



ADDRESS BY

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FEDERAL GOVERNMENT ACCOUNTANTS ASSOCIATION

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"CREATIVE THINKING IN FINANCIAL MANAGEMENT"

As most of you know by now, the General Accounting Office observed its 50th anniversary this month. In commemorating this milestone -- important especially to the Federal Government, the Congress, and to the taxpayers who provide the public funds for government operations -- we have paid traditional respect to GAO's accomplishments which, let me say without going into detail, have been considerable. But the GAO, like any other organization, cannot rest on its laurels. Accordingly, the events through which we observed GAO's half century of service, were coordinated, as far as it was appropriate, to a central theme which we called "improving management for more effective government."

I want to emphasize the same theme to you all today on the occasion of this 20th Annual National Symposium of the Federal Government Accountants Association. This, too, is an important milestone. But our business today is to look to the future while honoring the past. Accordingly, my theme this afternoon is built on the central message of improving

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accounting -- through the services of its accountants -- to attain more effective management of all types in the Federal Government in the decade of challenge which we all face.

Improvement first of all requires innovation. The creative thinker is the innovator. His attributes include both inquisitiveness and imagination. He is the challenger of the present, the architect of things to come. George Bernard Shaw expressed well the function of imagination. "Imagination," he wrote, "is the beginning of creation. You imagine what you desire, you will what you imagine; and at last you create what you will."

The innovator in the field of financial management must not restrict his vision to what he can accomplish alone in his special field. He must visualize his role as one of coordinating his financial management expertise with the interests of all who use his data to achieve better management results. Financial management is not the sole responsibility of those having that field as their special competence; it is an intrinsic part of the responsibilities of all government managers, whatever their function. Conversely, the financial management specialist must also concern himself with the management of personnel, of supply, and of facilities. These management functions and financial management are directly related.

The need is for all types of managers to combine their respective skills imaginatively, taking advantage of every financial data resource to improve operating results. Innovative opportunities abound. Let me list and then elaborate on a few of them:

- The functions of the accountant should be extended beyond those of "scorekeeping" and "attention directing" into the role of participant in making decisions and solving problems.
- Productivity and work standards and measurements should be coordinated with cost accounting to improve the budgeting and management processes.
- Full integration of accounting support with the planning-programming-budgeting system should be required to add credibility to the system by bolstering its validation techniques and disclosing results.
- The interdisciplinary significance of data and its impact upon conduct and structure of financial management functions should be recognized.
- The full potential of operational audits and program effectiveness reviews should be developed as a financial management tool, and lastly
- Consideration should be given to the significant financial management implications of the moves toward regionalization of agency activities.

Extension of the Functions of the Accountant

The majority of articles in current publications of the academic accounting community are mathematically oriented. Many, if not most, relate to the use of financial data in predictive and projective analyses. Perhaps predictive analysis will become a function of accountants in

private industry long before that of Federal accountants, since accounting in private industry is associated more directly with the planning and budgeting functions. It is possible, however, that these influences may soon be reflected in governmental financial management.

In the Federal Government the accounting function is largely separated from the budgeting function. In many agencies the budgeting functions are separated from the financial planning functions. There has been little professional rapport between the functions in many cases. In some agencies, the role of the accountant is principally that of scorekeeper. More often than desirable, he has little or inadequate knowledge of, and concern with, the analytical processes of budget formulation and execution.

In the American financial and business community we are seeing adaptations of the scientific method to the decision-making processes of management. Concepts of system analyses, cybernetics, information economics, communications, measurement, and decision theory are being added to management's tools. At the same time we are witnessing the development of more inclusive, if not total, information systems in recognition of the increasing interdisciplinary significance of data, abetted by advances in computer technology.

Accounting is one of the many disciplines making up the total information systems. Albeit an important information system, accounting is less primary than heretofore. Other information systems are arising to embrace data-structures and outputs of their own. These challenge the significance of the accounting structure, its contents and outputs.

The accountant must be aware of these phenomena. They affect how he operates. They determine how he should operate. As the products of the accounting system change in the relationships of their use to the products of other information systems, the accountant must change his outlook to reassess his role in the total information systems environment.

These are not solely phenomena of the American financial and business community. A recent research study of accounting controls by Professor Bertrand Horwitz of Syracuse University, published by the American Accounting Association concludes that in the framework of central planning in the Soviet Union following the economic reforms of 1966, economics and business administration -- which includes accounting -- are intertwined inseparately.

If the academic accounting profession is a reliable forecaster, the developing role of the Federal accountant may be that of "information manager." In assuming that role, the Federal accountant faces real challenges. With the greater utilization of mathematical decision models, there will be complex problems of coordinating the models with the traditional accounting reports. The Federal accountant must learn to talk the language and use the concepts of marginal and regression analysis, cash flows and opportunity costs, to mention a few. This is the time to consider whether performance monitored by only conventional analytical techniques may not lead to impaired functioning of the processes of making decisions.

Productivity, Work Measurement, and Cost

The matching principle--the association of revenues and expenses in commercial accounting and the association of productivity and work measurements with costs in governmental accounting--is much of the essence of the accrual concept of accounting. The sole purpose of accrual accounting is to provide management and others interested in the quality of agency performance with improved, and more meaningful financial data.

The basics of these relationships are expressed in the Accounting Principles and Standards for Federal Agencies of the Comptroller General (Section 16.4, Title 2). It provides for the use of cost accounting techniques, wherever appropriate and feasible, to produce quantity data relating to performance and output; to relate costs with accomplishments; and to disclose unit costs. It states that these data are essential to the proper functioning of the planning-programming-budgeting system and indicates their utility in setting performance standards and managing current performance.

OMB Circular A-11 provides for the association of productivity and work standards and measurements with operational costs to produce unit costs in support of the budgetary processes. These relationships are recognized also in the current joint project of the Office of Management and Budget, the Civil Service Commission, and the General Accounting Office. ¹⁹ The objectives of this project is to determine the extent, and feasibility, of expanding the use of productivity and work measurement systems in the Federal Government.

Another view of these associations was expressed in a recent report of a consulting firm to the Office of Management and Budget. In its discussion of the "building block" concept under systems for program planning, budgeting, and management, the report states:

"Agency accounting and program management systems should measure both results and resource performance for each building block, thereby allowing progress toward agency goals and objectives to be reviewed and variations from plan to be identified and corrected."

The implementation of the matching principle to make unit cost data credible in the budgeting and management decision processes requires the close coordination of the efforts of all concerned. Management analysts who devise the performance and work standards and measures and who assists in identifying the responsibility and work centers; systems accountants who set up the cost centers and cost accounts; and the planners and the budgeteers--these four groups who use the products must work jointly. If these groups do not participate effectively in functions of truly joint concern, there will not be an adequate integration of systems of planning, programming, budgeting, accounting and reporting.

Closing the Loop of the PPB System

Early pioneers in the development of the planning-programming-budgeting systems soon saw the need for "closing the loop" by providing for accounting support of the execution of programs. In 1965 Charles J. Hitch, former Assistant Secretary of Defense (Comptroller) and now President of the

University of California wrote with reference to his experiences in the Department of Defense:

"Costs are measured in terms of 'total obligational authority-----'. Now, admittedly this is something of a compromise. It would be preferable to cost the program-----ideally in terms of resources consumed. However, the accounting difficulties were so great we did not attempt that approach-----."

At another point, Mr. Hitch remarked:

"The-----less-than-satisfactory aspect of the programming system is our machinery for measuring and estimating costs."

"Our appropriation accounting systems do not directly yield operating costs by program elements, e.g., by aircraft type.-----Since these 'actuals' (allocation of budget categories) constitute the base for projecting future operating costs, some parts of the financial program are not too meaningful."

More recent reports by consultants to the Office of Management and Budget have espoused the "building block" concept. This embraces the need for accounting support in the interrelated data structure of program planning, budgeting, and management systems.

The failure to provide for evaluation of how programs are executed is one of the fundamental weaknesses of the PPB system to date. Accountants and auditors need to devote much thought to the part they can and should contribute to accounting and reporting on the execution phases of the PPB system.

Recognition of the Interdisciplinary Significances of Data

As has often been said, the computer revolution has resulted in an explosion of data. Bits and pieces of information unknown before the computer or too costly to identify, segregate, and interrelate have been uncovered. The computer has provided the means of relating financial and nonfinancial data in more current and meaningful modes. Aggregates of data have the potentials for subdivision and recomposition into different data arrangements. Thus new behavioral relationships are surfaced which may be the interest and concern of such other disciplines as economists, sociologists, program and personnel managers, for example. All those engaged in financial management are faced with the need for providing more and more data to serve an increasing number of needs.

This phenomenon has opened up to management new vistas. Those working with financial data now need to know a great deal more about the uses to which such data may be put in other disciplines, in order to better prepare their data for these uses. For example, the financial manager needs to know in what contexts personnel data will or should be presented in order to synchronize his financial data.

These aspects of data relationships will affect not only the account structure, but also its contents and output. As never before the accountant must join all those devoted to classifying financial and related nonfinancial information.

The interdisciplinary qualities of data raise the question whether and how the organizational structure should be reoriented, both within

the field of financial management and in its relationship to other functional management areas, in order to be more responsive to these newly recognized data relationships. There is need to consider how the interrelated aspects of data impinge upon the manner in which the financial management organization should be prepared to meet the challenges of providing information to fulfill management needs.

The Expanding Role of the Auditor

The future role of the auditor in the Federal Government is directly related to his capabilities to rise to the ever-changing and expanding demands for his services.

The fundamental nature of requests for his services has evolved far beyond those devoted to fiscal accountability audits. Operational and management audits are common today in many of the agencies of the Executive Branch. Reviews of program results -- i.e., those concerned with evaluating the extent of attainment of program objectives -- recently have been added to the audit objectives of GAO auditors.

This has been the natural result of the development of the program budget with its broad output orientation, measuring actual against planned effectiveness and timing.

The managements of some agencies seem inclined to assign reviews of program results to their audit staffs. Other agency managements appear to veer in the direction of assigning these types of reviews to management evaluation groups within functional management areas.

The broadening of agency audit and evaluation functions suggests a series of questions.

- As reviews of program results broaden beyond the areas of fiscal accountability and management audits, are present agency audit staffs prepared--by training, orientation, and approaches--to produce acceptable products?
- Should the auditor limit himself--and should agency management limit the auditor--to reviews of financial management, the area in which most auditors are trained in colleges and universities?
- Should the auditor broaden his training in his career development to encompass the nonfinancial areas? Should colleges and universities broaden the accounting curriculum to prepare the graduate for this enlarging role?
- Should the Federal auditor be trained to know when and how to seek the advice of other disciplines to improve the products of his audits?
- And, finally, should auditing and evaluation be performed as a joint-team effort including all disciplines appropriate to a given assignment?

These questions cannot be answered without additional research.

The assignment of reviews of program results to agency audit staffs will not come automatically. Auditors will have to prove themselves in this extended area. Each audit staff will have to decide how best it can persuade agency management to permit it to initiate introductory assignments in this area.

If any of you think I am looking too far into the future, it should be noted that in the General Accounting Office, the expanded scope of auditing has become a matter of law. The most recent congressional expression came with the enactment of the Legislative Reorganization Act of 1970. This act specifically directs the Comptroller General to review and analyze the results of Government programs and activities including the making of cost/benefit studies.

Regionalization and Financial Management

Regionalization or decentralization of the activities of a department disperses the decision-making processes of its constituent agencies. The full benefits of regionalization are not experienced until all facets of financial management are reexamined and brought into harmony with the objectives of organizational changes.

Many aspects of financial management need reconsideration coincident with plans to regionalize. To name a few:

- How will the types of decisions which are to be made at the regional level be synchronized with their data?
- What should, or will, be the form of communication between the regions and the department and with the central constituent agencies?
- Will regionalization be accompanied by a move toward exception reporting to central management?
- Will the communication network give ample consideration to the greater need for timely data at the regional levels than at the central levels?

- Will the regional offices be given computer capabilities of their own or will they depend upon central computer capabilities and to what extent?
- Is the trend toward centralization of computer facilities compatible with the decentralization of management?
- Will regionalization increase or decrease the need for further centralization of computer facilities by substituting transmission of regional reports in place of transactions?
- Should or will regionalization result in the building of greater flexibility in the accounting system to accommodate the differing needs of regional offices?

Answers to these questions will not be found in any single document. They will be found in the research of the basic legislation and legislative intent, agency administrative regulations and the operating characteristics of each agency's management. Understanding the management philosophy of an agency is essential to a successfully synchronized systems effort.

The Joint Financial Management Improvement Program

I turn now to another milestone--the nearly quarter century of service of the Joint Financial Management Improvement Program. This program has spearheaded many significant financial management improvements in the Federal Government.

The essence of this program is to encourage creative thinking in financial management in the Federal Government and to continually stimulate improvements. It is essentially in a catalytic role.

In its first ten years of service the program stressed the need for accounting improvements. Since 1959 it has been associated with almost every major development in the broadening field of financial management improvements. In 1966, the Civil Service Commission joined the Office of Management and Budget (then the Bureau of the Budget), the Treasury Department and the General Accounting Office as an active participant in the leadership of the program.

Recent projects are indicative of the creative leadership directing the program.

- Recommendations for significant simplification of procedures and for more orderly and current payment of transportation bills.
- Studies in financial administration of grants-in-aid to bring all practicable uniformity and simplicity to the requirements imposed by Federal agencies on State and local governments in the financial management of grant-in-aid programs.
- Development of an expanded body of audit standards pertaining to the grant-in-aid programs which currently involve Federal expenditures of about \$30 billion a year. These standards are needed to strengthen the management control systems for this complex intergovernmental area.
- Elimination of fidelity bonding of Federal employees in the interests of economy and in recognition of other safeguards in protecting the Government.

--A study of the feasibility of a uniform payroll system for Federal civilian agencies, in view of advances in computer and communications technology.

--Simplifying and expediting the closing of appropriation accounts.

Future projects of the program and its organization will be affected by further innovations in financial management. For example, recognition of the interdisciplinary aspects of data should bear substantially upon the conventional budgeting and accounting processes and reports.

Further, there will be a need to consider how all areas of management can be united toward a common goal of improving financial management in the Federal government. If, indeed, improved financial management is a responsibility, or at least a real concern, of all functional and line managers as well as top management, some means should be found for bringing their continuing views and influences to bear upon the program.

Conclusions

Creative thinking in Federal financial management includes a constant reexamination of conventional or traditional policies, methods, procedures and financial organization. All ideas, even those apparently impractical, should be examined for constructive possibilities.

All financial managers should remember that financial accounting and reporting results, historical as well as predictive, is to improve the qualities of the management of people and things, not merely their dollars.

Albert Einstein has been quoted as saying "Imagination is more important than knowledge". Adolph A. Berle, Jr., cautioned that "Great ideas need landing gears as well as wings". We will need to heed these wise admonitions. In the decade of the Seventies, every day of our lives will be a testing time for the Federal Government, and all of its managers, in whatever areas and at whatever levels.