-Accounting Standards Board. The Board is to promulgate cost accounting standards designed to achieve uniformity and consistency in the cost accounting principles followed by contractors under Defense contracts. The standards are to be used for estimating, accumulating, and reporting costs in connection with the pricing, administration, and settlement of all negotiated Defense procurements in excess of \$100,000. In February 1971, the 5-man Board, of which I am chairman, was sworn into office. An executive secretary was selected just last week.

Hopefully, cost accounting standards will result in improved understanding in the negotiation processes between the Government and contractors for the costs incurred by the contractors in the production of goods and the furnishing of services on Defense contracts. Establishment of standards could result in the narrowing of choices in the use of cost accounting practices by Government contractors in determining costs under Defense contracts. Cost accounting standards should result in a more consistent application of cost principles by contractors in the preparation of cost and pricing data submitted in support of price proposals and in the accounting for contract performance costs.

The 70's should see the consequences of the application of the cost accounting standards in the contract decision-making and control activities of Defense management. All aspects of financial management in the procurement area will be affected by their application. The planning and budgeting functions need to consider the influences of cost-accounting standards upon their costing techniques; contract auditors will be furnished with more

authoritative guides to their work. All these will be in addition to the expected improvement in the quality of the procurement decision-making processes.

Concluding remarks

These eight financial management problem areas confronting the Federal Government, which are by no means exhaustive, are gigantic and complex when viewed as a whole. However, specific problems usually become manageable and solvable when tackled one by one within an agency, a program, or given geographical location. This overall view of the many problems should not serve to discourage us since the top problems will be solved by taking care of the smaller and more manageable segments. What is needed first, of course, are stated guiding goals and objectives, and then dedicated, competent people to work on the individual parts of the problems--on a coordinated basis--within the framework of the announced goals and objectives.